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Contemporary Accounting Research

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Suggested Citation: Brühne, Alissa I.; Schanz, Deborah (2022) : Defining and Managing Corporate Tax Risk: Perceptions of Tax Risk Experts, Contemporary Accounting Research, ISSN 1911-3846, John Wiley & Sons, Inc., Hoboken, USA, Vol. 39, Iss. 4, pp. 2861-2902, https://doi.org/10.1111/1911-3846.12785

This Version is available at:
https://hdl.handle.net/10419/287863

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Defining and Managing Corporate Tax Risk: Perceptions of Tax Risk Experts*

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ABSTRACT

We examine the "black box" of corporate tax risk management by providing unique insights into practitioners' tax risk perceptions, tax risk management practices, and influences leading to variation in tax risk management practices across firms. Opening this black box is important as tax risk has become an increasingly relevant aspect in corporate tax practice—little is yet known about how firms define and manage tax-related risks. We perform our analysis based on 33 expert interviews, which we conducted with 42 tax risk experts. The first important finding from our interviews is that tax risk is a multifaceted and context-dependent construct, consisting of six tax risk components: financial, reputational, compliance, political, tax process, and personal liability risk. Furthermore, we find that perceived tax risk varies substantially between corporate insiders and corporate outsiders. Our interview insights further reveal that firms' most frequently used tax risk management practices relate to some form of tax communication. The tax departments' rationale for using tax communication as a key tax risk management practice is to protect the firm—in particular, the CFO—from three types of pressure: public pressure, peer pressure, and regulatory pressure. Our analysis has important implications for future studies. First, our insights reveal that several tax risk components are not sufficiently covered by common tax risk measures used by the archival literature. Second, we find that communication has a key role in managing tax risk. This deviates from the purely supportive role that extant risk management frameworks have assigned to communication.

Keywords: tax risk, tax risk management, tax communication, risk perception

Définir et gérer le risque fiscal des entreprises : perceptions des experts en risque fiscal

RÉSUMÉ

Les auteurs examinent la « boite noire » de la gestion du risque fiscal des entreprises en fournissant un aperçu unique de la perception du risque fiscal par les praticiens, des pratiques de

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* Accepted by Yves Gendron. We thank Yves Gendron and two anonymous reviewers for valuable guidance and suggestions. We gratefully acknowledge further comments and suggestions by Alex Edwards, Inga Hardeck, Katharina Hombach, Stefan Huber, Nathan Goldman, Martin Jacob, Petro Lisowsky, Andreas Löffler, Lillian Mills, Benjamin Osswald, Harm Schütt, and two anonymous reviewers of the ATA Midyear Meeting 2019. Further constructive feedback was received from conference participants at the EAA 2018 Annual Congress in Milan, the 8th EAISM Conference on Current Research in Taxation in Muenster, and the 2018 Workshop on Current Topics in Accounting and Tax Research in Munich. We thank Isabell Euler for research assistance during the last round of review. Deborah Schanz acknowledges funding by the German Research Foundation (Deutsche Forschungsgemeinschaft), Project-ID 403041268—TRR 266 Accounting for Transparency. Open Access funding enabled and organized by Projekt DEAL.

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Vol. 39 No. 4 (Winter 2022) pp. 2861–2902
doi:10.1111/1911-3846.12785

gestion du risque fiscal et des influences qui font varier les pratiques de gestion du risque fiscal entre les entreprises. Il est important d'ouvrir cette boite noire, car le risque fiscal est devenu un aspect de plus en plus pertinent dans la pratique de la fiscalité des entreprises — on sait encore peu de choses sur la façon dont les entreprises définissent et gèrent les risques liés à l'impôt. Les auteurs effectuent leur analyse sur la base de 33 entretiens d'experts menés avec 42 experts en risque fiscal. La première conclusion importante tirée de leurs entretiens est que le risque fiscal est un concept multidimensionnel qui dépend du contexte, composé de six éléments de risque fiscal: le risque financier, le risque de réputation, le risque de conformité, le risque politique, le risque de processus fiscal et le risque de responsabilité personnelle. De plus, les auteurs constatent que la perception du risque fiscal varie considérablement entre les initiés et les non-initiés. Leurs entretiens révèlent également que les pratiques de gestion du risque fiscal les plus fréquemment utilisées par les entreprises sont liées à une forme de communication fiscale. La raison pour laquelle les services fiscaux utilisent la communication fiscale comme pratique clé de gestion du risque fiscal est de protéger l'entreprise — en particulier le directeur financier — contre trois types de pression : la pression publique, la pression des pairs et la pression règlementaire. La présente analyse a des implications importantes pour les études futures. Premièrement, les résultats révèlent que plusieurs composantes du risque fiscal ne sont pas suffisamment intégrées aux mesures de risque fiscal communément utilisées dans la documentation d'archives. Deuxièmement, les auteurs constatent que la communication joue un rôle clé dans la gestion du risque fiscal. Cette constatation s'écarte du rôle de simple soutien que les cadres de gestion des risques existants attribuent à la communication.

Mots-clés : risque fiscal, gestion du risque fiscal, communication fiscale, perception du risque

1. Introduction

Managing risk is one of the primary objectives of a firm (Ghoshal 1987; Sunder 2015). An area in which risk management has gained attention just recently is the corporate tax function. Currently, the corporate tax function faces increasing pressure from a variety of sources. Recent regulatory changes require firms to be more transparent and to disclose more detailed tax information, and thus expose them to higher audit scrutiny (Mills et al. 2010; Bozanic et al. 2017). At the same time, increased information requests from tax authorities, more aggressive enforcement, technological changes, and higher public scrutiny pose substantial challenges to firms (Beck and Lisowsky 2014; Dyreng et al. 2016; S. Chen et al. 2018). Taken together, these developments contribute to a growing relevance of tax risk in the corporate context and increase firms' propensity to engage in tax risk management practices, besides tax planning.[1]

Although a growing literature exists on the relation between tax planning and tax risk (Dyreng et al. 2020; Guenther et al. 2019; Donelson et al. 2022), little is known about tax risk management and how it influences tax outcomes (e.g., cash taxes paid). One potential reason for this gap is that we still lack a sufficient understanding of what constitutes tax risk (Wilde and Wilson 2018). Extant empirical studies have not yet reached a consensus on tax risk definition and operationalization. This study strives to push the definitional discussion forward by providing firsthand insights into practitioners' tax risk perceptions. Since the perception of decision-makers influences their actions, we do not rely on objective measures in the analysis, but investigate perception.[2] Identifying practitioners' tax risk understanding serves as a prerequisite to exploring the varying tax risk management practices in our sample firms.

To gain firsthand insights into both practitioners' tax risk perceptions and corporate tax risk management practices, we conducted 33 interviews with 42 professionals (directly or indirectly) involved in corporate tax risk management. The pool of participants consists of tax directors and

1. We provide a glossary of relevant terms used in the study in the Appendix.
2. Thus, the terms used throughout this paper describe the practitioners' perception. Other studies follow a similar approach (Hoppe et al. 2021, 5–6).

tax risk specialists of German DAX and M-DAX firms,[3] one DAX CFO, tax consultants, business association representatives, and regulators and representatives of the German tax authority.

Our analysis of the interviews provides three important insights into the "black box" of corporate tax risk management (PricewaterhouseCoopers 2004). First, we provide evidence on practitioners' tax risk perception. We find that tax risk is a multifaceted, highly context-dependent construct, and that different stakeholder groups tend to define construct direction differently. In sum, our interviewees stress six, related but sufficiently distinct, tax risk components: financial risk, compliance risk, reputational risk, tax process risk, political risk, and personal liability risk. Thus, the tax risk understanding of our interviewees seems to be much broader than the tax risk definition employed in the extant empirical literature, which mostly focuses on either the financial or compliance angle. With regard to construct direction, we find that most firm insider interviewees share a one-sided understanding of tax risk: They define tax risk solely in terms of its downside potential. In contrast, our results indicate that firm outsider interviewees (i.e., tax consultants, regulators, tax authority representatives) perceive tax risk as a two-sided construct.

Second, our in-depth exploration of specific tax risk management practices indicates that communication is crucial, not only for reporting but also for managing tax risk. This interpretation differs from the purely supportive role which other risk management frameworks assign to communication (COSO 2004). Instead, our interviewees stress that, in the tax context, communication allows firms to manage tax risk proactively. We find that especially external communication, such as a firm's proactive engagement in a tit-for-tat information exchange with the tax authorities, represents an important tax risk management practice. As with tax risk, specific tax risk management practices are also context dependent: Based on our insights, we identify addressee-specific[4] tax communication, which depends on the firm's ex ante risk components and its exposure to different pressure types. We identify these pressure types to be public pressure, peer pressure, and regulatory pressure.

Third, our interview insights indicate that one important objective of tax risk management is CFO protection, as the CFO represents the corporate actor directly exposed to public, peer, and regulatory pressure.

Our study contributes to the literature in several ways. First, we provide evidence on how corporate decision-makers perceive tax risk. The extant literature lacks a precise tax risk definition (e.g., as highlighted by Blouin 2014; Dyreng et al. 2018; Wilde and Wilson 2018). Current efforts to define and operationalize tax risk draw on internal control frameworks, as advocated by accounting firms or COSO (Wunder 2009; Donohoe et al. 2014; Neuman et al. 2020). These frameworks have been criticized in the literature (Power 2009) and are often not tax-specific (e.g., COSO), and we do not know whether these frameworks realistically and thoroughly depict tax risk perceptions of corporate actors. Based on a unique set of interview data, we provide firsthand evidence that different stakeholder groups define tax risk differently. This finding has important implications for future archival studies, as it partially challenges extant tax risk operationalizations. Contrasting our interview insights with the extant archival literature reveals that so far no commonly used empirical tax risk proxy exists that captures all important tax risk components. For example, neither unrecognized tax benefits (UTBs) nor tax rate volatilities capture lost tax optimization opportunities due to process failures, reputational concerns, or personal liability considerations—yet these tax risk components can be important influences in the tax function's decision-making rationale. We believe

3. The German DAX index included at that time the 30 largest public firms in Germany in terms of market capitalization. The M-DAX contained the 60 largest German firms following after the 30 DAX firms in terms of market capitalization. Germany offers comparable institutional characteristics to many industrialized countries (e.g., United States or Canada). Thus, our study is informative for other settings as well, even though we refrain from concluding explicitly about transferability of our findings to other contexts.

4. The different addressees that we have identified in our interviews are public stakeholders (i.e., media, customers, and the general public), peer firms (i.e., direct competitors, industry peers), and one group consisting of policymakers, regulators, and tax authorities.

that our qualitative insights into practitioners' tax risk perceptions may stimulate interesting measurement innovations in the empirical tax risk literature.

Second, our paper contributes to the literature by providing insights into the "black box" of corporate tax risk management (PricewaterhouseCoopers 2004).[5] Over the last two decades, the relevance of formal tax risk management became increasingly important (Wunder 2009; Ernst & Young 2014; KPMG 2022). However, little is known about how firms manage tax risk. Existing studies on tax risk management either focus on the link between tax outcomes and specific tax risk management practices (e.g., firms' participation in the IRS Compliance Assurance Process (CAP) program) or examine the quality of internal controls (Beck and Lisowsky 2014; Bauer 2016; S. Chen et al. 2018). Our study adds to this literature by creating an in-depth understanding of different tax risk management practices.[6] In addition, to the best of our knowledge, we are the first to highlight firms' use of tax communication as important tax risk management practice.[7]

Third, we contribute to the literature on top executives' influence on corporate tax practice (Bamber et al. 2010; Dyreng et al. 2010; Koester et al. 2016; Feller and Schanz 2017; Law and Mills 2017; Kubick et al. 2020; Li et al. 2022). Adding to this body of literature, we find that one major objective of tax risk management is to protect the CFO from pressure.

Fourth and finally, our study contributes to the growing qualitative literature on corporate accounting and tax practice (Beasley et al. 2009; Gendron and Spira 2010; Gracia and Oats 2012; Oats 2012; Mulligan and Oats 2016; Jørgensen and Jordan 2016; Cohen et al. 2017; Feller and Schanz 2017). By using a qualitative research approach, we aim to inform quantitative research and try to illuminate areas where quantitative research is currently hampered by a lack of a clear theory.[8] As we ask open-ended questions, we allow our interviewees to express their individual perspectives, which enable us to explore the nuances and complexities of corporate tax risk management from an in-depth perspective.

2. Relevant literature and research questions

What constitutes tax risk?

Motivated by the observation that many firms seem to underutilize tax planning opportunities (Weisbach 2002), a large amount of literature analyzes why some firms refrain from engaging in more aggressive tax planning (Dyreng and Lindsey 2009; Law and Mills 2015; Dyreng et al. 2016; Hasan et al. 2017). One potential explanation for the underutilization of aggressive tax planning is that these activities bear some form of risk. A number of recent studies have thus turned toward examining the relation between tax risk and corporate tax planning. However, taking a deeper glance at these studies reveals that they lack a clear definition of tax risk.

Table 1 provides a structured review of all empirical studies focusing on tax risk that have been published in leading accounting journals over the past two decades. Several key insights can be

5. We use the term "black box" to highlight the scarcity of knowledge on corporate tax risk management. The term "black box" is often used in qualitative accounting studies, which explore the internal dynamics of corporate practice (Gendron et al. 2004; L. D. Brown et al. 2015; Feller and Schanz 2017). Using this term in our context can further be motivated by practitioner publications, which describe tax risk management as "a bit of a black art, not necessarily understood even by those in the tax function, let alone those outside" (PricewaterhouseCoopers 2004, 2).
6. Our interviewees stress a wide variety of tax risk management practices including, for example, company-wide staff training to increase tax awareness, risk visualization via risk heat maps, or risk mitigation via tax communication. A detailed list can be found in Table 7. Explanatory quotes on tax risk management practices can also be found in supporting information in the online Appendix, section A.6.
7. We acknowledge that there is a growing body of literature on tax disclosure and tax transparency (Dyreng et al. 2020; Balakrishnan et al. 2019). However, these studies focus exclusively on the informative role of tax outcome disclosures for corporate investors. In contrast, our study shows that tax departments use external tax communication to create a more certain and predictable environment for corporate tax planning.
8. See Gephart (2004) and Power and Gendron (2015) for discussions of the fruitful interrelations between qualitative and quantitative research.

TABLE 1
Summary of tax risk and uncertainty definitions in extant empirical studies

ID	Study	Construct	Definition	Explicit	Operationalization
1	Blouin et al. (2007)	Tax uncertainty	Positions more likely than not to be not sustained upon examination within audits	No	UTB
2	Rego and Wilson (2012)	Tax risk/risky tax planning	Tax risk stems from corporate engagement in risky tax avoidance	No	Book tax differences, average tax rate, tax shelter score, UTB
3	De Simone et al. (2013)	Tax uncertainty	Ambiguity in the tax law about whether such a position is allowed given the taxpayer's facts or from ambiguity in calculating the amount of the position	No	UTB
4	Hoi et al. (2013)	Tax uncertainty	Tax uncertainty is defined in the recognition threshold as the likelihood of the tax position being sustained upon audit. Weak (strong) positions should have a less than (better than) 50% chance of being sustained upon audit. Thus, weak positions are less likely to stand up to IRS challenges	Yes	UTB
5	Beck and Lisowsky (2014)	Tax uncertainty	Uncertain nature of deductions or credits claimed on the tax return	Yes	UTB
6	De Simone et al. (2014)	Tax uncertainty	Under FIN 48, a tax position is uncertain if management cannot conclude that the associated benefits are "more likely than not" to be sustained upon audit	No	UTB
7	Gallemore and Labro (2015)	Tax risk	Firm's uncertainty regarding its tax liability	Yes	Tax rate volatility
8	Koester et al. (2015)	Tax uncertainty	Tax-related contingent liability, referred to as a UTB	No	UTB
9	J. L. Brown et al. (2016)	Ex ante tax uncertainty	Risky tax positions. In addition to future cash outlays for taxes owed, interest, penalties, and associated legal fees, risky or uncertain tax positions may eventually bring reputational and political consequences in the form of decreased stock price or future scrutiny by tax authorities	No	UTB
10	Drake et al. (2016)	Inspection (tax) audit risk	Increased auditor scrutiny over income tax accounts	No	UTB
11	Erickson et al. (2016)	Tax audit risk	Potential of costs (fees) arising in the realm of FIN 48	No	UTB
12	Olsen and Stekelberg (2016)	Tax sheltering uncertainty	Tax uncertainty is associated with corporate engagement in aggressive tax sheltering	No	UTB

(The table is continued on the next page.)

TABLE 1 (continued)

ID	Study	Construct	Definition	Explicit	Operationalization
13	Robinson et al. (2016)	Tax uncertainty	Under FIN 48, a tax position is uncertain if management cannot conclude that the associated benefits are "more likely than not" to be sustained upon audit	No	UTB
14	Bonsall IV et al. (2017)	Tax uncertainty	Resulting from firms' engagement in a variety of tax positions whose outcomes have varying levels of certainty and from their income shifting behavior across jurisdictions	No	UTB
15	Bozanic et al. (2017)	Tax risk	Tax positions that the IRS might disallow under audit	No	UTB, Schedule UTP
16	Buchanan et al. (2017)	Tax policy uncertainty	Uncertainty that can arise due to policy shocks such as regulatory and tax reforms	Yes	Law change
17	Hanlon et al. (2017)	Tax uncertainty	Uncertain future tax assessments	No	UTB
18	Honaker and Sharma (2017)	Tax uncertainty	Tax uncertainty stems from engaging in transactions with weak support or that increase firms' risk of audit	No	UTB
19	Platikanova (2017)	Tax risk/risky tax planning	Tax avoidance exposes a creditor to undesirable risk, including more volatile cash flows, tax audit risk, and information opacity. Uncertain (i.e., aggressive or risky) tax positions are supported by a relatively weak set of facts and therefore are less likely to be sustained upon a tax audit	No	UTB, tax rate volatility
20	Towery (2017)	Tax uncertainty	Uncertain tax positions that might not be sustained if challenged by a tax authority	No	UTB, Schedule UTP
21	Alsadoun et al. (2018)	Tax risk	More uncertain tax reserves	Yes	UTB
22	Campbell et al. (2019)	Excessive tax risk	Risks associated with tax strategies that are not net value-increasing and reasonable (i.e., managers appear to take positions that are unsustainable)	No	Tax rate volatility, tax risk factor disclosures
23	Dyreng et al. (2018)	Tax uncertainty	Potential loss of tax savings upon challenge	Yes	UTB
24	Guenther et al. (2019)	Tax uncertainty	Potential for a claimed tax benefit to be lost upon challenge as tax uncertainty	Yes	UTB
25	Saavedra (2019)	Tax risk	Tax risk is associated with risky tax strategies	No	UTB, tax rate volatility
26	H. Chen et al. (2020)	Tax risk	Uncertainties regarding the application of tax law and practice to particular facts	Yes	Tax rate volatility

(The table is continued on the next page.)

TABLE 1 (continued)

ID	Study	Construct	Definition	Explicit	Operationalization
27	D. M. Christensen et al. (2022)	Tax risk	Potential costs, for example, implementation/concealment costs, fines/penalties, auditor scrutiny, reduced corporate transparency, agency costs, borrowing costs, or reputational costs	No	UTB, tax rate volatility
28	De Simone et al. (2020)	Tax uncertainty	Tax uncertainty is associated with risky tax strategies	No	UTB
29	Donelson et al. (2022)	Tax risk	Risk that aggressive tax positions are likely to be litigated	Yes	UTB
30	Jacob and Schütt (2020)	Tax uncertainty	Tax uncertainty arises, among other reasons, because taxpayers, courts, and tax authorities can interpret the law differently, resulting in uncertainty about the sustainability of tax positions, even in the absence of tax law changes. [. . .] Thus, the notion of uncertainty is essentially (near-, medium-, and long-term) cash flow forecast uncertainty	Yes	Tax rate volatility
31	Neuman et al. (2020)	Tax risk	Uncertainty about future tax outcomes generated by current actions or activities, or the failure to take actions/pursue activities	Yes	Innovative ex ante tax risk measure
32	X. Chen et al. (2021)	Tax risk	Tax risk as outcome of tax planning and tax compliance	Yes	Tax rate volatility
33	Lewellen et al. (2021)	Tax risk, tax uncertainty	Risk stemming from the uncertainty of tax outcomes; increased by tax haven incorporation	Yes	Tax rate volatility, UTB

Notes: This table contains a review of all studies that have been published in top accounting journals between 2000 and 2021 and cover tax risk or tax uncertainty topics. We used Web of Science (WoS) to search for relevant studies in the Erasmus University of Rotterdam list of STAR and P journals: *Journal of Accounting Research*; *Journal of Accounting and Economics*; *The Accounting Review*; *Contemporary Accounting Research*; *Accounting, Organizations and Society*; *Review of Accounting Studies*; *Abacus*; *Auditing*: *A Journal of Practice & Theory*; *European Accounting Review*; *Journal of Business Finance & Accounting*; and *Management Accounting Research*. Our search query consisted of the following search strings: "tax risk," "tax uncertainty," "UTB," and "tax volatility." In total, our WoS search identified 52 studies. We manually extracted false positives (i.e., studies that were identified by our inquiry but are not directly related to tax risk or tax uncertainty) and nonempirical studies. The final list comprises 33 studies. The table lists each study's construct of interest (i.e., tax risk or tax uncertainty), its implicit or explicit construct definition, and the empirical operationalization employed. Wherever no explicit definition was provided in the respective study, we derived implicit construct definitions based on the information provided in the study. We took care to separate the conceptual definition of tax risk or tax uncertainty from its empirical operationalization. The empirical measures listed are as follows: *UTB*, the reserves of US firms for uncertain tax benefits as disclosed under FIN 48 rules (Blouin et al. 2007); *tax rate volatility*, the standard deviation of the (cash) effective tax rate over a 3-, 5-, or 10-year period (Gallemore and Labro 2015); *tax shelter score*, the probability—based on a prediction model—that a firm is engaged in tax sheltering (Wilson 2009); *tax risk factor disclosures*, the natural log of keywords identified that relate to tax risks and appear in the firm's risk factor disclosure section (Campbell et al. 2019); *Schedule UTP*, an indicator of whether firms are subject to filing a schedule UTP form with US revenue services, which lists federal tax positions claimed in the current year for which a reserve has been recorded in the financial statements (Towery 2017); *book tax differences*, the (discretionary) permanent differences between GAAP income and taxable income (Rego and Wilson 2012); and *average tax rate*, the long-term cash effective tax rate measured over 3, 5, or 10 years (Rego and Wilson 2012).

drawn from Table 1. First, there seems to be no clear differentiation between the terms tax risk and tax uncertainty in the extant literature. Instead, the empirical studies use the two terms almost interchangeably. In line with this result, we also use the terms tax risk and tax uncertainty as synonyms. We do so as not only the empirical studies (see Table 1), but also business practice (COSO 2004) and our interviewees use these terms interchangeably. Our interviewees mainly referred to tax risk and since we emphasize the practitioners' point of view, we also use this term. Second, a substantial number of empirical studies refrain from explicitly defining the two constructs. This again reveals the difficulties in defining tax risk. Third, the majority of studies focus on a compliance or financial angle in their explicit or implicit tax risk definitions. Compliance-related risk definitions refer to the ambiguity in the tax code and its application through tax authorities (Hoi et al. 2013). Financial tax risks rather seem to capture uncertainties in expected future cash flows stemming from corporate tax planning (Jacob and Schütt 2020). Fourth, as illustrated in column (6) of Table 1, there are two prevalent operationalizations of tax risk: reserves for UTBs and cash or GAAP effective tax rate volatility. Thereof, UTB measures seem to be the preferred operationalization in studies with a compliance risk focus. Although UTBs capture a one-sided notion of tax risk—purely relating to downside potential (e.g., the financial loss potential)—tax rate volatility represents a two-sided tax risk notion (upside and downside potential). Nonetheless, in the literature both measures are used for both tax uncertainty and tax risk. The considered empirical studies do not explicitly clarify when adopting a one-sided or two-sided tax risk notion is appropriate.

In sum, our literature review highlights the lack of a clear and consistent tax risk definition. In many cases, tax risk seems to be reduced to a pure compliance or financial angle, thereby ignoring an array of other risks potentially associated with tax planning. A survey by Graham et al. (2014), for instance, goes far beyond this narrow compliance view and suggests that executives assign great relevance to the reputational risks of their tax planning activities.[9] Existing tax risk management frameworks also suggest that practitioners' notion of tax risk is broader than the ones used and operationalized in the empirical literature. Accounting firms often offer separate tax risk management guidelines (PricewaterhouseCoopers 2004; Allen & Overy 2017; Ernst & Young 2017). In an empirical study, Neuman et al. (2020) operationalize the PricewaterhouseCoopers (2004) tax risk management components (transaction, operating, compliance, financial accounting, managerial, and reputational tax risk) and assess their relation to different tax outcomes. It is unclear how well the 18-year-old PricewaterhouseCoopers (2004) study reflects current practitioners' perceptions, and it is also questionable whether the accounting firm's view coincides with corporate firms' internal perceptions—both questions call for a current assessment of tax risk.

Another open question is whether firms consider tax risk solely in terms of a downside potential or rather as a two-sided construct. It is also possible that different firms tend to define tax risk differently (a comparable argument is often raised in the management field, see Schwenk 1988; Reger and Huff 1993; Arena et al. 2010). Obtaining practitioners' perceptions of tax risk is thus a prerequisite for better operationalizing tax risk in future empirical studies and creating a deeper understanding for various tax outcomes and corporate tax practices. We therefore frame our first research question as follows:

Research Question 1 (RQ1). *How do practitioners involved in corporate tax risk management perceive tax risk?*

9. We acknowledge that some studies strive to capture the reputational costs of corporate tax planning via the ex post perspective by analyzing the capital market consequences of such activities (Hanlon and Slemrod 2009; Gallemore et al. 2014). However, the evidence provided in these studies is mixed. This could originate from a self-selection bias whereby the ex ante reputational risks could affect firms' ex ante decisions to engage in specific tax planning activities, and ex post measures might not capture this appropriately (Asay et al. 2018). Due to similar measurement issues, reputational risks are also not adequately captured by the dominant tax risk operationalizations presented in Table 1 (i.e., UTBs and tax rate volatilities).

The "black box" of tax risk management

To us, creating a better understanding of practitioners' tax risk perceptions is a crucial prerequisite for exploring the "black box" of corporate tax risk management. Although there is a growing literature on the relation between tax planning and tax risk (Dyreng et al. 2020; Guenther et al. 2019), little is known about tax risk management and how it interacts with tax planning. In addition, it is not clear whether or to what extent tax risk also depends on specific tax risk management practices employed by a firm. Analyzing this association, however, is important to better understand what constitutes variation in tax outcomes (Wilde and Wilson 2018).

Several studies indicate the growing relevance of tax risk management in the corporate context (Wunder 2009; Bauer and Klassen 2014; Donohoe et al. 2014). For instance, Donohoe et al. (2014) provide an overview of the history of the corporate tax function and emphasize its development from a compliance-driven activity toward a risk management center. Several other studies examine specific tax risk management practices in isolation. Beck and Lisowsky (2014) examine the link between voluntary participation in the IRS CAP audit program and tax risk disclosures.[10] Beck and Lisowsky (2014) find that firms participating in the CAP program disclose significantly lower uncertain tax benefits. Bauer and Klassen (2014) investigate whether firms adjust their GAAP effective tax rates in anticipation of a potential tax loss event (i.e., an unfavorable settlement with a tax authority, resulting in additional tax payments or penalties). They consider the management of a firm's effective tax rates over time as one tax risk management practice. Gallemore and Labro (2015) suggest that firms can reduce tax risk through the installation of an effective internal information environment.[11] Bauer (2016) reports that internal control mechanisms can assist in identifying tax planning inefficiencies and may thereby contribute to higher tax outcome sustainability. While all these studies address important questions, a coherent overall picture of the dynamics and influences of varying tax risk management practices is still missing.

One could argue that the tax literature could draw from the findings of enterprise risk management literature at this point. However, the literature on enterprise risk management is unlikely to provide sufficient insights into the "black box" of tax risk management for two reasons. First, even with regard to enterprise risk management practices themselves, there seems to be substantial variation across firms (see Mikes 2011 for similar arguments regarding the variation in risk management practices in the banking context). To some extent, the variation may be rooted in the scarce regulatory guidance on the design of corporate risk management practices (Woods 2009).[12] Second, an argument often raised in the tax planning literature and among practitioners is that tax risk is fundamentally different from overall firm risk (Hassett and Metcalf 1999; Goh et al. 2016; Sikes and Verrecchia 2016; Jacob et al. 2022). It is thus unclear how well insights from enterprise risk management practices can be transferred to tax risk management practices. We thus formulate our further research questions as follows:

Research Question 2a (RQ2a). *How do firms manage tax risk?*

If answers to this question differ across firms, we want to understand why there is a variation in tax risk management practices:

10. The CAP program is a cooperative, real-time audit process that allows large public firms to identify and address material issues prior to filing their annual returns.
11. According to Gallemore and Labro (2015, 149) the "internal information environment" comprises the "accessibility, usefulness, reliability, accuracy, quantity, and signal-to-noise ratio of the data and knowledge collected, generated, and consumed within an organization."
12. In 2004, the voluntary COSO framework on enterprise risk management was published (COSO 2004). Besides COSO, there are several other non-binding frameworks and standards providing risk management guidance to firms (Olson and Wu 2008). However, these frameworks also provide only vague guidance (Paape and Speklé 2012).

Research Question 2b (RQ2b). *What influences the variation in tax risk management practices across firms?*

3. Methodology

Rationale for applying a qualitative research method

In this study, we strive to investigate how practitioners perceive tax risk, how they manage tax risk, and what influences the variation in tax risk management practices across firms. Due to the lack of knowledge on tax risk, tax risk management, and its variation across firms in the literature, we need an exploratory research design and therefore chose to conduct a qualitative analysis. A qualitative design not only allows for an in-depth examination of the complex phenomenon of interest, but also accounts for contextual factors potentially shaping corporate tax risk management (Cooper and Morgan 2008; Kaplan 2011). Specifically, we chose an interview-based approach because we aim to explore how practitioners perceive and manage tax risks, rather than how existing standards (e.g., the COSO-framework) describe them (for a comparable justification in a different context, see Griffith et al. 2015). Extant frameworks and standards are not tax-specific, provide vague guidance on risk management, and permit substantial flexibility in implementation. Hence, interviewing professionals involved in tax risk management can generate meaningful insights into tax risk management. Conducting semi-structured interviews with open-ended questions further provides us with sufficient flexibility in following-up on our interviewees' responses and thereby enabled us to investigate corporate practice more thoroughly (Gendron and Spira 2009; Radcliffe 2010).

Consistent with several prior accounting studies employing a qualitative research design (Feller and Schanz 2017; Brivot et al. 2017; Georgiou 2018), we adopt a grounded inductive approach to explore in depth practitioners' tax risk perceptions and the variation in corporate tax risk management. Consequently, we conduct and analyze our interviews with a theoretically "open mind" (Georgiou 2018, 1304). We motivate this procedure with the lack of knowledge on tax risk management and its potential context dependency. A grounded inductive approach further permits us to conceptualize from the field data the internal dynamics surrounding the implementation of specific tax risk management practices within firms.[13]

Sample composition

In sum, we conducted 33 expert interviews with 42 German tax risk experts.[14] Our interviewee pool consisted of different corporate actors and external stakeholders involved in corporate tax risk management. At the beginning of the data collection stage, we identified desired interview participants through a purposeful sampling approach (Miles et al. 2014). We focused on tax directors of large listed German firms (i.e., German DAX and M-DAX firms) for several reasons. First, the global public outcry over tax avoidance practices often focuses on large, multinational corporations. Second, the German setting offers comparable institutional characteristics to many industrialized countries, such as the United States or Canada. Public disclosure regulation is, for instance, comparable (e.g., EU Market Abuse Regulation as compared to US Regulation Fair Disclosure); all three countries have relatively similar anti-tax avoidance rules in place; and officers can in all be held personally liable for corporate tax matters.[15] Third, we sample German

13. Consistent with Brivot et al. (2017), we acknowledge that the conceptualizations presented in the results section of this paper reflect our interpretations of corporate realities as portrayed by our interviewees.
14. The number of 33 interviews is consistent with the sample size in other qualitative accounting studies using semi-structured interviews (Beasley et al. 2009; Trompeter and Wright 2010; Griffith et al. 2015; Westermann et al. 2015; Mulligan and Oats 2016; Cohen et al. 2017; Daoust and Malsch 2020). Dai et al. (2019) review interview-based studies published in the top accounting journals during the early 2000s, and find that the median number of interviews per study amounts to 26.
15. Sections A.6 and A.7 of the online Appendix provide more detailed comparisons of Germany, the United States, and Canada.

DAX and M-DAX firms because these firms possess the requisite size, amount of foreign operations, and operational complexity so that tax risk management represents an important topic for them as for other industrial country peers, such as North American multinationals. German DAX and M-DAX firms further cover various industries and comprise a substantial part of the German economy. Hence, while we naturally refrain from blindly transferring our insights to other contexts, we believe that, to some extent, our study's findings regarding tax risk perceptions and the role of communication for tax risk management practices in German firms are also informative about the dynamics in other multinationals.

Prior research justifies the focus on tax directors as desired interviewees, as they provide evidence that tax-related decision-making falls into tax directors' remit (Armstrong et al. 2012; Graham et al. 2017). As the data collection stage continued, we moved toward a theoretical sampling approach to identify additional interviewees (Glaser and Strauss 1967). By expanding our interviewee pool to other stakeholders directly or indirectly involved in tax risk management, we were able to validate and further expand our insights into the "black box" of corporate tax risk management (for a similar procedure, see Bédard and Gendron 2004; Kouakou et al. 2013; B. E. Christensen et al. 2016).

In sum, 49 potential informants were contacted, out of which 67% became interviewees. The participation rate of 67% is consistent with other qualitative studies (Lillis 1999; Bédard and Gendron 2004).[16] Our final interviewee sample consisted of 19 tax directors and 8 tax risk specialists of large German firms, 8 tax consultants of top-tier law firms or Big 4 accounting firms, 1 CFO of a German DAX company, 5 representatives of the German regulator and the German tax authorities, and 1 representative of a German business association. The average working experience of our interviewees amounts to 20.21 years, highlighting their expertise in the field. Table 2 provides further details on interviewee composition. To guarantee anonymity of our interviewees and their respective organizations, we do not provide information on the industry composition of our sample. However, we ensured that firms from various industries were covered in our sample to account for potential industry specifics in tax risk management practices.

Data collection

The 33 interviews took place from July to December 2017. All interviews were conducted face to face, and each participant was interviewed once. Each interview lasted approximately 60–80 minutes (mean: 68 minutes, median: 65 minutes). The interviews were audio-taped and transcribed verbatim. In total, we obtained approximately 2,200 minutes of audio recording, translating into more than 900 pages of written interview transcripts (font size 12, 1.5 spacing).[17] The language in all interviews was German.[18] All interviews were performed by the first author and occurred at the interviewees' offices to ensure a familiar interview environment for

16. Among previously acquainted contacts, the participation rate amounted to 85%. Among "cold calls" (i.e., cases in which no prior personal contact existed), the participation rate was 31%. Four contact persons actively refused to participate in the interviews. They justified their refusal either with the sensitivity of the topic or with time constraints. We compared the distribution of (observable) personal and firm-specific characteristics between interviewees and contact persons, who did not become interviewees. Results indicate no significant differences in characteristics.

17. We provided our interviewees with the opportunity to verify the accuracy of their interview transcript after the interview (Gendron and Bédard 2006). Three interviewees requested to review the interview transcript. However, only one interviewee requested slight modifications to the interview transcript because the interviewee wanted to protect competitor-sensitive information.

18. Consequently, all quotes displayed in this paper were translated into English. Special caution was paid to not change the original meaning of the translated statements during the translation process. The core difficulty in translating original quotes from one language into another is that during this process, there is a nonnegligible risk of losing or changing the original meaning and cultural nuance of the respective statements (Kamla and Komori 2018). Translations were, for instance, cross-checked by two independent third-party readers (a German and an English native speaker).

TABLE 2
Interviewee details

Panel A: Interviewee group descriptives

Interviewee group	*N*	Affiliation	Male	Female
Tax directors	19	Firms listed on German stock market (DAX or M-DAX)	16	3
Corporate tax risk specialists	8	Firms listed on German stock market (DAX or M-DAX)	4	4
CFO	1	Firms listed on German stock market (DAX or M-DAX)	1	—
Tax consultants and lawyers	8	Big 4 audit firms or leading law firms	6	2
Regulators and tax authority representatives	5	Tax authorities, standard setters, federal ministry	4	1
Business association member	1	Business association of large German companies	1	—

Panel B: Personal background information on interviewees

	N	Sample percentage (%)
Age range		
30–39 years	5	12
40–49 years	16	38
50–59 years	19	45
over 60 years	2	5
Professional job certification		
Certified tax consultant	24	59
Certified public accountant	1	2
Lawyer for tax law	5	12
None or other	12	27
Prior professional experience		
Company experience	24	57
Taxation	18	43
Accounting and finance	5	12
Risk management (general)	4	10
Compliance (general)	2	5
Tax consulting/audit firm	18	43
Regulatory body/tax authorities	11	26

Notes: This table provides some background information on our interviewees. Note that, due to the fact that in 7 of our 33 interviews more than one person was interviewed, the total number of interviewees is 42. Multiple answers per interviewee were possible for prior professional experience.

participants. Even though most interviews were conducted in the form of one-on-one interviews, a few tax directors invited additional tax risk specialists from their team to join the interview. In addition, one interview was conducted with two regulator/tax authority representatives at the same time. We provide details on the sequence of the interviews in section A.1 of the online Appendix.[19]

Before the actual interview, we asked the interviewees for permission to audio record the interview, informed them about their right to stop the interview at any point, and guaranteed full

19. Please see supporting information as an addition to the online article.

confidentiality with regard to personal and corporate identity.[20] To underline this, we also handed all interviewees a written confidentiality agreement signed by both authors. Afterward, we provided them with some background on the authors' general research interest, sketched the high-level interview themes, and also highlighted their expert status for the topic.

During the interviews, we used a semi-structured interview guide, primarily consisting of open-ended questions (similar to Griffith et al. 2015; Feller and Schanz 2017).[21] We developed the interview guide based on prior literature, firm publications, and practitioner insights. Throughout the data collection stage, we slightly adjusted the interview guide, whenever necessary. Moreover, the interviewer was allowed to ask additional probing questions within the interviews. Thereby, we accounted for further, potentially relevant, aspects raised by our interviewees (similar to Daoust and Malsch 2020).[22] We focused on open-ended questions in our interviews to provide our interviewees with a greater opportunity to share their views on tax risk management. Moreover, open-ended questions contributed to the identification of new topics and previously unconsidered aspects (Roulston 2010). Despite minor modifications and adjustments, the general structure of the interview guide remained the same for all 33 interviews: At the beginning of each interview, we asked the interviewees for their understanding of the term "tax risk," given that no uniform construct definition exists, either in academia or practice (Blouin 2014; Dyreng et al. 2018; Wilde and Wilson 2018). Afterward, questions were organized around the following "Who?/What?/Why?" structure:

i. Key actors involved in tax risk management (Who?): In this question block, we strived to identify the relevant actors involved in tax risk management and potential frictions between these actors. Moreover, we aimed to assess tax risk awareness at different company levels.
ii. Tax risk management practices (What?): These questions aimed at assessing the specifics of corporate tax risk management. These questions also strived to identify the key differences in firm-specific tax risk management practices.
iii. The context of tax risk management (Why?): The key purpose of these questions was to gather a variety of relevant internal and external factors that may shape the identified tax risk management practices.

At the conclusion of each interview, we asked participants for further factors influencing tax risk management, not yet discussed in the interview. Thereby, we accounted for previously unconsidered, yet potentially relevant, aspects. After the interview was completed, each interviewee filled out a short, standardized questionnaire containing questions on relevant demographics and general firm-level information.[23]

20. As human participants are involved in our study, we carefully considered the ethical implications. Our institution does not have an ethics review board. Therefore, we did not go through an external ethics clearance process. Throughout the research project, we ensured high ethical standards. Following common ethical interview guidance, we asked our interviewees for authorization to record the interview. We also committed to share full interview transcripts with interviewees for approval. All participants were provided with the opportunity to review the final transcripts and working paper to ensure that their views were adequately reflected. Finally, we took appropriate measures to protect the collected data.
21. A translated version of the final interview guide used in firm insider interviews is provided in section A.2 of the online Appendix.
22. Slight adjustments to the interview guide were made for different interviewee groups. Developing slightly different interview guide versions for different interviewee groups is a common procedure in qualitative research (Stanko and Beckman 2015).
23. A translated version of the short questionnaire can be provided by the authors upon request. To account for interviewees' individual risk profiles, the questionnaire also contains four general questions on interviewees' personal risk appetite. For these questions, we followed the suggestions by the German Institute for Economic Research (see Bonin et al. 2007).

Data analysis

We applied an inductive research approach to analyze, conceptualize, and interpret our interview data (Miles et al. 2014). We independently coded the 900 pages of interview transcripts with NVIVO. In a first step, we coded 20% of the interview transcripts line-by-line by assigning either "in vivo" codes, displaying the language explicitly used by our interviewees, or descriptive codes, remaining very close to interviewees' statements (Charmaz 2008).[24] We only coded what we considered relevant under consideration of our research questions (Saldana 2016). During this first cycle of open coding, approximately 300 unique codes were assigned. After the first cycle of coding, similar codes were identified manually and combined to avoid redundancies.

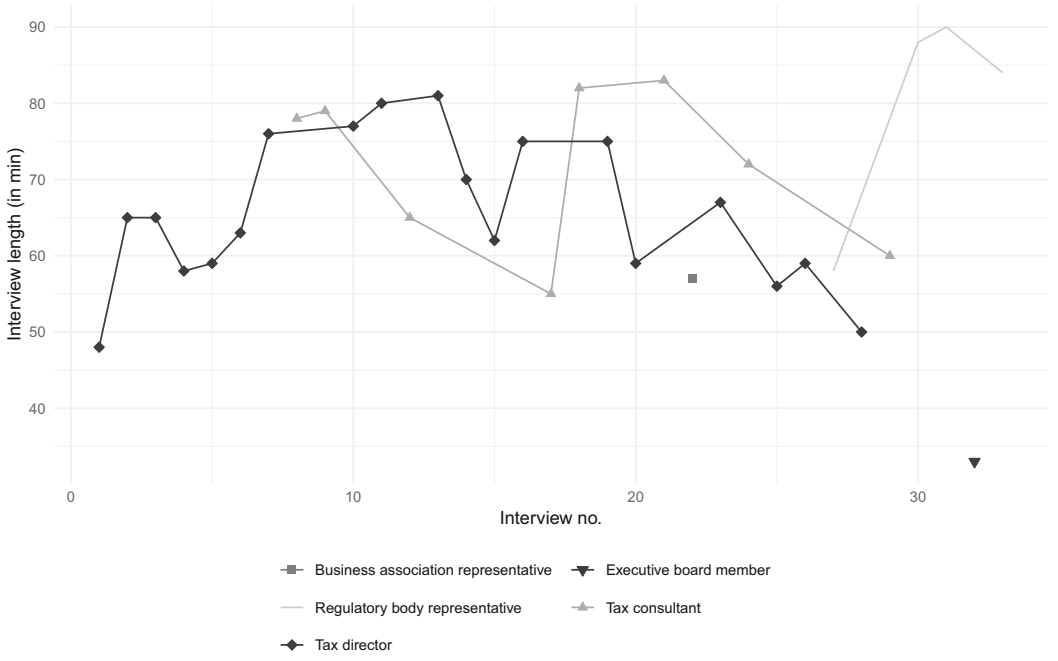
As the analysis continued, we specified our coding scheme, continuously comparing the characteristics of different coding units and "moving back and forth" in the interview material (Glaser and Strauss 1967). During the second cycle of coding, we reorganized our codes to identify more and less relevant codes and to search for relations among our emerging categories (Strauss and Corbin 2008; Daoust and Malsch 2020).[25] In addition, we employed a frequency analysis over all codes assigned and across all interview transcripts to obtain a sense of the relevance of different tax risk topics and specific tax risk management practices.[26] Throughout the entire analysis, a total of 136 unique codes remained.[27] To secure unambiguous coding and increase transparency, we set up a 140-page coding manual. This manual displays all relevant coding rules (i.e., inclusion and exclusion criteria), as well as typical, atypical, and "close-but-no" examples for the 136 unique codes assigned (Miles et al. 2014; Saldana 2016).[28]

Ensuring trustworthiness in the research process

We continued to conduct and analyze interviews sequentially until we reached a feeling of data saturation. Data saturation implies that additional interviews no longer provided new insights, which enhanced our conceptualizations and understanding of practitioners' tax risk perceptions and corporate tax risk management (Morse 1994; Strauss and Corbin 2008; Roscoe and Howorth 2009; Dowling and Leech 2014). Reaching data saturation is often criticized for being indeterminate and researcher-subjective (Suddaby 2006; Dai et al. 2019). To overcome this criticism, we provide graphical evidence for reaching data saturation after 33 interviews.[29] Figure 1 displays the development of the length of all interviews over time. It contains separate line plots for the different interviewee groups included in our sample. Especially with regard to the tax director group, a clear peak followed by a decrease in interview length can be observed. We interpret this observation as an indicator of reaching data saturation in the tax director interviews after 19 interviews with participants from this group.[30] Moreover, for all interviewee groups with more than one participant, declining trends in interview lengths can be observed, indicating that the data became more saturated over time. We thus believe that 33 interviews are sufficient and allow

24. We started coding and analyzing our interview transcripts after six interviews were conducted to ensure sufficient variation in the data. This procedure is consistent with methodological recommendations (Mayring 2015).
25. We follow Saldana (2016) and use the term "code" for essence-capturing labels, which when clustered together according to a specific pattern, actively facilitate the development of a "category." Thus, a "category" captures more abstract higher-order concepts, while a "code" tends to be more descriptive.
26. As suggested by Saldana (2016), we used the frequency of category occurrences within different interview transcripts to identify core topics stressed by many interviewees.
27. The amount of 136 codes is in the recommended range of the methodological literature (see Lichtman 2013).
28. Section A.3 of the online Appendix contains an exemplary page extract from the coding manual. The full coding manual can be provided by the authors upon request.
29. Thereby, we follow Malsch and Salterio (2016), who suggest that researchers need to carefully explain how and why they believe in reaching data saturation after a specific number of interviews.
30. We acknowledge that a comparable increase-peak-decline pattern of interview length over all 33 interviews is less apparent. We attribute this to new interviewee groups raising new aspects, which required further investigation and thus increased interview length again.

Figure 1 Development of interview length over time



Notes: This figure plots the interview lengths of the 33 interviews, organized according to the order of their occurrence. Separate line plots illustrate the interview lengths for different interviewee groups. One interview (interview number 17) terminated earlier due to interviewee time constraint.

us to draw well-grounded inferences on practitioners' tax risk perceptions and corporate tax risk management practices.

Within the analysis, we aimed to ensure analytical trustworthiness through several steps (comparable to Malsch and Gendron 2009; Gendron and Spira 2010). First, we applied various "peer-debriefing" methods (Lincoln and Guba 1985). As all interviews were performed by the first author, she was the one primarily responsible for collecting the data and conducting first-glance analyses. The second author took on a more holistic perspective and played the "devil's advocate" by frequently challenging emerging interpretations and findings (e.g., through raising alternative explanations). Therefore, both researchers were involved in the data analysis to ensure that the emerging findings did not just exhibit interpretations of a single researcher (Gioia et al. 2010). In addition, both researchers coded a representative part of the interview data independently. Initial inter-coder agreement amounted to 87% (Cohen's kappa coefficient = 0.86; $p < 0.01$), indicating a very high level of coding reliability (Cohen 1960; Miles et al. 2014). In a subsequent step, we discussed the disagreements in code assignment and were able to resolve them. As another approach to reach trustworthiness, we considered a wide range of additional data sources for triangulation purposes in our analysis (as proposed, e.g., by Ittner and Larcker 2001).[31] Finally, the explanatory power of the results we obtained is strengthened by the high amount of cross-references. In their interview responses, several interviewees unknowingly referred to other firms included in our sample. Since we paid careful attention to securing full anonymity of all interviewees and their affiliated

31. Section A.4 of the online Appendix provides an overview of all data sources used for triangulation purposes (e.g., corporate annual reports, public statements, publications, newspaper articles). We collected those sources systematically, read them carefully, and compared them with our interviewees' statements.

organizations at all stages of the research process, participants were not aware of other firms and interviewees included in the sample. Yet, many participants explicitly or implicitly referred to other sample firms and their tax risk management practices. We utilized these cross-references to validate the insights and findings obtained in the interviews. We found no inconsistencies or discrepancies in interviewees' responses. This provides us with further confidence that our findings meaningfully reflect tax risk management practices in large German firms. Table 3 displays the entire set of direct and indirect cross-references made by our interviewees.

In the next section, we present our findings based on a mixture of numerical results, interviewee quotes, and interpretations of our interview data. It is important to remark that the displayed percentages always depict the relative proportion of interviews in which interviewees mentioned a specific aspect. It is not possible to derive any statements about residual percentages, because we did not talk about all topics in all interviews, consistent with the grounded approach. Still, we believe that the blend of numerical results, quotes, and interpretations provides valuable insights into overall patterns, which we could observe in the interviews, while at the same time accounting for the variation in interviewees' tax risk perceptions and corporate tax risk management practices. We further consider that the mixture of qualitative and quantitative information most adequately conveys our insights to both archival and qualitative accounting researchers (for a similar reasoning, see, e.g., Hermanson et al. 2012; Clune et al. 2014).

4. Results

Figure 2 summarizes the key findings on concept understanding and the relation between the constructs. A detailed analysis follows in the next sections.

Based on our interviews, we understand ex ante tax risk as the possibility that tax outcomes differ from the expected tax outcomes. It consists of six different components: financial, reputational, compliance, political, tax process, and personal liability risk. They are influenced by business characteristics, the environment and the different pressure types. Pressure is an external influence on tax risks and corporate tax practice, which depends on its source. We differentiate three pressure types: public, peer, and regulatory pressure. Public pressure is driven by public stakeholders (i.e., media, customers, general public), peer pressure is driven by peer firms (i.e., direct competitors, industry peers), and regulatory pressure is driven by policy-makers, regulators, and tax authorities.

Tax risk is managed by a firm considering the firm-specific tax risk management objectives. Tax risk management practices are implemented to identify, evaluate, mitigate, manage, monitor, and control corporate tax risk and to establish a beneficial internal information environment. Along with tax planning, tax risk management practices constitute corporate tax practice. The corporate tax practice is influenced by public pressure, peer pressure, and regulatory pressure (as described above). The tax risk that is not mitigated by the corporate tax practice remains as residual tax risk.[32] We describe these interrelations in more detail in the next sections.

How do practitioners involved in corporate tax risk management perceive tax risk?

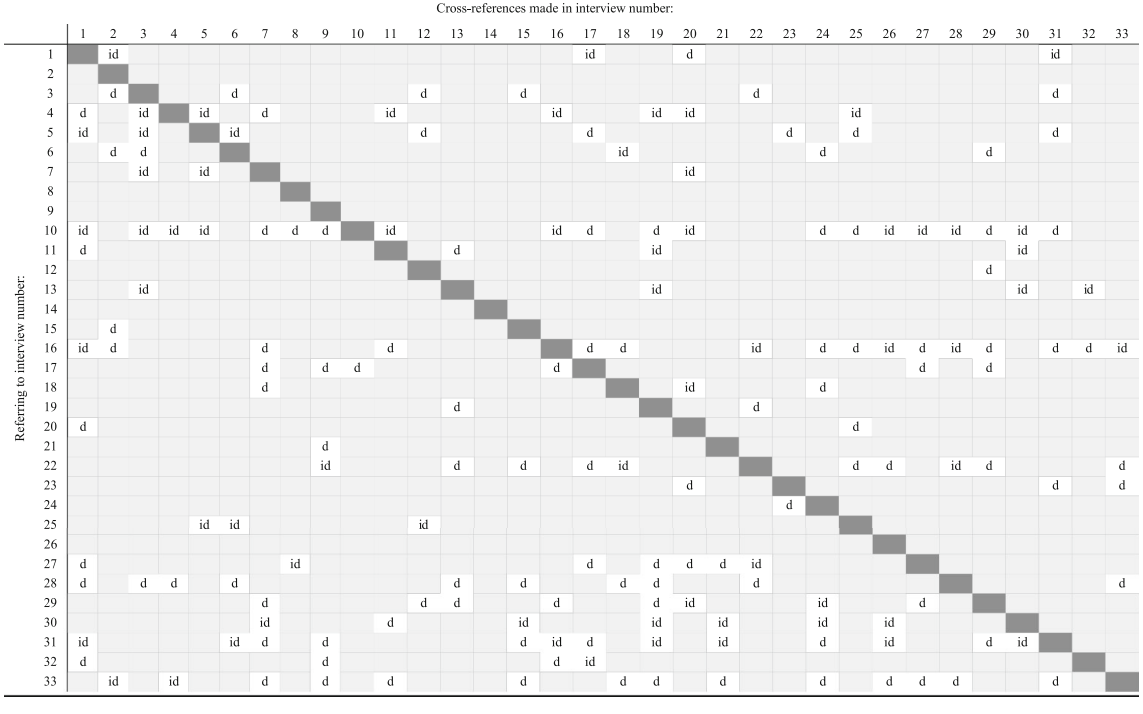
In this section, we address our first research question. Table 4 displays tax risk as portrayed by our interviewees.[33]

We find that most interviewees consider tax risk as a one-sided construct (i.e., as pure downside risk). Interpreting tax risk solely in terms of its downside potential is consistent with the

32. In what follows, we will only differentiate between ex ante risk and residual risk when we explicitly refer to one or the other. In most cases, we will just use "tax risk" because we are referring to both ex ante risk and residual risk. An example is one-sidedness or two-sidedness of risk; these constructs remain the same, regardless of the ex ante or ex post (residual) view.

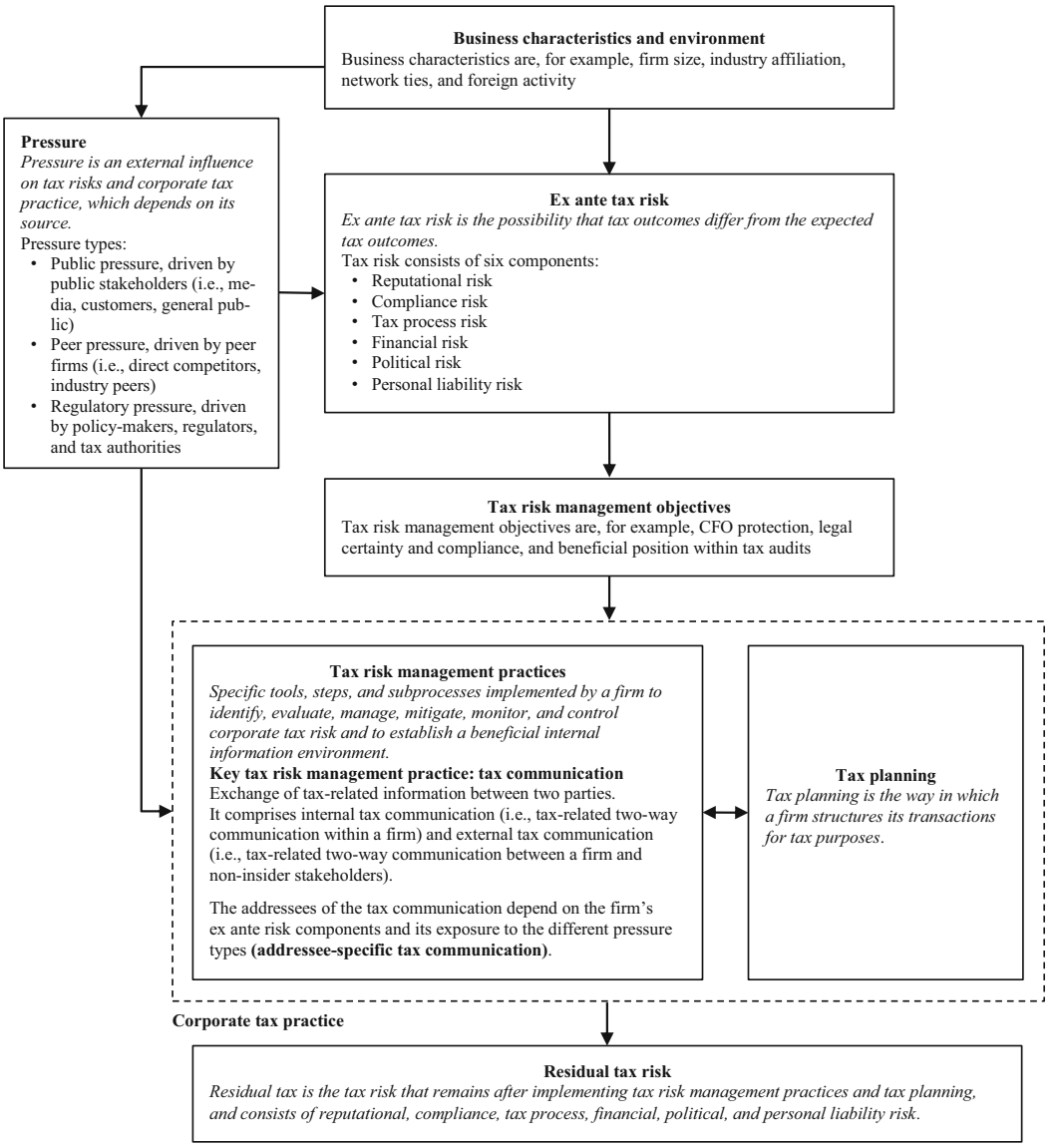
33. The insights on tax risk direction and composition, which we summarize in Table 4 were inductively derived by coding our interviewees' responses on question 1 (i.e., "How do you define the term 'corporate tax risk'?").

Table 3
Cross-references within interviews



Notes: This table illustrates all statements of our interviewees that directly (d) or indirectly (id) referred to any other interviewee/firm. Direct references are those that explicitly contained the firm's name or the interviewee's name. Indirect references did not explicitly mention the name of an interviewee or its firm. However, due to our contextual knowledge, we were able to trace indirect references to the respective firms/interviewees. Our interviewee in Interview 25, for instance, mentioned that he knows that CFO protection is also a core tax risk management objective in Firm 5. Instead of directly referring to Firm 5 (by providing us with the explicit firm name), our interviewee provided us with information on Firm 5's business model and headquarters location, which still allowed us to identify the indirect reference and exploit it as a cross-check in our analysis.

Figure 2 Conceptualization and interrelatedness of core terms



Notes: This figure depicts our understanding of core terms used in this study and displays our conceptualization of their interrelatedness. Terms are defined in the Appendix.

prevailing empirical measure of tax risk employed in extant empirical studies (see Table 1). Table 4 further reveals that especially firm insiders (tax directors, tax risk specialists, and the CFO) regard tax risk as a one-sided construct. Sixteen of the 21 statements on the one-sidedness of tax risk stem from interviews with firm insiders. In contrast, 8 of the 12 interviews stressing a two-sided tax risk definition were conducted with firm outsiders (e.g., tax consultants).[34] This

34. We acknowledge that one potential explanation for this could be that tax consultants may define tax risk as a two-sided construct as they also focus on the upside of a potential tax planning activity in order to sell their tax consulting services.

TABLE 4
Practitioners' tax risk perception

	# of mentions (n = all 33 interviews)	%	# of mentions (n = 20 interviews with firm insiders)	%	Exemplary quote
Tax risk as one-sided construct (only downside risk)	21	64	16	80	"Tax risk is defined as the threat of the occurrence of circumstances or events that disturb or threaten a company's objectives. Tax risk captures the potential of negative deviations from these objectives." (Tax Risk Specialist, Interview 5)
Tax risk as two-sided construct	12	36	4	20	"We consider risk as capturing both risk and opportunity. It can be both at the same time. If a firm has claimed an uncertain tax position in a favorable way, there is a risk that this will not be accepted by the tax authorities. Yet, at the same time, there is an opportunity, that it will get through, resulting in a beneficial tax outcome for the firm." (Tax Consultant, Interview 18)
Tax risk components					
Financial risks (risks of a potential financial loss due to additional tax payments, fines, penalties, or interest payments)	24	67	17*	85	"When I take a specific tax position, then there might be the risk that the position could be challenged upon audit. Thus, financial risk primarily stems from additional tax payments, fines, and penalties." (Tax Consultant, Interview 9)
Reputational risks (risks that corporate tax practice may affect the public image of a firm)	21	64	14*	70	"The relevance of reputational risks is increasing. [. . .] Reputational risk is a multidimensional construct. The most important thing is, of course, to ensure that reputation does not affect revenues in any negative way. However, in addition, reputational risks comprise corporate perception among existing and future employees, business partners, and so on." (Tax Director, Interview 2)

(The table is continued on the next page.)

TABLE 4 (continued)

	# of mentions (n = all 33 interviews)	%	# of mentions (n = 20 interviews with firm insiders)	%	Exemplary quote
Compliance risks (risks associated with incomplete, inaccurate, or delayed preparation or submission of tax returns)	19	58	12*	60	"Another point is compliance risk. This keeps us quite busy. To ensure that we comply with all requirements and rules on tax return filing and financial reporting. Compliance with the law. That is a huge challenge." (Tax Director, Interview 13)
Political risks (risks associated with political changes or events potentially affecting corporate tax practice)	18	55	15	75	Political risks can arise from political discussions to adjust or change the law, to introduce new laws. . . . One example for a political risk is UK Brexit. Brexit can potentially have important consequences for corporate taxation." (Tax Director, Interview 10)
Tax process risks (risks arising from system and technologies, organizational aspects, or workforce quality in tax-relevant processes)	14	42	9	45	"We currently place high focus on tax process risks. Tax process risks imply that the process is not well-designed, contains structural weaknesses, systematic errors, or human faults—which, in a subsequent step, can affect tax return filings tremendously." (Tax Director, Interview 6)
Personal liability risks (statutory risks associated with top executives' legal liability for corporate actions)	13	39	6*	30	"Another component is personal liability risk. To assess personal liability risk linked to corporate tax practice, we always ask how painful a specific risk might be for our top executives." (Tax Director, Interview 15)

Notes: This table reports how our interviewees perceive tax risk. At the beginning of each interview, we asked our interviewees to provide us with their tax risk definition. We assigned their responses to inductively derive codes capturing different tax risk components. The total number of all interviews is 33. The total number of interviews with firm insiders (i.e., tax directors, tax risk specialists, CFO) is 20. Percentages display the proportions of interviews in which interviewees mentioned a particular tax risk direction or component. It is not possible to derive any statements about residual percentages. * denotes that the number of mentions includes the CFO response.

TABLE 5
Tax risk perception and potential practices for quantitative research

Stakeholder group	Construct	Proxies/operationalization
Firm insiders (i.e., tax directors, corporate tax risk specialists, CFO)	Tax risk as one-sided construct (downside potential only)	UTBs
Firm outsiders (i.e., tax consultants, regulators, tax authority representatives)	Tax risk as two-sided construct (downside and upside potential)	Cash or GAAP effective tax rate volatility

Notes: This table shows that firm insiders and firm outsiders perceive tax risks differently. This has implications for proxy choices in quantitative research.

discrepancy in the directional tax risk understanding of firm insiders and firm outsiders has important implications for future empirical work in this field. In fact, our insights allow future archival studies to better motivate their concrete tax risk operationalization choices. Based on our interview insights, we suggest that future archival studies focusing on a firm insider perspective should employ a one-sided tax risk measure (e.g., UTBs), whereas studies adopting a firm outsider perspective should opt for a two-sided proxy, such as tax rate volatility.[35] Table 5 systematically summarizes the firm insiders' and firm outsiders' different tax risk perceptions and their implication for proxy choices in quantitative research.

Furthermore, Table 4 provides insights into participants' tax risk composition. Based on our interviewees' responses, we identify six related but sufficiently distinct tax risk components: financial risk, reputational risk, compliance risk, political risk, tax process risk, and personal liability risk. Thus, the tax risk understanding of our interviewees seems to be much broader than the tax risk definition employed in the extant empirical literature. As outlined in section 2, extant empirical studies primarily define and operationalize tax risk as financial and compliance risk. Table 4 shows that these two tax risk components, along with reputational risk, have also been mentioned with the highest frequency across all interviews. Yet, the other three tax risk components were also stressed frequently by our interviewees.[36] In what follows, we discuss the six tax risk components stressed by our interviewees in more detail. First, in 67% of all interviews, participants point out that financial risk constitutes an important tax risk component. We learn from our interviews that financial risk is associated with the potential of future tax, interest, or penalty payments. These additional payments can arise when tax authorities challenge specific tax positions upon audit. The notion of this component of financial tax risk is consistent with the overall tax risk definition used by several extant empirical studies (see Table 1).

Reputational risk represents another tax risk component, identified in 64% of the interviews. Our interviewees report that firms and their top executives face substantial reputational risks arising from the possibility that corporate tax practice could affect their public image an undesirable way. The relevance of reputational risks for corporate tax planning choices has been considered in previous work (Hanlon and Slemrod 2009; Gallemore et al. 2014; Graham et al. 2014; Dyreng

35. Put differently, our interview insights suggest that if a study is interested, for example, in how tax risk affects firms' engagement in foreign activities, a one-sided tax risk proxy should be used, given the underlying firm insider perspective. On the other hand, if a study wants to explore, for example, whether the tax risk profile of a firm determines whether an accounting firm can sell more or less tax consultancy services to such a firm, a two-sided proxy should be chosen, given the underlying firm outsider perspective.

36. It is important to remark that the frequency of mentions, in itself, does not allow any interpretation of the relative importance of a specific tax risk component. In order to assess the relative importance, one needs to take into account the explicit content of each interview, the context, and the tone.

et al. 2016; Asay et al. 2018). However, extant empirical evidence on reputational costs is mixed. Using a survey approach, Graham et al. (2014) find that tax planning can expose firms to substantial reputational risks. To the contrary, several empirical studies document only slightly negative and quickly reversing stock market reactions to corporate tax avoidance engagement (Hanlon and Slemrod 2009; Gallemore et al. 2014). Our findings contribute to this growing literature and support the results obtained by Graham et al. (2014). We document that reputational tax risks represent an important tax risk component for practitioners. One interviewee explains: "Many firms fear a so-called *Wall Street Journal* risk. This means that you appear in the *Wall Street Journal* because of your tax planning activities. . . . Even though this may not affect stock prices or effective tax rates substantially, it is still perceived as threatening" (Tax Consultant, Interview 17).

Fifty-eight percent of all interviews stressed the relevance of tax compliance risk. Tax compliance risk comprises the risk associated with incomplete, inaccurate, or delayed tax return preparation, filing, or submission. One of our interviewees noted that tax compliance risk also stems from "ambiguity in tax authorities' evaluation of specific tax cases. . . . If there are no precise regulations, laws, or administrative provisions, firms lack reliable guidance on how to reach conformity with the law" (Business Association Representative, Interview 22). With this finding, our insights support prior studies (Donohoe et al. 2014; PricewaterhouseCoopers 2004), which consider tax compliance risk as an important tax risk component.

In 18 interviews, participants highlight the role of political risks in the tax context. Of these, 15 interviews were conducted with tax directors. According to our interviewees, political risks arise from potentially occurring tax reforms or other political events (e.g., UK Brexit), which may affect a firm's tax practice and its tax outcomes in an undesired way. As becomes apparent, our interviewees' definition of political risks differs from the notion of political risks in the extant tax literature (Mills et al. 2013; D. M. Christensen et al. 2015). Prior tax studies define political risks as the potential of losing specific political benefits (e.g., the access to government contracts) due to a public outcry triggered by corporate tax practice. We find that such risks are instead considered as reputational risks by our interviewees.

Tax process risks constitute another relevant tax risk component stressed in 42% of all interviews. According to our interviewees, tax process risks arise from three different sources: a firm's workforce (e.g., due to a loss of expertise or human error during manual tax data processing), its organizational structure (e.g., due to inappropriate coordination with other departments), or system weaknesses (e.g., due to technological infrastructure issues). Tax process risks apparently have gained importance among practitioners recently since new technologies change the way in which firms operate. As one of our interviewees remarks, tax departments of today must cope with large repositories of structured and unstructured tax data: "One example is value-added tax: Whenever we have areas with high data load, we need to ensure that tax processes are set up properly. Otherwise, the effects can be tremendous" (Tax Director, Interview 13). The previous quote suggests some overlap between tax process risks and tax compliance risks. Our interviewees stress that tax process risks can indeed precede tax compliance risks. Yet, they also emphasize that the two tax risk components do not capture identical aspects. In 25% of our firm insider interviews, practitioners explicitly mention both tax compliance risks and tax process risks as coequal but separate tax risk components. One interviewee, for example, explains: "In general, we distinguish political tax risks, tax process risks, and compliance risks. . . . Tax process risks do not affect tax returns or financial statements. Instead, they occur in upstream processes [and] . . . comprise all abstract risks related to tax-relevant processes" (Tax Risk Specialist, Interview 11). Another interviewee explains that tax process risks can also arise from "insufficiently optimized processes and missed tax planning opportunities" (Tax Director, Interview 13).

Another tax risk component stressed by a large proportion of interviewees is personal liability risk. In 39% of our interviews, interviewees mention the risks associated with top executives' legal liability and responsibility for corporate actions. We were able to validate this insight from

the CFO's perspective: "If something goes wrong, the CFO will always be held legally responsible for corporate tax practices" (CFO, Interview 32).[37] Existing work on tax risk composition (Donohoe et al. 2014; PricewaterhouseCoopers 2004) does not account for personal liability risk as a separate tax risk component. However, some studies (Desai and Dharmapala 2006; Chyz and Gaertner 2018) account for the potential costs that specific tax practices can impose upon managers. Chyz and Gaertner (2018) find that forced CEO turnover is especially high when a firm's benchmarked tax rates are relatively low, indicating its engagement in corporate tax avoidance. Desai and Dharmapala (2006) note that top executives may face substantial criminal, civil, or reputational sanctions associated with corporate tax practice. Since top executives' personal tax risk perceptions likely affect their tax risk–related decision-making within the firm, we stress the necessity of also considering personal liability risks as an additional tax risk component when examining corporate tax risk.

It is important to remark that the outlined six tax risk components are not mutually exclusive.[38] Some of our identified tax risk components are linked to other tax risk components or can potentially transfer into other tax risk components over time. For example, compliance risk and financial risk overlap, yet financial risk is broader. One interviewee, for instance, points out: "Reputational risks always go hand in hand with financial risks" (Tax Director, Interview 1). Another interviewee states: "We have conducted a root-cause analysis to track our financial tax risks and found that they often originate from process risks" (Tax Director, Interview 6).

Contrasting our interview insights with the extant empirical literature reveals that so far, no commonly used empirical tax risk proxy capturing all important tax risk components exists. For example, neither UTBs nor tax rate volatilities capture lost tax optimization opportunities due to process failures, reputational concerns, or personal liability considerations—yet these tax risk components can be important influences on the tax function's decision-making rationale. The newly developed tax risk operationalization by Neuman et al. (2020) is a promising approach that tries to capture a broader notion of tax risk. They employ a factor analysis to accumulate information from 22 publicly observable firm characteristics about transaction risk, operating risk, compliance risk, financial accounting risk, managerial risk, and reputational risk into one tax risk score. There is some overlap between the tax risk components expressed by our interviewees and the PricewaterhouseCoopers (2004) depicted by the Neuman et al. (2020) measure. Yet, there are also some noteworthy differences. For instance, PricewaterhouseCoopers (2004) does not account for CFOs' personal liability risks. As we will outline below, the CFO takes an important role in corporate tax risk management. Moreover, PricewaterhouseCoopers (2004) does not include financial risks or political risks. In contrast, they list transaction risk, financial accounting (reporting) risk, and managerial risk as distinct risk components, which are not regarded as risk components by our interviewees. Reasons for these differences might be a change in risk perception over time, but also the internal firm view in contrast to the external advisers' view. All in all, we believe that our interview insights create a unique understanding of practitioners' tax risk perceptions and allow for putting the different tax risk components into perspective by providing information about their practical importance in different contexts.

37. German tax law (§§ 34, 69 AO) codifies that the legal representatives of a firm (i.e., board members, CEO, and CFO) can be held personally liable if tax claims are not satisfied appropriately or not satisfied in time, due to a breach of the duties imposed on them, willfully or through gross negligence, or where, as a result, tax rebates or refunds are paid in the absence of legal grounds. This liability also concerns any interest on taxes in arrears. In Germany, tax evasion is a criminal offense, penalized with fines or jail sentences of up to 10 years (§ 370 AO). Current decisions of the German Federal Court of Justice require a prison sentence (no probation) if the evaded tax payments exceed €1 million.

38. The interrelatedness of different tax risk components is also acknowledged by PricewaterhouseCoopers (2004) and Neuman et al. (2020).

TABLE 6
Tax risk management objectives

Tax risk management objective (as stated by our interviewees)	# of mentions (n = all 33 interviews)	%
CFO protection	25	76
Legal certainty and compliance	22	67
Beneficial treatment within tax audits	12	36
Corporate image (perception as "good corporate citizen")	11	33
No accusation of organizational fraud	11	33
Cash flow optimization	8	24
Risk mitigation/elimination	8	24
Awareness of core tax risks	6	18
Keeping pace with competitors' tax risk management practices	4	12
Creating or securing future tax planning potential	3	9
Preparation for later automatization/digitization of tax processes	3	9

Notes: This table illustrates the objectives of corporate tax risk management that were identified by our interviewees. The total number of interviews is 33. The numbers (percentages) reflect the amount (proportion) of interviews in which interviewees mentioned a particular tax risk management objective in their responses.

How do firms manage tax risk?

In the next step of our analysis, we strive to unravel the "black box" of corporate tax risk management and address how firms manage their tax risks (RQ2a).

First, we look at tax risk management objectives. Table 6 outlines the tax risk management objectives that were most frequently mentioned by our participants during the interviews. The most frequently mentioned objective is "CFO protection" (stressed in 76% of all interviews), followed by ensuring "legal certainty and compliance" (mentioned in 67% of all interviews). The following three objectives were mentioned by about one third of the interviewees: beneficial treatment within tax audits (stressed in 36% of all interviews), corporate image (stressed in 33% of all interviews), and not being accused of organizational fraud (stressed in 33% of all interviews). Examples of beneficial tax audit treatment include faster audit procedures or higher certainty within audits. Our interviewees' responses indicate that the CFO of a firm seems to play a central role in corporate tax risk management.[39] One interviewee emphasizes: "Number one priority [of corporate tax risk management] is to protect the CFO" (Regulator, Interview 30). Another participant confirms: "My job is to provide my services to the CFO. And this especially implies to always protect him" (Tax Director, Interview 15). The desire to ensure compliance can also be closely linked to the objective to protect the CFO. One interviewee clearly states this view as follows: "The important thing is that you need to check whether there could be compliance concerns and whether this could hit the CFO—and then you need to check what you can do to prevent this" (Tax Director, Interview 6).

The explicit statements made by our interviewees strongly support our interpretation of the relative importance of CFO protection as a tax risk management objective. We learn from our interviews that the CFO, due to personal liability risk and external visibility, is the corporate actor directly exposed to pressure. One participant states: "C-level executives . . . are exposed to all forms of pressure directly" (Tax Consultant, Interview 9). Another participant confirms: "External pressure will always enter a corporation via the C-level" (Tax Director, Interview 13). We were

39. In contrast to the important role of the CFO pointed out by our interviewees, Armstrong et al. (2012) find a relation between compensation and tax avoidance for the tax director but not for the CFO.

also able to validate CFOs' direct exposure to external pressure through our CFO interview: "If something bad happens . . . the CFO will always be hit first" (CFO, Interview 32).

Our interviews provide evidence that the CFO does not deal with pressure directly. Instead, the CFO takes the pressure, which originates from outside the firm, and passes it on internally through delegation of responsibilities. Therefore, the CFO exerts internal pressure on the tax director and the tax department. One interviewee mentions that whenever pressure impinges on the CFO, "the tax director has the actual problem internally" (Tax Consultant, Interview 9). "External pressure of course always hits the C-level executives first. . . . But then, the [CFO] will turn around and will automatically point at me. And then, I am the one who actually has to deal with the issue" (Tax Director, Interview 13). "C-level executives keep us busy all the time. . . . [They] are interested in keeping [pressure] away from the company . . . and to do so, they have us" (Tax Director, Interview 23). Finally, we learn that, despite delegation, the final decision-making power regarding tax risk management practice still remains at the CFO-level: "The tone from the top always determines what [tax department] employees actually do" (Tax Director, Interview 4) and "for any [tax risk management] tool implemented, the final decision power is always at the C-level" (Tax Director, Interview 7). In sum, we find that if tax departments successfully shield the CFO, and thereby the firm in general from pressure, they effectively reduce the firm's residual tax risks.

In the next step, we look at tax risk management practices. Most of our interview participants indicate that a necessity exists for separate tax risk management efforts detached from enterprise risk management efforts, due to the tax function's unique risk profile. One interviewee, for example, states: "[Tax risk management] can hardly be managed from a distance" (Tax Consultant, Interview 29). Another participant indicates: "Only the tax department has the required technical expertise and know-how [to ensure proper tax risk management]" (Tax Director, Interview 10). The CFO confirms: "Talking about tax risk management, one must admit that technical expertise on tax matters is rather weak among colleagues. You can hardly find someone with proper tax knowledge outside the tax department. Thus, you depend on your tax department's skills and expertise when it comes to tax risk management" (CFO, Interview 32).

Our interviewees outline a wide range of different tax risk management practices in the interviews. We provide a summary of these practices in Table 7.[40] Although the way tax risk management is conducted is very firm-specific, we can group the different tax risk management practices into five steps as practices: (i) to identify tax risks, (ii) to evaluate the impact of the identified tax risks, (iii) to manage and mitigate the identified tax risks, (iv) to monitor and control tax risk management effectiveness, and (v) to relate to a beneficial internal information environment. In general, these risk management practices need to be performed on all six tax risk components—financial, compliance, reputational, tax process, political, and personal liability risk—but the extent to which they are relevant for the specific risk components varies. In Table 7, we report the percentage of interviews in which the practices are mentioned for all interviews on the one hand and for firm insider interviews only on the other hand. In what follows, we discuss these practices in more detail.

First of all, an important risk management practice is to identify potential tax risks. It comprises the anticipation of legislative changes, which addresses primarily political and financial risks (mentioned in 58% of our interviews) and the anticipation of financial tax risks and reputational risk, which are associated with potential tax planning activities (mentioned in 55% of our interviews). However, from the firm perspective, it is even more important to anticipate tax-relevant occurrences in other business units (mentioned in 55% of all interviews, but in 85% of firm interviews). This stresses the importance of a good embedding of the tax department within the firm. If this is not the case, relevant tax risks are not even known to the tax department

40. To create a better understanding of these practices, illustrative quotes on the different practices from our interviews are provided in section A.5 of the online Appendix.

TABLE 7
Tax risk management practices mentioned by interviewees

	# of mentions (N = all 33 interviews)	%	# of mentions (N = 20 interviews with firm insiders)	%	
A. Tax risk identification					
Anticipate legislative changes	19	58	12	60	
Anticipate tax risks associated with potential tax planning activities	18	55	13	65	
Anticipate tax-relevant occurrences in other business units	18	55	17	85	(C)
B. Evaluating tax risk impact					
Price-tag assignment in tax planning decisions (i.e., tax risk as cost factor)	6	18	7	35	
Qualitative assessment through opinion letters (e.g., for political tax risks)	14	42	11	55	(C)
C. Tax risk management and mitigation					
Balance sheet recognition	12	36	9	45	(C)
Insurance options (directors and officers insurance, transaction-specific insurance)	13	39	9	45	
Second opinion by tax consultants	22	67	13	65	(C)
Tax-type specific tax risk management (e.g., a value-added tax risk committee)	9	27	5	25	
Assignment of tax risk management roles and responsibilities	14	42	6	30	
Company-wide staff training to increase awareness for tax matters	23	70	14	70	(C)
Preventive external tax communication	28	85	18	90	(C)
D. Tax risk monitoring and control					
Standardized documentation/visualization process (e.g., risk heat maps)	23	70	17	85	(C)
Formulation of group tax directives/ guidelines	17	52	13	65	
Frequent plausibility checks	18	55	12	60	
Digitized/automated process support (e.g., through robotics)	20	61	12	60	
E. Internal information environment					
Satellite function of the tax department (connection to other departments)	29	88	18	90	(C)
Installation of tax risk reporting lines					
• Between group tax department and foreign tax departments	9	27	7	35	(C)
• Between group tax department and CFO	22	67	18	90	(C)

Notes: This table displays the key tax risk management practices that were mentioned by our interviewees during the interviews. The total number of interviews is 33. The number of interviews with firm insiders (i.e., tax directors, corporate tax risk specialists, CFO) is 20. We inductively coded our interviewees' responses to open-ended questions. Based on the emerging codes, we identified the outlined practices. We do not claim this list of practices is complete. The list only displays tax risk management practices that were highlighted by our interviewees. The percentages reflect the proportion of the 33 interviews (the 20 interviews with firm insiders) in which interviewees mentioned a particular practice in their responses. It is thus not possible to derive any statements about residual percentages. (C) denotes firms' most frequently used tax risk management practices, which represent some form of tax communication.

and unidentified tax-relevant issues in other business units cause financial risks, compliance risks, reputational risks, tax process risks, political risks, and personal liability risks.

As the second step of the tax risk management practices, the identified tax risks are evaluated (different aspects are mentioned in between 18% and 55% of the interviews).

Third, tax risks are managed and mitigated. Seven different aspects are mentioned by our interviewees. The most frequently mentioned practices to manage and mitigate tax risks are preventive external tax communication (mentioned in 85% of our interviews), company-wide staff training to increase awareness for tax matters (mentioned in 70% of our interviews), and obtaining a second opinion by tax consultants (mentioned in 67% of our interviews). The other four practices, such as balance sheet recognition of risks and taking out insurance policies, were not stressed very often. These mitigation practices address all identified risk components and can lead to a reduction in risks. However, the abovementioned practices in particular attempt to manage and mitigate compliance risks. For instance, if a second opinion is obtained for a new corporate structure, the main objective is to record the new facts correctly for tax purposes.

Fourth, tax risk monitoring and control regarding all risk components takes place. The most frequently mentioned practice is a standardized documentation and visualization process, such as risk heat maps[41] (mentioned in 70% of our interviews). Another frequently mentioned tax risk practice is the formulation of group tax directives and guidelines (mentioned in 52% of our interviews and in 65% of our firm interviews), which primarily addresses the compliance risk component.

Fifth, several practices related to the internal information environment are performed. The most important task is to "get all business units involved" (Tax Consultant, Interview 21, and mentioned in 88% of the interviews) and to install tax risk reporting lines between the group tax department and the CFO (mentioned in 67% of all interviews and in 90% of firm interviews).

These five steps broadly follow prior risk management frameworks, which use comparable steps (see COSO 2004), and some of these practices have been studied in the risk management literature (e.g., for the mediating role of risk heat maps, see Jordan et al. 2013). Yet, combining the information on the specific tax risk management practices from Table 7 with our interviewees' detailed elaborations in the interviews allows us to draw one important insight on the specifics of corporate tax risk management that seems to be fundamentally different from what has been documented by prior risk management work in other fields. Our in-depth insights into corporate tax risk management reveal that firms tend to employ various forms of tax communication at almost every stage of the tax risk management process. The most often mentioned practices of staff training, external communication, standardized documentation/visualization, internal connections to other departments, and tax risk reporting lines between tax department and CFO are all forms of communication. In contrast to common frameworks, which view communication exclusively as a separate element "required to support the other four components" (PricewaterhouseCoopers 2004, 21), our interviewees stress the role of communication as a key practice to manage risks. Put differently, our interviewees emphasize that communication can be used to manage and mitigate tax risk and thus represents much more than a pure support function of corporate tax risk management.

In essence, the tax communication practices stressed by our interviewees can be classified as (i) internal tax communication, that is tax-related two-way communication within the firm; and (ii) external tax communication, that is tax-related two-way communication between the firm and the outside world.[42] Internal tax communication is, for instance, used by the tax department to collect all relevant information from other business units. Thereby, the tax department can

41. A heat map displays the value of one outcome of interest along two dimensions and uses colors or symbols. It is commonly used for visually representing the results of a risk assessment process.

42. Salterio et al. (2021) also apply a two-way communication approach with regard to theory-based knowledge transfer.

identify and manage potential tax risks associated with occurrences in other business units on a timely basis. Another example of how internal tax communication can be used to manage tax risk is via company-wide staff training that strives to increase all employees' awareness of corporate tax risks. Table 7 also highlights the role of external communication for tax risk management. In fact, the explicit statements made by our interviewees suggest that external tax communication is one of the key practices employed by them. We learn that "effective [external] communication represents an integral component of corporate tax risk management" (Tax Consultant, Interview 9), and that "it is all about having a good tax communication style. . . . External communication is crucial" (Tax Director, Interview 7). Consistent with this, another interviewee indicates: "In terms of tax risk management, early-stage communication is essential. . . . We need to communicate about tax matters in a preventive way. We need to communicate to the outside proactively, even though the need to engage in external communication is, of course, to some extent triggered by external pressure" (Tax Director, Interview 11).

Our interviewees' emphasis on communication in general and the high relevance that they assign to external communication is consistent with one observation that can be derived from the tax risk perception part of this study: many tax risk components have their origin outside the boundaries of the tax department (e.g., reputational risks, political risks, and, to some extent, compliance risks). A deeper exploration of our interviewees' elaborations on the role of external tax communication reveals that this tax risk management practice is also highly context dependent and varies from one firm to another. In the following section, we therefore examine in more detail what influences the variation in tax risk management practices—specifically, in external communication—across our sample firms.

What influences the variation in tax risk management practices across firms?

In this section, we analyze what influences the variation in tax risk management practices across firms (RQ2b). This analysis is highly exploratory due to methodological difficulties in investigating causal relationships through interview transcripts. Our interviewees provide us with a number of subjective indications of such relationships, which we used as a basis to theorize (Weick 1989). Among the considered tax risk management practices, we find that primarily communication-related tax risk management practices vary. From our interview insights, we are able to identify addressee-specific tax communication which depends on a firm's pressure situation. Firms can be exposed to different types of pressure. Based on our interviews, we identify these pressure types to be public pressure, peer pressure, and regulatory pressure.

Our insights indicate that public pressure, which mainly influences reputational and financial risk, can arise via different channels. Complementing prior research (Dyreng et al. 2016; S. Chen et al. 2018), we find that public pressure can arise via public scrutiny, increasing media interest, nongovernmental organizations, and financial analysts. Our insights suggest that recent tax scandals have spurred public interest in corporate tax practice. One interviewee states: "Tax risks have gained more attention nowadays . . . due to the fact that corporate tax matters are more frequently covered by the media" (Tax Director, Interview 28). Another interviewee explains: "Reputational tax concerns, in most cases, stem from public accusation: You appear in the news unintentionally and within seconds, the press . . . starts to attack you" (Tax Director, Interview 4). We further learn from our interviews that public pressure can be increased through (intentional or unintentional) misrepresentation of corporate facts: "Some media outlets take advantage of every opportunity to cast negative light on a firm. Just because bad news sells better" (Tax Director, Interview 23).

The second pressure type that we identify is peer pressure. Peer pressure is caused by tax competition among firms and primarily has an impact on compliance, tax process, reputational, and financial risk. Specific tax practices may allow some firms to realize lower effective tax payments than others. The lower tax burden can unleash resources that can then be utilized for investing, thereby augmenting a firm's competitive position. Consequently, firms may feel the need to keep pace with their peers and implement similar tax practices. We refer to this need to keep pace as peer

pressure. Our results suggest that peer pressure can impinge on a firm via different channels. The most important peer pressure channels are networks, such as CFO networks, business associations, tax audits in which tax authorities refer to practices of peer firms, tax consultants which refer to peer firm practices, and board members with multiple board memberships. These channels are used in all steps of the tax risk management practices. Table 8 provides more examples of quotes and a summary of all direct and indirect channels identified from our interviews.

The final pressure type is regulatory pressure, which primarily influences political, compliance, tax process, financial, and personal liability risk. We learn that regulatory pressure primarily arises from a changing regulatory environment: "A changing climate in the criminal tax law area can be observed. . . . Tax authorities tend to open up tax fraud investigations much faster nowadays" (Tax Consultant, Interview 21). In addition, tax competition among countries has increased, exposing firms to higher regulatory pressure at the global level: "In particular, emerging countries are getting more aggressive because they have realized . . . that they can get more from the 'tax cake,' which is split among countries. I think that they will get even more aggressive in the future" (Tax Director, Interview 2). Besides a general "increase in audit intensity" (Tax Director, Interview 6), regulatory pressure can also arise from regulatory vagueness, increasing tax code complexity (Hoppe et al. 2021), and tax authorities' use of new (automated) technologies in audits.

Our analysis reveals that the three types of pressure can impinge on a firm with varying strength. Based on our interview insights, we are able to identify a range of business characteristics that influence pressure strength (see Table 9), such as a firm's size or its business model.

Our interviewees stress that larger firms are exposed to higher public pressure than smaller firms. In addition, firms with consumer-oriented business models seem to face higher public pressure than firms with a business-to-business orientation. Peer pressure strength, for example, depends on firms' network ties to other firms.[43] Strong network ties can expose a firm to its peer firms' tax practices, and can thus increase peer pressure. We find that strong network ties can, for instance, result from board interlocks: "There tend to be close ties between board members due to their mandates on each other's supervisory board. Thus, it happens quite often, that [tax practice] trends occur [to keep pace]" (Tax Director Representative, Interview 23). Other exemplars of business characteristics contributing to peer pressure strength are a firm's industry affiliation or its product portfolio. We find that firms with a highly diversified product portfolio are exposed to lower peer pressure since these firms do not have a homogeneous peer group. Consequently, these firms are less receptive to competitive peer pressure and feel less pressure to keep pace. Consistent with this interpretation, one interviewee illustrates: "To be honest, I cannot tell you much about our competitors' [tax] practices . . . since we have a very heterogeneous peer group due to our diversified product portfolio" (Tax Director, Interview 6). At the same time, our interview insights reveal that firms with a highly diversified product portfolio or a high amount of foreign activities face higher regulatory pressure. We learn that such firms often have to deal with a larger set of regulations, which increases regulatory pressure.

One of our core findings is that, depending on the respective pressure situation, firms apply addressee-specific tax communication to manage their tax risks. We find that firms that are primarily exposed to public pressure do not necessarily alter their tax planning activities to decrease reputational risks. Instead, such firms may focus on preventive public tax communication to increase public legitimacy of their tax practices and thereby reduce, for example, the residual reputational risks. Stated differently, preventive public tax communication may enable firms to alter public perception of their tax planning activities. One interviewee explains: "The actual question is: How are you going to deal with public scrutiny? Many firms may probably tell you that you have to obfuscate as many details of your tax planning activities as possible. But then there are several firms that decide to follow a contrary path: They preventively communicate to the public

43. At this point, we add to prior work examining the role of peer effects in shaping corporate tax practice (J. L. Brown 2011; J. L. Brown and Drake 2014; Bird et al. 2018).

TABLE 8
Direct and indirect peer pressure channels

Channel	Description	Exemplary quotes
Network interaction	Corporate actors interact through networks and meet frequently at various events (e.g., CFO round tables, DAX circles, practitioner conferences)	"Oftentimes, my clients tell me that they have met fellow CFOs from other companies and that they have told them about specific [tax risk management] tools or systems—my clients then ask me whether I suggest them to implement the same tools. Hence, I think that the feeling of being worse off than others, which can arise from talks or through institutional exchange, has the potential to produce peer pressure." (Tax Consultant, Interview 8)
Business associations	Member firms of business associations meet regularly to discuss common tax issues in the field of taxation	"[Tax risk management] is also discussed at several industry events. . . . It is mainly about: 'we will do this, but we will not do that.' [At a recent business association event], the existing regulations were discussed as well." (Tax Risk Specialist, Interview 13)
Tax audit situations	Tax authorities may indirectly refer to tax practices of peer firms within audit situations	"If this is a standard procedure in other peer companies, there will automatically be a reflexive effect resulting from audit situations. In these cases, you will always be confronted with the procedures of your peer firms [within audit situations]." (Tax Director, Interview 3)
Tax consultants	Tax consultants (as part of their selling strategy) may indirectly refer to peer firm practices and may thus exert peer pressure on firms	"We stay attentive to our peer firms' tax practices through our external tax consultants. They, for instance, provide us with regular notices on specific tax practices through e-mail newsletter services. Our task is then to monitor these practices and to weigh out the respective consequences for our firm." (Tax Director, Interview 14)
Board interlocks	Several supervisory board members of large listed firms serve in two, three, or even more supervisory boards. The obtained insights into different corporations enable them to exert peer pressure on the C-level executives with regard to tax practices	"We often have board interlocks and if one has seen [things get done in a particular way] in another company, he [or she] for sure will ask the question: Why do you not behave in a similar way? What do you do to mitigate your tax risks instead?" (Tax Consultant, Interview 29)

Notes: This table illustrates all direct and indirect channels through which peer pressure can arise, according to our interview insights. We recognize that there could be further channels for peer pressure that have not been addressed by our interviewees. We leave the exploration thereof to future studies in the field.

TABLE 9
Business characteristics and pressure

Pressure types and influencing business characteristics	# of mentions (n = all 33 interviews)	%	# of mentions (n = 20 interviews with firm insiders)	%
Public pressure				
Business model	12	36	9	45
Corporate history	10	30	5	25
Firm size	16	48	10	50
Life-cycle stage	3	9	2	10
Ownership structure	7	21	5	25
Merger and acquisition activity	13	39	10	50
Peer pressure				
Degree of diversification	4	12	4	20
Firm size	8	24	8	40
Industry affiliation	16	48	13	65
Network ties	22	67	15	75
Regulatory pressure				
Degree of diversification	5	15	4	20
Firm size	10	30	7	35
Foreign activity	23	70	15	75
Government dependency	5	15	4	20
Industry affiliation	8	24	6	30
Life-cycle stage	3	9	2	10
Stock-listing	12	36	8	40
Regulatory complexity	7	21	4	20

Notes: This table depicts business characteristics that have an influence on the type and strength of the pressure, as mentioned by our interviewees. The total number of all interviews is 33. The total number of interviews with firm insiders (i.e., tax directors, tax risk specialists, CFO) is 20. Percentages display the proportions of interviews in which interviewees mentioned a particular business characteristic that influences a specific pressure type. It is not possible to derive any statements about residual percentages.

that taxes represent a major cost to them and that they thus strive to pay only as much as they are legally obliged to—but not more!" (Business Association Representative, Interview 22). Another interviewee remarks: "Many customers value if firms pay their fair share of taxes. Thus, one strategy, chosen by some firms, is to take a clear position and inform the public that their firm is a good corporate citizen and pays its fair share of taxes" (Regulator, Interview 27). Another interviewee adds: "We have thought this through: . . . we could go public and . . . say: 'We pay taxes in Germany.' And this would potentially indeed have a [positive] reputational effect" (Tax Director, Interview 2). Our interviewees emphasize that the information that is shared with the public has to be selected carefully, due to the low tax literacy of the general public and the polarizing effect of tax topics. For instance, one interviewee explains: "Customers oftentimes do not fully understand tax topics covered by the media. The only thing they see is that there is a firm which does not pay enough taxes. [Firms] have to anticipate that . . . the information that is shared with the public has to be selected wisely" (Tax Director, Interview 19).

The analysis of the interviews further shows that firms exposed to strong peer pressure focus on peer firm communication to manage their tax risks. Through communication, firms aim to obtain more information on competitors' tax practices for benchmarking and mimicking purposes. Through engaging in peer communication, firms aim to reduce peer pressure and thus mitigate the residual financial risks or tax compliance risks. One participant remarks: "If one firm is a

pioneer in adopting a specific tax practice, other firms will, of course, feel some pressure to follow that path. At the beginning, they will just pay attention to the other firm's practice and its performance. Then, they will start to engage in communication with the pioneer firm to obtain further information [on the actual tax practice]" (Tax Consultant, Interview 18).

Our insights suggest that firms can engage in either direct or indirect peer firm communication. Platforms for direct peer firm communication are, for example, practitioner conferences, business association meetings, CFO round tables, or tax director meetings. It is noteworthy that CFOs also tend to engage in regular communication on tax matters with their CFO peers. We learn that "CFOs are probably the community with the best network" (CFO, Interview 32). One of our tax consultant interviewees states: "C-level executives tend to engage in even more frequent interaction on tax risk matters than their tax directors. This stems from the fact that no [top executive] would want to admit that he [or she] does not have everything under full control" (Tax Consultant, Interview 8). In terms of indirect peer communication, our interviewees especially emphasize the role of tax consultants and auditors as information transmitters. One interviewee explains: "It is quite common that firms seek to obtain information on peer practices via their tax consultants. Our clients ask a lot about specific tax practices of other firms" (Tax Consultant, Interview 21). We also learn that the shared information is very selective. While firms want to explore the practices of their peers in all details, they will, at the same time, be very hesitant in revealing information about their own tax practices to not give away a potential source of competitive tax advantage.

We learn that firms primarily facing regulatory pressure focus on communication with regulators and tax authorities to manage their tax risks. This is similar to findings by Mulligan and Oats (2016), who interviewed tax professionals in the Silicon Valley and found that they actively engage in shaping the legal and community setting they operate in. Through external communication directly targeted at policy-makers and tax authorities, tax departments seek to shield the firm from regulatory pressure and thereby reduce the probability of financial risks, compliance risks, and personal litigation risks associated with specific tax practices. One interviewee explains: "Reducing tax compliance risks is not about refraining to take any tax planning opportunities. . . . Instead, it is about communication. And by communication, I do not mean internal communication. I mean external communication with the tax authorities" (Tax Director, Interview 19). Another interviewee states: "We follow a 'tit for tat' strategy: If we [proactively] provide the tax authorities with [information], we expect to receive something in return" (Tax Risk Specialist, Interview 5). This quote suggests that some firms use transparency to obtain beneficial treatments in tax audits such as faster audit procedures or higher certainty within audits. Additionally, firms facing high regulatory pressure often engage in proactive tax lobbying.[44] We learn that regulatory body communication can be conducted either independently or in cooperation and coordination with other firms (e.g., via business associations). The following quote exemplifies this finding: "I think that it is quite common . . . that firms try to lobby at the national or EU level via business associations for instance. Well, what does lobbying mean? What I intend to say is that firms try to point out potential [negative] consequences [of discussed regulatory changes] to decrease their likelihood of occurrence" (Tax Director, Interview 28). Hence, through early-stage communication with policy-makers, a firm seeks to mitigate regulatory pressure, in the hope of reducing the residual tax risk.

Table 10 gives an overview of the addressee-specific external tax communication, which we identify from our interview insights. As illustrated, our insights suggest that external tax communication constitutes an important tax risk management practice used by our sample firms. Tax departments use preventive external tax communication to protect the firm from pressure. According to our interviews, effective external tax communication creates a more

44. With these findings, our study adds to prior work on tax-related incentives and corporate lobbying (J. L. Brown, et al. 2015; Meade and Li 2015; Barrick and Brown 2019).

certain and predictable environment for corporate tax planning, and thus reduces a firm's residual tax risks. Furthermore, Table 10 shows which of the six risk components are primarily influenced by which pressure type. In contrast to prior studies suggesting that pressure can lead to changes in firms' tax planning activities (Dyreng et al. 2016; Austin and Wilson 2017), our results propose a different idea. We provide first evidence that, depending on the respective pressure type, sample firms will not necessarily change their tax planning activities up front, but will instead engage in addressee-specific tax communication targeted at specific external stakeholders, to reduce pressure. If they succeed in doing so, there may be no further necessity to adjust their tax planning.

TABLE 10
Key tax risk management practices: Addressee-specific tax communication

	Public communication	Peer communication	Regulatory communication
Addressee	Public stakeholders (i.e., media, customers, general public)	Peer firms (i.e., direct competitors, industry peers)	Policy-makers, regulators, tax authorities
Pressure type	Public pressure	Peer pressure	Regulatory pressure
Main ex ante risk components	Reputational risk, financial risk	Compliance risk, tax process risk, reputational risk, financial risk	Political risk, compliance risk, tax process risk, financial risk, personal liability risk
Primary objective	Persuasion/legitimacy of corporate tax practice	Benchmarking/ information-seeking on peer firms' tax practices	Persuasion/political interference
Transparency (degree of detail of information communicated)	Selective information	Selective information	Full information
Timing of external tax communication	Preventive/proactive tax communication	Addressee-specific, early tax communication	Preventive/proactive tax communication
Exemplary quote	"We have thought this through: . . . we could go public and . . . say: 'We pay taxes in Germany.' And this would potentially indeed have a [positive] reputational effect." (Tax Director, Interview 2)	"Oftentimes, firms refrain from consulting tax firms to obtain a benchmark for peer practices because they can already obtain the desired benchmark information through direct peer communication." (Tax Consultant, Interview 12)	"It will become easier to insist on certain tax planning structures if you engage in communication with tax auditors and disclose all relevant information right up front." (Tax Consultant, Interview 8)

Notes: This table gives an overview of addressee-specific tax communication, which depends on the ex ante risk components and pressure types. We developed the table based on our interview insights.

5. Conclusions

Although a growing literature exists on the relation between tax planning and tax risk (Dyreng et al. 2020; Guenther et al. 2019), little is known about tax risk management and how it influences tax outcomes (e.g., cash taxes paid). One potential reason for this gap is that we still lack a sufficient understanding of what constitutes tax risk (Wilde and Wilson 2018).

Our study provides important insights into the "black box" of corporate tax risk management (PricewaterhouseCoopers 2004). To obtain in-depth insights into corporate tax risk management, we conducted 33 interviews with 42 German tax risk experts. Analyzing the unique set of interview data provides three key insights. First, we provide evidence on practitioners' tax risk perception. We find that tax risk is a multifaceted, highly context-dependent construct. It consists of six components: financial risk, reputational risk, compliance risk, political risk, tax process risk, and personal liability risk. Different stakeholder groups tend to define tax risk differently. Specifically, their definitions vary in terms of construct direction: they understand risk as one-sided or two-sided risk. These findings have important implications for future archival studies, as our interview insights challenge extant tax risk operationalizations. Second, our in-depth exploration of specific tax risk management practices shows that communication is crucial, not only for reporting tax risk but also for managing tax risk. This interpretation differs from the purely supportive role that generic risk management frameworks assign to communication (COSO 2004). Instead, our interviewees stress that, in the tax context, firms rely on communication to manage tax risks proactively. Based on our insights, we find that tax communication used for corporate tax risk management is addressee-specific and depends on the pressure types: public pressure, peer pressure, and regulatory pressure. Third, our interview insights indicate that one important objective of tax risk management is CFO protection, as the CFO is the corporate actor directly exposed to pressure.

We acknowledge that our study is subject to several limitations. First, due to the nature of our research approach, we draw conclusions from a limited group of risk experts. However, our interviewees have vast experience in multinational tax practice. In accordance with the spirit of qualitative research (Lincoln and Guba 1985), we leave the decision to the readers regarding the transferability of our findings to other settings. Second, we cannot entirely rule out that the sensitivity of our research topic could result in a potential interviewee response bias. However, we strive to address the possibility of an interviewee response bias through the inclusion of supplemental data sources in our analyses. In addition, we believe that the high number of direct and indirect cross-references among our interviewees also strengthens the trustworthiness, transferability, and explanatory power of our findings, and reduces the potential for biased results.

Our study points out several interesting avenues for future research. First, our in-depth insights into practitioners' tax risk perceptions can inform proxy choices in future studies. Based on our interview insights, we suggest that future empirical studies focusing on a firm insider perspective should employ a one-sided tax risk measure (e.g., UTBs), whereas studies adopting a firm outsider perspective should opt for a two-sided proxy, such as tax rate volatility. Moreover, our conceptualization of tax risk consisting of six tax risk components provides implications for quantitative research. A promising area of future research might be to acknowledge the different tax risk components and to further examine their potential interplay. In addition, our paper provides evidence on the specific practices that firms adopt to manage tax risks and the special role of tax communication therein. These findings may be of interest to qualitative (tax and accounting) researchers who strive to describe and understand the actual human interactions, and processes that constitute real-life organizational settings (Gephart 2004). Future studies could add to this by exploring the determinants of credible external tax communication, and how this credibility may affect corporate tax risk.

Appendix: Glossary of terms

Term	Description
Corporate tax practice	Corporate tax practice comprises the entirety of the tax planning activities and tax risk management practices implemented by a firm
Enterprise risk (firm risk)	"Risk is the possibility that an event will occur and adversely affect the achievement of objectives." (COSO 2004, 16)
Enterprise risk management	"Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives." (COSO 2004, 2)
Pressure	Pressure is an external influence on tax risks and corporate tax practice, which depends on its source. We differentiate three pressure types: public, peer, and regulatory pressure. Public pressure is driven by public stakeholders (i.e., media, customers, general public), peer pressure is driven by peer firms (i.e., direct competitors, industry peers), and regulatory pressure is driven by policy-makers, regulators, and tax authorities. Details are provided in Table 8
Tax communication	Exchange of tax-related information between two parties. We distinguish between internal tax communication (i.e., tax-related two-way communication within a firm) and external tax communication (i.e., tax-related two-way communication between a firm and non-insider stakeholders)
Tax outcomes	All tax-related outcomes from the interplay between tax planning activities and tax risk management. Examples are cash taxes paid, tax expense, the level of tax risk, or the specific realization of the firm's tax practices
Tax planning (activities)	The way a firm structures its transactions for tax purposes. As outlined by Hanlon and Heitzman (2010), the continuum of tax planning practices can range from nonaggressive forms, such as municipal bonds, to aggressive forms, such as tax shelters
Tax risk	The word "risk" refers to risk in general; it does not specify whether it refers to ex ante risk or residual risk. Based on our interview insights, we identify six tax risk components: financial risk, reputation risk, compliance risk, political risk, tax process risk, personal liability risk. For definitions of the tax risk components and exemplary interviewee quotes, see Table 4. Tax risk can be defined as either a one-sided (downside potential only) or a two-sided construct (downside and upside potential)
Ex ante tax risk	Ex ante tax risk is the possibility that tax outcomes will differ from the expected tax outcomes, before tax risk management practices and tax planning are implemented. It consists of reputational, compliance, tax process, financial, political, and personal liability risk
Residual tax risk	Residual tax risk is the tax risk that remains after implementing tax risk management practices and tax planning, and consists of reputational, compliance, tax process, financial, political, and personal liability risk
Tax risk management	The entirety of corporate practices implemented by a firm to identify, evaluate, manage, mitigate, monitor, and control corporate tax risk and to establish a beneficial internal information environment
Tax risk management practice	Specific tools, steps, and sub-processes implemented by a firm to identify, evaluate, mitigate, monitor, manage, and control corporate tax risk and to establish a beneficial internal information environment (e.g., risk visualization via risk heat maps, internal staff training to raise tax risk awareness)

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SUPPORTING INFORMATION

Additional supporting information may be found in the online version of this article:
Online Appendix. Supporting information