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**Value-creation frameworks: A host policymakers’
perspective on multinational enterprises and the
base erosion phenomenon**

by

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for
the degree of

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Business

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List of Abbreviations

<i>Abbreviation</i>	<i>Description</i>
AIB	Academy of International Business
AOM	Academy of Management
BEPS	Base erosion and profit shifting
CGU	Cash-generating unit
CSP	Corporate social performance
CSR	Corporate social responsibility
EGOS	European Group for Organizational Studies
ESG	Environmental, social and governance
EU	European Union
FDI	Foreign direct investment
FRC	Financial Reporting Council, UK
GAAR	General anti-abuse rule
GFC	Global financial crisis
GRI	Global Reporting Initiative
G20	An international forum for the governments and central bank governors from 20 major economies
ICAEW	Institute of Chartered Accountants in England & Wales
IFRS	International Financial Reporting Standards, London HQ
IAS	International Accounting Standard
ICIJ	International Consortium of Investigative Journalists
IFRS	International Financial Reporting Standard
IFS	Institute of Fiscal Studies, UK
IGO	Inter-governmental organization
IIRC	International Integrated Reporting Council, London HQ
HMT	Her Majesty's Treasury, UK
HMRC	Her Majesty's Revenue and Customs, UK
HQ	Headquarters

LAPFF	Local Authorities Pension Fund Forum
LAPFF Associations	LAPFF and Universities Superannuation Scheme, United Kingdom Shareholders' Association and Threadneedle Asset Management
OECD	Organization for Economic Cooperation & Development, Paris HQ
ONS	Office of National Statistics, UK
PAC	Public Accounts Committee, House of Commons, UK
PE	Permanent establishment
PIR	Post-implementation review
MNE	Multinational enterprise
NGO	Non-governmental organization
RHQ	Regional headquarters
RMM	Regional management mandate
SEC	Securities Exchange Commission, US
SMO	Social movement organizations
TARC	Tax Administration Research Centre, UK

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Declaration

This thesis is submitted to the University of Warwick in support of my application for the degree of Doctor of Philosophy. It has been composed by myself and has not been submitted in any previous application for any degree.

I have presented the following doctoral colloquium and conference papers:

- (1) EGOS, July 2–4, 2015 Athens, Greece: [Theme: Organizations and the Examined Life—Reason, Reflexivity and Responsibility, 31st Colloquium], Pre-Colloquium PhD Workshop: ‘Why liberal market economy corporate governance type-systems fail to detect MNE tax base erosion practices.’
- (2) AOM, August 5–9, 2016 Anaheim, USA: [Theme: Making Organizations Meaningful—76th Annual Meeting of AOM], International Management Doctoral Colloquium Workshop: ‘Rationalized organizing of value creation and value capture by MNEs inclined to engage in tax base erosion practices.’
- (3) AIB Ireland, November 24, 2016: [Paper Development Workshop, Working paper on the host location perspective on internationalization] that won an award for the best paper in the advanced stream.
- (4) Australia and New Zealand (ANZIBA Chapter) Adelaide, February 16–17, 2017: [2017 Annual Conference, Track Two: MNEs and their subsidiaries, paper on the base erosion phenomenon titled—‘Breaking up and making up: A host location policymakers’ perspective on internationalization.’
- (5) AIB-UK, April 6–8, 2017 Reading, UK: [Theme: Contemporary Issues in International Business: Are we seeing the tail-end of globalization, 44th Annual UK Meeting & 6th IB Reading Conference], Long paper with theoretical contribution to theory of resource-based view and revision to ANZIBA paper titled—‘Breaking up and making up: A host location perspective on internationalization.’

- (6) EGOS, July 6–8, 2017 Copenhagen, Denmark: [Theme: The Good Organization: Aspirations, Interventions and Struggles, 33rd Colloquium], Long paper titled, ‘The art of bridging judgement types: A host policymakers’ response to base erosion.’
- (7) AOM, August 6–8, 2017 Atlanta, USA: [Theme: At the Interface—77th Annual Meeting of AOM, Business Policy & Strategy (BPS) Division, Long paper submission accepted, ‘Bridging cognitive and sociopolitical legitimacy judgements: A host policymakers’ perspective.’

All the work presented in my thesis (including data generated and data analysis) was carried out by myself.

Abstract

Base erosion refers to tax avoidance strategies involving multinational enterprises (MNEs) changing the order of worth of their economic activities across host locations. This leads to a loss in corporate tax revenues, unfair competition between domestic enterprises and MNEs, and a challenge to the legitimacy and power of host nation-states. In problematizing base erosion, theories of internationalization and internalization explicate the MNEs' perspective on their processes, governance modes and value-creation. Host policymakers, however, take a different perspective on firm judgements from top management and their external advisors. Although the theory of social judgements explains how cognitive and sociopolitical legitimacy judgements are formed, little attention is paid in the theory to how intra-field cognitive legitimacy judgements may be challenged. Drawing on archival material and in-depth interviews, I make the following three contributions. Firstly, I develop a thick description for a host policymakers' conceptual model of MNEs' value-alignment process across host locations. Secondly, I extend the organizing views on transfer pricing to explain base erosion as an MNE practice for changing the order of worth. Thirdly, I contribute to the social judgements literature by identifying the conditions and the means for bridging cognitive and sociopolitical legitimacy judgements. These contributions are important because they shed new light on base erosion, providing theoretical constructs for the MNE value-alignment process, the organizing views on transfer pricing and the communicative means for shifting inter-field discourse from cognitive to evaluative modes.

Chapter 1 – Overview

Introduction

This chapter describes the thesis, introduces the research question, explains the base erosion phenomenon, locates the organizational literature on the phenomenon, identifies the gap in the extant literature and provides an overview of the dataset and methodology, the analysis and findings, and the contribution. It concludes with an explanation of the limitations of the study and suggestions for opportunities for further research.

The Thesis

Host location policymakers view value creation by multinational enterprises (MNEs) internationalizing across host locations differently from MNEs themselves. In this thesis, my level of analysis is from a public stakeholder perspective (Lee, Peng, & Barney, 2007)—that is, the host policymakers' perspective—as distinct from an external aggregation perspective (Garcia-Castro & Aguilera, 2015), or an internal organizational perspective (Barney, 1991), or otherwise an individual orientation (Felin & Hesterly, 2007). In framing policy solutions on base erosion, host policymakers use commensuration techniques to collectively move a public deliberative process from an intra-field taken-for-granted orthodoxy to an evaluative inter-field sociopolitical legitimacy discourse. This thesis focuses primarily on two policy fields or domains, the corporate reporting field and the international corporate taxation field. In this thesis, I use the term a field or domain to refer to a social arena of actors that share a common understanding, comprising incumbent members and challengers, and their

internal governance units that maintain order and stability (Fligstein & McAdam, 2012; Furnari, 2016; Spence, Carter, Husillos & Archel, 2017); where a field may be dominated by non-state actors whilst a domain may, more likely, be dominated by state actors.

The Research Question

The research question is ‘How do host policymakers make sense of the base erosion phenomenon’? By answering the question, I advance the understanding of: (i) the plurality of perspectives on MNE value-creation frameworks; and, (ii) the mobilization of social judgements to advance change in interconnected policy domains. The literature indicates that policy problems are not ‘social facts awaiting discovery’ (Coburn, 2006 p.343), but rather are the product of ‘a process of social collective definition’ (Blumer, 1971). Hence the research question (Alvesson & Sandberg, 2011) not only addresses the how and why question about the social collective definition of the base erosion phenomenon (Von Krogh, Rossi-Lamastra & Haefliger, 2012), but also how and why host locations approach the framing of public policy solutions (Benford & Snow, 2000).

The Base Erosion Phenomenon

The empirical setting

Following the drastic budgetary cuts or so-called ‘austerity measures’ announced by Parliament of the United Kingdom (UK) in late 2010 (Pimlot & Giles, 2010), the House of Commons Committee of Public Accounts (PAC) took evidence in 2012 and 2013 from a group of foreign-headquartered (HQ) MNEs operating in the UK, subsequently issuing the PAC-UK (2012) Report and the

PAC-UK (2013). The austerity measures attracted much public deliberative discourse, from the media (BBC, 2012; Houlder, 2011, 2012, 2014), from social movement organizations (Occupy London, 2011; Tax Justice Network, 2003; UK Uncut, 2010), from academics (Devereux, 2011; Dharmapala, 2014; Kleinbard, 2013) and host policymakers using inter-governmental intermediation (March & Olsen, 1998; Schemel, 2013).

Contextual meaning of base erosion

Host policymakers and the Organization for Economic Cooperation Development (OECD) have avoided defining the ‘base erosion’ phenomenon. Von Krogh et al. (2012 p.278) define phenomena as ‘regularities that are unexpected, that challenge existing knowledge (including extant theory) and that are relevant to scientific discourse.’ The surprising regularity emerging from base erosion, as described by the media (Armitstead, 2012; Crerar, 2012; Houlder, 2011), was the legal but otherwise unfair ability of foreign-HQ MNEs to operate across host locations and to attribute little of their value-creation efforts to those locations.

For purposes of this thesis, and recognizing the features of base erosion observed by the OECD (2013) and academics (Arel-Bundock, 2017; Dharmapala, 2014; Miller & Pope, 2015), I define base erosion as an organizing process strategically chosen by MNEs that involves not only transfer pricing, but also the arbitraging of differences between host nation-states, the re-characterization of firm transactions, the reconfiguration of firm activities, and the spillover effects from participating in preferential regimes offered by competing nation-states that unexpectedly challenges the presumed economic outcomes for host locations. But

giving historical background to base erosion, the *Financial Times* reported on January 14, 2013:

In April 1961, a newly elected President John F. Kennedy launched an offensive against a phenomenon that he feared could undermine America's future: aggressive tax avoidance. In a message to Congress, he railed against the "unjustifiable" use of tax havens by growing numbers of businesses to slash their tax liabilities at home and abroad. More than 50 years on, the political rhetoric appears to be identical... Political anger is mounting over the low taxes paid by multinationals such as Apple, Google and Amazon during an age of brutal cuts in public spending. (Houlder, 2013)

The Literature

The literature that explains base erosion as a public policy problem appears as a linear or 'well-ordered process' (Corley & Schinoff, 2017 p.9), as outlined in this thesis. In contributing to this literature, I moved iteratively between extant theory in Chapters 2, 3 and 4 (Corley & Schinoff, 2017; Harrison & Rouse, 2014) and my emerging findings in Chapters 6, 7 and 8, to ensure that the conceptual representation (Shepherd & Sutcliffe, 2011) of the theoretical contribution (Corley & Gioia, 2011; Whetten, 1989) discussed in Chapter 9 engaged deeply with the extant literature chosen in chapters 2, 3 and 4.

The literature comprises the varieties of corporate governance systems, the internationalization process of MNEs in the value-creation process, the public policy process and the theory of social judgements. I chose the extant literature, summarized below, in order to illuminate what theory is capable of explaining

and, more pertinently, what further theorizing is needed about the phenomenon—that is, to identify the gap in the value-creation literature and in the theory of social judgements.

The varieties of corporate governance systems

In describing the varieties of corporate governance systems literature in Chapter 2, I show why a contract-like, stockholder-primacy governance logic (Daily, Dalton & Cannella, 2003; Veldman & Willmott, 2016), as prevailing in the UK, fails to detect or mitigate the MNE base erosion phenomenon (Jones & Temouri, 2016). Stockholder-primacy governance logic emphasizes the decision-usefulness of information (Pelger, 2016) to stockholders and prospective investors, as a distinct class of users (Linsley & Shrives, 2014; Young, 2006) of annual reports.

Internationalization process of MNEs in the value-creation framework

The base erosion phenomenon is implicitly bound up in the process of internationalization (Arregle, Miller, Hitt & Beamish, 2013; Ghemawat, 2008). In Chapter 3, I explain the internationalizing process that MNEs adopt when entering foreign markets. The traditional staged entry process of internationalization (Johanson & Vahlne, 1977, 2009) describes an experientially-informed entry gradually occurring over time (Welch, Nummela & Liesch, 2016), whilst the accelerated process of entry (Chetty, Martin & Martin, 2014) or so-called born-global firms (Knight & Cavusgil, 2004; Oviatt & McDougall, 1994) emphasizes improved learning capabilities through the deployment of pace, time and technology. In internationalizing, value is not

merely created in a summative form, but also in an incrementally progressive form (Contractor, 2007; Lepak, Smith & Taylor, 2007).

Public policy process and the theory of social judgements

In Chapter 4, I outline how the three streams of problems, policies and politics (Kingdon, 2011) that developed from the ‘garbage can model’ of organizing (Cohen, 1972) are instructive in understanding how public policy solutions emerge. How social problems are framed, whether emerging from routine monitoring or from idiosyncratic transforming events (Birkland, 1998), will dictate which avenues of policy response are legitimated whilst others excluded. The theory of social judgements (Bitektine, 2011; Golant & Sillince, 2007) explicates how cognitive legitimacy judgements are exercised for routine tasks with low visibility, whilst the sociopolitical judgements are reserved for non-routine tasks involving high economic stakes which require greater diligence and care. In formulating policy response to base erosion, public policymakers participate in influencing social judgements (Currie, Tuck & Morrell, 2015; Morrell & Hartley, 2006).

The Gap in the Extant Literature

Firstly, corporate governance is about: how an organization deploys its resources (Daily, Dalton, & Cannella, 2003); the structure of rights and responsibilities among parties with a stake in the firm (Aguilera & Jackson, 2003); and the resolution of conflicts among those stakeholders. The stockholder-primacy model—a dyadic contract-like corporate governance system—is an historical sociologically embedded national model of governance prevailing in

the UK (Veldman & Willmott, 2016) and the US (Hall & Gingerich, 2009; Lubatkin, Lane, Collin, & Very, 2005).

A recognized deficiency of a national dominant stockholder-primacy model is that its deep-rooted assumptions prevent a critical reflection on the implications of restrictive ‘accountability to narrow forms of information disclosure directed exclusively at shareholders’ (Veldman & Willmott, 2016 p.581). Whereas inference is made by Jones and Temouri (2016) that the base erosion problem is more markedly associated with stockholder-primacy governance systems prevailing in the UK and US, than with stakeholder-hybrid governance systems prevailing in coordinated market economies of Northern Europe, there is a paucity of qualitative research that explains why contract-like governance systems are associated with the base erosion problem. A contribution of this thesis is to address this gap. A cultural grammar (Veldman & Willmott, 2016) that frames accountability to the narrow forms of information exclusively at shareholders (Pelger, 2016; Young, 2006) fails to balance it with the broader obligation to other participants having a stake in the firm (Berle & Means, 1932; Harrison, Bosse, & Phillips, 2010).

Secondly, value-creation as a concept with its roots in the resource-based view (Barney, 1991; Becerra, 2008), provides a firm level perspective on its value-creation and value-capture or appropriation processes. The dominant focus on value creation in the literature has been on a firm level analysis; that is, on sustained competitive advantage (Barney, 1991), on management of resources (Sirmon, Hitt, & Ireland, 2007), on dynamic capabilities of the firm (Teece, 2014), and on profits emerging from value uncertainty (Becerra, 2008). More recently, the focus has extended to value creation as an aggregation concept, with

both internal and external focus; that is, on total value appropriation (Bowman & Ambrosini, 2000; Garcia-Castro & Aguilera, 2015). Yet another level of analysis has been in distinguishing the individual versus the collective loci of value creation (Felin & Hesterly, 2007).

However, there has been little research on value creation from a public stakeholder level of analysis, other than the trade-off between bankruptcy legislative policy and entrepreneurship risk (Lee et al., 2007). The gap in the literature is in understanding how host policymakers make sense of value-creation and value-capture processes that MNEs engage in beyond the home HQs—that is, across overseas host locations. I contribute to the stakeholder level of analysis on MNE value creation, by giving a host policymakers’ perspective on the base erosion phenomenon. As a result of my analysis and findings in Chapter 6, I show that host policymakers framed the base erosion phenomenon as an issue of the relative degree of alignment of an MNE’s value-creation and value-capture processes across each of the host locations that it is economically engaged in. That is, there is a plurality of perspectives on MNE value-creation frameworks. The host policymakers’ perspective is an alternative interpretation of an MNE’s value creation process—contributing to the under-researched level of analysis at public stakeholder perspective (Lee et al., 2007).

Thirdly, policymakers use public deliberation (Lee & Romano, 2013) as a political process to mobilize social judgements across interconnected public policy domains in order ‘to cultivate stakeholder empathy for decision-makers, downsize public expectations for administrative problem-solving, and produce behavioural alignment and positive attitudes toward austerity measures’ (Lee &

Romano, 2013 p.733). Social judgement is defined ‘as an evaluator’s decision or opinion about the social properties of an organization’ (Bitektine, 2011 p.152).

In the context of organizational legitimacy, as one of its social properties, the theory of social judgements explains the typology and formation process of legitimacy judgement types—broadly, the pragmatic or cognitive legitimacy judgements and the moral or sociopolitical legitimacy judgements (Bitektine, 2011). Extant literature also explains that social judgements expressed by way of intra-field rhetoric ‘reflects the legitimacy of an action or practice...and relates more to institutional maintenance (Harmon, Green, & Goodnight, 2015 p.83). While, a ‘shift in use from intra-field rhetoric to inter-field rhetoric relates to an increase in the effectiveness of delegitimation efforts and a decrease in institutional stability’ (Harmon et al., 2015 p.87).

There is, however, little research on the sociopolitical conditions for and the means of challenging inter-field taken-for-granted orthodoxy to redress the perceived harm caused by the MNE base erosion phenomenon. I address this gap in the literature. As a result of my analysis and findings in Chapters 7 and 8, I identify the contextual boundary conditions that resist intra-field instability and I explain the types of inter-field iterative rhetorical techniques used to mediate public policy changes that reflect upon procedural justice (Adams, 1963; Skarlicki & Folger, 1997), but primarily, demand distributive justice (Bosse et al., 2009; Coff, 1999).

Dataset and Methodology

In Chapter 5, I present the data set that comprises a triangulation (Cresswell & Miller, 2000; Scandura & Williams, 2000) of the following data sources: (1)

transcripts of the contributions of 27 participants in the two public hearings conducted by the PAC into the internationalizing activities of Amazon, Google and Starbucks – the first hearing being held in November 2012 (PAC-UK, 2012), and the second hearing being held in June 2013 (PAC-UK, 2013); (2) the 25 face-to-face interviews conducted with regulators and policymakers from government agencies, self-regulating authorities and inter-governmental intermediaries; (3) the 2013 home-HQ annual reports for Amazon, Google and Starbucks; (4) the 2013 UK host location annual reports for Amazon, Google and Starbucks; and (5) a further set of 26 related documents made reference to by interviewees in the course of the interview process.

The methodology I use is a qualitative inductive inquiry (Eisenhardt & Graebner, 2007; Miles, Huberman & Saldana, 2014; Yin, 2014) that is appropriate for phenomenon-driven research questions. Using MaxQDA software version 12 (Silver & Lewins, 2014), I follow the Gioia methodology (Gioia, Corley & Hamilton, 2012) in laying the groundwork for the development of a sensory representation (Holyoak & Simon, 1999; Mantere & Ketokivi, 2013) of the data by moving from first-order concepts to second-order themes (Corbin & Strauss, 2008; Miles et al., 2014). Two particular features distinguish my qualitative inquiry. Firstly, I re-visit my literature streams (Corley & Schinoff, 2017; Harrison & Rouse, 2014) as my data analysis reveals nuances that warrant revision of my approach to the literature (Shepherd & Sutcliffe, 2011). Secondly, in moving from second-order themes to aggregate dimensions emerging from the data, I use abductive reasoning (Morgan, 2014; Paavola, 2004) to establish contextual authenticity in reasoning and developing abstract generalizations (Ketokivi & Mantere, 2010). Figure 5.1 illustrates the incorporation of these two

features into my methodology—namely, the recursive vice-versa movement between data, concepts and literature and the abductive contextualized reasoning process.

Analysis and Findings

Framing a host location perspective on the MNE multinationalizing process

In Chapter 6, I draw on my data to give a richly contextual account of UK host policymakers' perspective on base erosion. The analysis and findings reveal a host policymakers' perspective on the value-creation frameworks used by foreign-HQ MNEs in carrying on economic trade across host locations. This is a second-order interpretation of my data (Gioia et al., 2012; Herepath, 2014; Pozzebon, 2004).

Three distinct aspects emerge from the analysis and findings regarding the social problem as perceived by host locations. First, the analysis and findings indicate the underlying principles that guide the process, as perceived by host policymakers. Second, the analysis reveals how host policymakers perceive the constitutive elements of the MNE value-creation process that emerge across host locations. Third, the analysis explicates how host policymakers perceive the mechanisms of value capture that underpin value creation. This conceptual representation of a host policymakers' perspective on MNEs' value-creation frameworks across host locations differs from that held by MNE top management and their board (Becerra, 2008; Lepak et al., 2007; Teece, 2014). The perspective differs because of the tension between the choice opportunities that are available to an MNE in locating the worth of their value creation across host locations and

the challenge that those decisions present to the legitimacy of host location policymakers.

Challenging cognitive legitimacy in corporate reporting and corporate taxation

In Chapter 7, I show how host policymakers challenged the cognitive legitimacy held by social actors in the corporate reporting field and in the corporate taxation field. The analysis and findings identify how the UK's budget austerity measures announced in late 2010 (Callinicos, 2012; Pimlot & Giles, 2010) were the transforming event (Birkland, 1998) that initiated the public deliberative discourse (Carpini, Cook & Jacobs, 2004; Lee & Romano, 2013) on base erosion. This public deliberative process attracted the attention not only of the media and social movement organizations but also host regulators, host policymakers and inter-governmental intermediaries. Host policymakers used the public deliberative process to challenge the inequitable recognition and distribution of profits earned by MNEs economically operating in and across host locations (Dharmapala, 2014; Evers, Miller & Spengel, 2014).

Bridging cognitive and sociopolitical legitimacy in stakeholder-oriented policy

In Chapter 8, I show how host policymakers recognized that the stockholder-primacy logic (Thornton, Ocasio & Lounsbury, 2013; Westphal & Zajac, 2013) is resistant to the type of public policy changes contemplated, whilst the stakeholder-oriented (Bosse et al., 2009; Harrison, Bosse & Phillips, 2010) corporate taxation policy domain is receptive to public policy changes to redress base erosion.

I will explain how host policymakers used the technique of commensuration (Espeland & Lom, 2015; Espeland & Stevens, 1998) in multiple instances in order to move the discourse towards the exercise of sociopolitical legitimacy judgements (Bitektine, 2011; Golant & Sillince, 2007) on public policy outcomes that is intended to reflect distributive fairness in the allocation of profits earned across host locations.

Contribution

In Chapter 9, I present my contribution to theory (Corley & Gioia, 2011) on value-creation frameworks in the resource-based view—from a public stakeholder level of analysis, the organizing views on transfer pricing, and the mobilization of social judgements in order to advance change in interconnected policy domains. I show how my contribution addresses the gaps I have identified in extant literature. For purposes of impact, I also make a contribution to the practice (George, 2016) of corporate governance in Chapter 2, and the implications for public policy framing in Chapter 9.

My contribution to the value-creation frameworks literature is in using a conceptual model (Corley & Gioia, 2011; Shapira, 2011) to theorize a host policymakers' perspective on base erosion that comprises three constituent elements in the foreign-HQ MNEs' value-creation process as well as four mechanisms in their value-capture process occurring across host locations. From a host policymakers' perspective, base erosion is a tax avoidance strategy—a problem of MNE valuation practices that shift the order of worth of MNEs' economic activities—causing harm to host economies. My contribution is in conceptualizing the host policymakers' perspective of base erosion as exploiting

the degree of divergence in the value-creation and value-capture processes of MNEs across host locations. My fieldwork illustrates how at the limits of divergence of these endogenous processes, MNEs deployed rhetorical strategies to maintain cohesion between these processes and their external stakeholders.

My contribution to the theory of social judgements is in linking related concepts (Corley & Gioia, 2011; Shapira, 2011) to advance the theory about how host policymakers moved the public deliberative discourse to bridge cognitive and sociopolitical legitimacy judgements in the corporate taxation policy domain. Host policymakers challenged the taken-for-granted orthodoxy prevailing in the accounting and the corporate taxation policy domains—and, experienced resistance from those social actors seeking to maintain their intra-field stability. Through contextualized reasoning, I show how commensuration techniques enable host public policymakers to bridge cognitive and sociopolitical legitimacy judgements—explicating a mechanism for making things comparable for evaluative purposes that otherwise appear incomparable and beyond evaluation. The theory of social judgements is advanced: (i) by theorizing how categorical judgements are assessed contextually for their degree of rigidity or propensity for change; and, (ii) through identifying the mechanisms used by actors to influence change from one categorical judgement type to another—that is to say, from cognitive legitimacy to sociopolitical legitimacy judgements.

For impact purposes, I also make a contribution to corporate governance practice by explaining in Chapter 2 how contract-like governance systems fail to mitigate the base erosion problem. Furthermore, in Chapter 9 I make a contribution to the practice of public policy framing by explaining: (a) that policy initiatives aimed singularly at either value creation or value capture fail to redress

organizational value framework alignment implications; and (b) that in advancing sociopolitical deliberation, there is likely to be greater resistance from intra-field members in stockholder-oriented public policy domains than from members in stakeholder-oriented public policy domains.

Conclusion, Limitations and Future Research Opportunities

Finally, Chapter 10 provides a summary of this thesis, indicating its limitations, specifically the limitations associated with context of the empirical setting of the research (Corley & Gioia, 2011; Johns, 2000, 2006). The empirical setting is located in an advanced economy that is presently part of a regional politico-economic unit, the European Union (EU). Depending on the outcome of the Brexit negotiations (Cumming & Zahra, 2016), the association between the UK and the EU will in time devolve into a different economic and regional interdependent relationship. The chapter concludes by suggesting possible future research directions and explaining the utility and implications for practice. Whereas this thesis has applied an inductive contextualized reasoning methodology in order to conduct an expansive enquiry into the base erosion phenomenon, there is also the opportunity of using a discursive analytical lens to delve deeper into the related set of talk and texts. It would be interesting to examine: whether there has been a shift (Gawer & Phillips, 2013; Nigam & Ocasio, 2010; Ocasio, Lowenstein & Nigam, 2015) in international taxation logic; and, how respondent witnesses coped with the aggressive questioning sessions (Campbell, Follender & Shane, 1998; Heracleous & Klaering, 2014; Luyckx & Janssens, 2016) at the PAC-UK (2012) and PAC-UK (2013).

Also, recognizing the lobbying activities of Silicon Valley and industry representatives on the ubiquitous technological advances of e-commerce business models (Amit & Zott, 2001; Beattie & Smith, 2013; Zott, Amit & Massa, 2011) that have diffused into all types of business processes and practices, it would also be of interest applying rhetorical theory (Hartelius & Browning, 2008; Hofer & Green, 2016; Ocasio et al., 2015) to these nonmarket strategies (Bonardi, Hillman & Keim, 2005; Funk & Hirschman, 2017) to obtain a deeper insight into the rhetorical competencies of MNEs and their representative associations in maintaining domain stability.

In the next chapter, I will describe the varieties of corporate governance systems. I will explain the trade-offs involved in carefully balancing the contract-like governance model or stockholder-primacy logic and the trust-like governance model or stakeholder-oriented logic. What emerges from this analysis is that stockholder-primacy governance logic is not designed to detect or minimize the base erosion phenomenon.

Chapter 2 – Varieties of Corporate Governance Systems

Introduction

In this chapter, I explain how agency theory has narrowed corporate governance to focus entirely on two key participants, namely management and stockholders—a situation existing before the Berle & Means 1930s intervention (Stout, 2012; Wells, 2012) and re-asserting itself subsequently post the late 1970s following its theoretical formulation by Jensen & Meckling (1976). Underpinning this bilateral relationship has been the development of an inclusive framework of governance mechanisms (Dalton, Hitt, Certo & Dalton, 2007; Healy & Palepu, 2001) to balance, support and where necessary, intervene. Within this inclusive framework of governance mechanisms (Dennis, 2001), I will examine more closely the asymmetry of information problem in corporate disclosure as it exists between management and stockholders (Beyer, Cohen, Lys & Walther, 2010).

For the purpose of this analysis, I will not be delving into governance mechanisms on independence and board size (Dalton, Daily, Johnson & Ellstrand, 1999) or into board composition (Hermalin & Weisbach, 2001) considerations. My aim is to explicate, from a macro public policy perspective, that a change in emphasis or assumptions underlying alternative corporate governance systems will deliver alternative behavioural outcomes (Thornton, Ocasio & Lounsbury, 2013; Westphal & Zajac, 2013).

To address the shortcomings in the asymmetry of information problem (Baker & Hayes, 2004; Milgrom & Roberts, 1986), I will discuss not only the role of agency theory but also two derivative perspectives of agency theory. The first derivative perspective is to apply the legal agency theory of the firm (Lan &

Heracleous, 2010; Zeitoun, Osterloh & Frey, 2014) that is institutionally more sensitive (Heracleous & Lan, 2012), recognizing that in corporate law the firm is the principal and the directors individually or the board jointly are the fiduciaries of the firm (Bratton, 2001). The second derivative perspective is to recognize the behavioural influences that arise from different ownership-holding types (Cox & Wicks, 2011; Zeitoun & Pamini, 2015) or from the internationalization context of the multinational (MNE) firm. For example, Zeitoun et al. (2014 p.8) comment that, ‘several multinational companies have recently faced unexpected reputational damage in the United Kingdom, due to their legal practice of avoiding taxes through transfer pricing. This damage could have been avoided if boards had given voice to people who pointed to this reputation problem early.’ Alternatively, corporate governance may be influenced by its relative portability within a corporate group internationally (Aguilera, Desender, Lamy & Lee, 2017; Cumming, Filatotchev, Knill, Reeb & Senbet, 2017).

I will then introduce the stakeholder (Mitchell, Agle & Wood, 1997) and corporate social responsibility (Matten & Moon, 2008) paradigms in order to bring a societal context to bear on the analysis of the governance mechanisms and the asymmetry of information problem in corporate disclosure. The purpose of pursuing this stockholder versus stakeholder analysis is, firstly, to show the relative trade-offs involved in governance systems coping with the asymmetry of information problem (Ellis, Moeller, Schlingemann & Stulz, 2017) and secondly, to indicate that the stockholder-logic embedded in traditional agency theory is not designed to detect or mitigate the base erosion phenomenon (Jones & Temouri, 2016).

Agency Theory

Agency theory, as abstractly framed under the principal-agent paradigm (Dalton et al., 2007; Jensen & Meckling, 1976), or as behaviourally framed under the positivist stream (Berle, 1965; Eisenhardt, 1989; Wiseman, Cuevas-Rodriguez & Gomez, 2012) explicates how the asymmetry of information problem is capable of being remedied between an MNE's top management and its stockholders. Eisenhardt (1989) observes that both the principal-agent paradigm and the behavioural positivist stream use the nexus of contracts as the common unit of analysis. Recognizing that an MNE group consists of an aggregated identity (Albert & Whetten, 1985; Clarke & Dean, 1993; Scott & Lane, 2000) of the parent corporation together with all its subsidiaries and associated holdings, it is not surprising that agency theory views the corporation or the MNE simply as a 'nexus of contracts' (Talbot, 2008) or a focal point of contracting.

Agency theory adopts the conceptual framework that the firm is merely a 'nexus of contracts' between management—as the agent, and the stockholder—as principal (Talbot, 2013), and by implication inferring that a multinational group is essentially an amalgamation of voluntarily assumed legal arrangements between HQ management and its stockholders (Filatotchev & Wright, 2011). Using this conceptual framework advances the complementary association that: (a) contracting provides the mechanism for firms exercising hierarchical control over its economic activity, and (b) contracting provides the means for curbing individuals seeking to promote their own self-interests. Accordingly, Jensen & Meckling (1976), using agency theory and abstract mathematical proof, open the black box of the MNE, retaining the notion of individual maximizing behaviour

together with a broader contractarian theme that emerged from Coase's seminal work on transaction costs (Coase, 1937). Thus, the focus is on the assumed rational actions of individual actors or groups of actors—not on fictitious entities or groups of fictitious entities—voluntarily exercising their proprietary rights under contract.

The positivist stream of agency theory, whether performed through formal or informal incomplete contracting relationships, informs and shapes corporate disclosure (Armstrong, Guay & Weber, 2010) as a governance mechanism that addresses the asymmetry of information problem between these bilateral parties. Many transactions, due to uncertainty, contingencies, scope, cost, and practicality are not contractible. Formal contracts possess legitimacy in evidential compliance and corporate disclosure (Armstrong et al., 2010), while informal/incomplete contracts are supported by trust, reputation and iteration (Woolthuis, Hillebrand & Nooteboom, 2005; Zeitoun & Pamini, 2015).

Governance of Information Asymmetry

An inclusive framework of information systems has developed over time to redress the asymmetry problem and underpin governance mechanisms (Healy & Palepu, 2001). The information systems comprise: voluntary disclosure enacted through a self-enforcing 'nexus of contracts' (Lang & Lundholm, 1993; Leftwich, Watts & Zimmerman, 1981; Talbot, 2013); regulatory-mandated disclosure obligations imposed on MNEs (Beyer et al., 2010; Grossman & Hart, 1980) and interventionist action by information intermediaries (Ramnath, Rock & Shane, 2008). The intent and the consequence of mandated disclosure obligations are to re-affirm the fundamental premise of traditional agency theory or stockholder-

primacy logic (Thornton et al., 2013; Westphal & Zajac, 2013). Namely, the directive is to report and account exclusively to its capital providers (Barth, 2008; Friedman, 2007; Shleifer & Vishney, 1997). The ‘nexus of contracts’ paradigm does not address parties outside the bilateral relationship of management as the agent and of stockholder as the principal.

Voluntary disclosures

As originally explained by Jensen & Meckling (1976), it is the optimizing behaviour of the contracting parties that establishes a self-enforcing mechanism of voluntary disclosure between agent and principal. That is to say, the entering into contracts is a voluntary choice that is made by the parties ‘as a vehicle for voluntary exchange’ (Jensen & Meckling, 1976 p.310). The extent to which a contract is a self-enforcing mechanism is dependent on the scope of its terms and conditions—how complete or incomplete (Woolthuis, Hillebrand, & Nooteboom, 2005)—and reciprocity in the exchange of performance and the consideration (Noordehaven, 1992).

A corporation’s constitutional documents state that management should provide annual reports to its stockholders and have them audited (Mueller, Carter & Whittle, 2015; Unerman & O’Dwyer, 2004). It is a condition of top management appointment that, in return for remuneration and benefit entitlements, they faithfully represent to the board the financial position and performance of the corporation and all group entities under their management and control (Armstrong et al., 2010). Moreover, it is more cost effective for management to prepare a general set of annual reports than for each of its capital provider to request separate reports (Leftwich et al., 1981).

In addition, research has established that if there are no transaction costs in providing disclosures, then full disclosure will generally be made (Grossman & Hart, 1980). However, if disclosure is costly, it will complicate outcomes. Where the transaction costs of disclosure are high in order to support market values or to lower risks (Beyer et al., 2010), only favourable disclosure will be made. Where disclosure is withheld, it may suggest possible ‘bad news’, but the associated payoff to management will generally be better than if they had made the disclosure (Akerlof, 1970; Beyer et al., 2010). Alternatively, negative information may be disclosed selectively in order to reduce legal liability exposure (Lang & Lundholm, 1993). Top management are also less likely to share information with the board that may detrimentally impact their personal position (Armstrong et al., 2010).

Mandated disclosures

Healy & Palepu (2001) observe that surprisingly little is known about the motivations that lay behind capital markets’ regulation of mandated disclosures. What is known is that international accounting standards (IFRS) regulate corporate reporting choices in order to improve comparability, reduce processing costs and set a uniform language of communication (Healy & Palepu, 2001). Transnational standardization of accounting standards recursively develop from a process of standard formation through input legitimacy to a process of standard diffusion embedding output legitimacy (Botzem & Dobusch, 2012). Also, the academic literature identifies financial and real externalities as rationales for mandated disclosures (Beyer et al., 2010). That is, mandated disclosures seek to improve social welfare whereby, under financial externalities, one firm’s

disclosure sheds interpretative light on the financial position of other firms. And under real externalities, one firm's disclosure will affect another firm's decisions.

With respect to domestic corporate law in the United Kingdom (UK), and generally in other common law countries, the board is required to prepare individual company accounts and, if not exempt, to prepare group accounts on an annual basis (Mayson, French & Ryan, 2012). A UK parent company will be exempt where its securities are not traded on a regulated market and if it is itself a subsidiary of a foreign MNE. The concept of preparing group accounts is one of those rare occasions where the law recognizes a corporate group as distinct from the individual entity (Lowry & Reisberg, 2012). In this instance, the law literally opens the 'black box' of each of the individual entities in the group to accommodate economic aggregation in a manner that reflects traditional agency theory. In most other instances, the law recognizes only the individual entity and not the corporate group (Lowry & Reisberg, 2012). The court decision in *Adams v Cape Industries plc* (1990) emphasizes the marginalized perspective of the notion of a corporate group by adjudicating that a holding company has a right to deliberately set up separate entities and subsidiaries for the purpose of minimizing the parent company's own liability (Lowry & Reisberg, 2012).

UK Regulation also requires that the board must not approve annual accounts unless it is satisfied that the individual accounts or the group accounts give a 'true and fair view' of its financial performance and its financial position (Mayson et al., 2012). McGee (1991) notes that the interpretative emphasis of 'true and fair view' is likely to be a more realistic representation in case of the financial performance statement than of the financial position statement. Notwithstanding the law granting jurisdiction and interpretative power, the courts and the legal

profession have generally been reticent in delving into concepts of ‘true and fair view’ (McGee, 1991), ‘faithful representation’ or of ‘substance over form’ (Radcliffe, 1990). In *HMRC v William Grant & Sons Distillers Limited (Scotland)* (2007), Lord Hoffman observed that in interpreting ‘true and fair view’, the court is guided by the expert opinion of accountants on best current accounting practice, whilst the accounting experts are guided by authoritative accounting standards. IFRS standards, in turn, institutionalize the salient role of the user (Power, 2003; Young, 2006)—that is to say, annual reports are prepared by the board of directors with the purpose of providing decision-relevant information to its stockholders and prospective investors (Linsley & Shrives, 2014; Pelger, 2016).

In spite of concerns about whether mere compliance with prescribed standards may constitute a ‘true and fair view’, the opinions given by Martin Moore QC in 2008 (Lowry & Reisberg, 2012) and again in 2013 re-affirm the overriding requirement of ‘faithful representation’. For certain publicly-listed companies the law also requires that they publish a business review statement with their annual accounts. The business review statement is intended to be a balanced and comprehensive narrative assessing the firm’s business, its principal risks, and factors likely to affect its future performance (Lowry & Reisberg, 2012).

Other relevant mandated disclosures imposed on MNEs listed on capital markets include, for the UK, a requirement to ‘comply or explain’, in the event of deviation from the Financial Reporting Council’s (FRC) Code of Conduct and, for the United States of America (US), a requirement by the Securities Exchange Commission to publish the MNE’s business code of conduct and ethics adopted by its board. But as Veldman & Willmott (2016 p.597) indicate, the FRC Code (Financial Reporting Council, 2012, 2014c) is caught up in a ‘single loop

reflexivity [that] has provided a flexible buffer...to impede or deflect more probing critiques...in which a neo-liberal political economy was embedded'. On the issue of base erosion and audited accounts presenting a true and fair view, the PAC concluded in their summary report:

9. At the hearing we were frustrated with the representative from Amazon, who we found evasive and unprepared to answer legitimate questions on the company's structure and true location of its economic activity... Amazon also provided information showing that for 2011, £3.35 billion of sales were from the UK, 25% of all international sales outside of the USA. Yet Amazon has over 15,000 staff in the UK, invoices UK customers from the UK for UK customers hires UK staff in the UK, has inventory physically in the UK and to all intents and purposes has the majority of its economic activity in the UK, rather than Luxembourg, but pays virtually no corporation tax in the UK (PAC-UK, 2012 p.9).

Role of information intermediaries

Besides the voluntary and mandated disclosure components, Healy & Palepu (2001) note that the third component of the information systems underpinning governance mechanisms is the role provided by the information intermediaries. Information intermediaries include both buy-side and sell-side analysts (Ramnath et al., 2008). Buy-side analysts value the research of the sell-side analysts and combine it with their own analyses (Ramnath et al., 2008). Core (2001), however, observes that there is far more research available for sell-side analysts than there is for buy-side analysts. Of particular relevance to my research are the academic findings that earnings forecasts made by analysts rely heavily on disaggregated

and qualitative information issued by MNEs (Ramnath et al., 2008), which, as well as reported earnings, includes management communication releases and operating segment reports. In addition, the complexity of disclosed information can affect the accuracy of earnings forecasts, particularly where there is difficulty in forecasting future effective tax rates (Plumlee, 2003). Analysts do incorporate both transitory and persistent components into their forecasts, but they are more concerned with forecasting persistent earnings under longer-term forecasts (Mest & Plummer, 1999).

Whilst recognizing that public information is available simultaneously to both retail investors and information intermediaries, research has not yet established why retail investors tend to react more slowly to such disclosures or to the signals issued by analysts (Ramnath et al., 2008). In this context, it is relevant to note the initiative taken by the United States Congress in passing the Fair Disclosure Regulation in 2000. This regulation prevents selective access to corporate information by analysts, requiring that public disclosures are made simultaneously available to all parties (Beyer et al., 2010).

Notwithstanding the positive role performed by information intermediaries in underpinning corporate governance mechanisms, there are instances where information intermediaries create new agency problems. Information intermediaries produce both private and public information that is supposed to ‘uncover any manager misuse of firm resources’ (Healy & Palepu, 2001 p.410)—yet there is ample example of failures, for example: specifically, by the rating agencies (Riaz, Buchanan, & Bapuji, 2011; Vaaler & McNamara, 2004); and, more generally, by information intermediaries due to conflict of interests arising from mandates (David, Kochhar, & Levitas, 1998).

Derivative Agency Approaches

In this thesis, I use the term *derivative agency approaches*, as an umbrella term to highlight subtly different governance features of agency theory—all based on contract-like logic of governance. For legal agency theory, it is corporate law and contract that redefine the roles of top management and the board. In the contextual presence of blockholder ownership, it is the scope of contractual mandates that reveal the nature of stewardship activism. While for governance portability by MNEs across host locations, it is the persistence of home governance systems through contract that permeate firm subsidiaries and subunits overseas—recognizing the bargaining power of the home HQs.

Legal agency theory

One derivative approach to traditional agency theory is to substitute the nexus of agency contracts analogy with the recognition that the corporation is a separate legal persona (Blair & Stout, 2001; Lan & Heracleous, 2010). Lord Halsbury LC in the seminal case of *Salomon v A. Salomon & Company Ltd* (1897) observed that the corporation is real, not fictitious, with the law attributing to it various undeniable rights and liabilities, even if formed solely by one stockholder. Lord Herschel emphasized this legal distinction, ‘In a popular sense, a company may in every case be said to carry on business for and on behalf of its share-holders; but this certainly does not in point of law constitute the relation of principal and agent between them or render the shareholders liable to indemnify the company against the debts which it incurs.’ (*Salomon v A. Salomon & Company Ltd*, 1897).

Once you recognize the corporation as a separate legal persona, as suggested by Lan & Heracleous (2010), the corporation is regarded as the principal, and it

performs the nexus of contract roles with the various stakeholders. The directors, in turn, are not agents of the shareholders, but are fiduciaries of the corporation.

The directors and the board assume a rather unique form of fiduciary relationship (Lan & Heracleous, 2010) as distinct from mere agency as contemplated under traditional agency theory. Lord Russell of Killowen in *Regal (Hastings) Ltd v Gulliver & Others* (1942) expresses this unique form of fiduciary relationship as, ‘In some respects they resemble trustees, in others they do not. In some respects they resemble agents, in others they do not. In some respects they resemble managing partners, in others they do not.’ Under legal agency theory, directors assume a role more akin to stewards of the corporations (Davis, Schoorman & Donaldson, 1997; Lan & Heracleous, 2010).

This unique form of the fiduciary role of directors is best explained by Lord Justice Robert Walker in *Bairstow & Ors v Queen Moat Houses Plc* (2001). Directors are not trustees in the strict legal sense, since trustees are legal owners of trust property. However, the directors do possess trust-like responsibilities because they have the power and the duty to manage the corporation’s business in the stockholders’ interests (Mayson et al., 2012). Another helpful distinction made by Lord Browne-Wilkinson in *Henderson v Merrett Syndicates Ltd & Ors* (1994) is that the phrase ‘fiduciary duties’ does not imply a universal or identical scope of duties in all circumstances. The only duty which is possibly owed by every fiduciary is not to profit from his or her position, unless otherwise authorized (*Henderson v Merrett Syndicates Ltd & Ors*, 1994). In all other circumstances, the scope of those fiduciary duties will be determined by reference to the contract between the director and the corporation, statute and common law.

The important rider is that neither a director nor the board owe a fiduciary duty to the corporation's stockholders (Blair & Stout, 2001; Lan & Heracleous, 2010).

That legal agency theory exists is unsurprising. Bratton (2001) notes that Berle & Means (1932) had much earlier identified the trigger as the separation of asset ownership and of control. As MNEs grew, so did the dispersion of registered stockholders. This increased separation of ownership and control emphasized the vital relationship between the trust-like model (qua legal agency theory) and the contract-like model (qua traditional agency model). Bratton (2001) observes that Berle & Means (1932) had already anticipated half-century earlier that a critical debate would ensue over this vital relationship. Since 1980s (Westphal & Zajac, 2013), the contract-like model has dominated all forms of corporate governance (Daily, Dalton & Cannella, 2003a) with the trust-like model losing traction. The remaining self-protective mechanism that is available to the dispersed minority stockholder is to exercise the right of exit through a market sale (Bratton, 2001).

In light of the dominance of the contract-like model over the trust-like model, the question remains of how effective the mediating hierarchy of the board of directors as the governance mechanism is, as proposed by Blair & Stout (2001) and Lan & Heracleous (2010). The authors suggest that empirical testing is needed to identify whether boards making decisions in the interests of the corporation rather than solely in the interests of shareholders will result in stronger corporate financial performance measured in stakeholder terms. Legal agency theory calls for the board, in its discretion to maximize risk-adjusted returns not just to stockholders but to all participatory stakeholders (Lan & Heracleous, 2010; Mayer, 2013). Crossland & Hambrick (2011 p.815) indicate that, at the national level, the board 'can only influence the performance of their

companies in proportion to the amount of discretion they possess'. The latitude of management discretion is, in turn, associated with both informal and formal national institutions—with individualism and cultural looseness being strongly associated with nation-level managerial discretion (Crossland & Hambrick, 2011).

Context of blockholder ownership

Another derivative approach, as suggested by Aguilera, Filatotchev, Gospel & Jackson (2008), gives contextual meaning to governance systems associated with blockholder ownership. A major gap in traditional agency theory is that it overlooks the diverse identities of stockholders specifically and stakeholders more generally (Aguilera & Jackson, 2003 p.449): 'Different types of investors (such as banks, institutional investors, or family groups) pursue different interests, particularly when investors are themselves organizations governed by institutionally defined rules.' On January 2, 2013 *The Daily Telegraph* reported:

A group of leading British investors has secured a pledge from the European Commission that it will intervene to deal with fears that bank accounting rules are "dangerously flawed"... Replying in a letter to investors, Oliver Guersent, the head of Mr Barnier's cabinet, wrote that he "shared the concerns" of investors over IFRS. He said that warnings that the rules exacerbated the financial crisis were "legitimate questions". The Commission's action is the first intervention from Europe and looks set to leapfrog sluggish reactions from British regulators to a raft of similar warnings (Armitstead, 2013).

For the purposes of my research, I focused on the context of blockholder ownership (Daily, Dalton & Rajagopalan, 2003b) under the contract-like paradigm. I considered two aspects of blockholding; firstly, its prevalence in the UK and US; and secondly, its nuanced impact as a governance mechanism. Identification of stockholder ownership dispersion (Berle & Means, 1932) is the first step in acknowledging the incidence of agency loss. The next step is to identify the composition of the stockholder dispersion and its relative and absolute ownership size, as these ownership attributes influence the extent of agency loss. Prudential regulatory constraints prevailing in the UK and US capital markets will generally limit the proportionate size of blockholdings held by MNEs (Dalton et al., 2007). Although there is no set percentage threshold, a stockholding of 5 per cent or more is generally considered significant to warrant classification as a blockholding (Shleifer & Vishney, 1997).

In the UK and US context, when all blockholder ownership interests are aggregated, they jointly hold significantly greater ownership interests than do the retail investors combined. Daily et al. (2003b p.152) observe that ‘At individual institutional fund level, institutional investor holdings are relatively modest; however, in aggregate they control more than 50 percent of United States corporate equity (Conference Board, 2000).’ In a more recent report issued by the The Conference Board (2009 p.26), institutional ownership in the top 50 US MNEs stands at 64.5 per cent and in the top 1000 US MNEs at 68.6 per cent respectively. Within the class of blockholders, there are a variety of financial institutions including commercial and merchant banks, building societies, and insurance firms, and a variety of investment houses, including pension funds, mutual funds, endowments and foundations.

It is appropriate here to identify the relative behavioural impact each blockholder type has on governance mechanisms. David, Kochhar & Levitas (1998), in their research, establish that pressure-sensitive and pressure-indeterminate financial institutions and investment houses do not actively exercise their governance powers. These pressure-sensitive institutions and investment houses, such as commercial banks, merchant banks and insurance firms, have business relationships with investee MNEs. The pressure-indeterminate institutions do not overtly identify their investment mandates. He & Wang (2009) hypothesize that the presence of proportionally large blockholders dampens the relationship between a firm's innovative assets and its economic performance. Hoskisson, Johnson & Moesel (1994) hypothesize that both the number and relative size of blockholdings is negatively related to an organization's level of product diversification. Whereas, where block-holding has not impeded a firm's product diversification, its divestiture activities are found to be more intense.

At this juncture, it is important to recognize the link between blockholders and buy-side information intermediaries. Many blockholders use the services of one or more buy-side information intermediaries (Bricker & Chandler, 2000). These appointments are made under mandate terms that are discretionary or subject to specific blockholder directions. The buy-side analysts act as fiduciaries to the blockholders (David et al., 1998). However, as mentioned by Core (2001), there is a lack of research on buy-side analysts, including how mandates may influence the exercise of governance mechanisms on behalf of their clients.

Context of governance portability

A further derivative approach to traditional agency theory is to recognize the power within large MNE groups to mobilize aspects of their home governance systems to overseas host locations, notwithstanding that governance systems are contextually institutionalized in each home nation-state (Cumming et al., 2017; Hall & Gingerich, 2009). For example, Aguilera et al. (2017) show how stockholder-oriented foreign investors emanating from the UK or the US have a significant impact on the management reporting practices of host sub-units and subsidiaries by imposing their own governance logics on those host entities. A similar aspect of governance portability is evidenced by the appointment of foreign directors to host sub-units and subsidiaries (Miletkov, Poulsen & Wintoki, 2017).

To summarize, it is a contested assertion that traditional agency theory is a complete theory of the firm (Jensen, 2002). It may be simple and parsimonious to focus the theory of firm on two key relationships to explain agency loss arising from separation of ownership from control. However, it is conditional on untenable theoretical assumptions (Agle et al., 2008) and on a closed-system framing (Aguilera et al., 2008) that significantly limits its application in a socially-situated context (Friedland & Alford, 1991). A more realistic assessment is that the wider the dispersion of ownership from control, the greater the trade-off between contract-like and trust-like governance systems. That is, the more emphasis is placed on contract-like models to satisfy the economic objectives of the organization, the less emphasis is placed on the mediating role of the trust-like models in corporate governance (Bratton, 2001). In essence, the real challenge is not in favouring the one model of governance over another, but in

balancing the contrasting responses (Zeitoun & Pamini, 2015) of contract-like models with the trust-like models of corporate governance.

Stakeholder Paradigm

In this section, I discuss the stakeholder framework literature only to the extent that it illuminates: who are considered to be a firm's salient stakeholders, and the level of the firm's sensitivity to public stakeholders—including in this category being host policymakers and regulators. The discussion also extends to the level of sensitivity that stakeholders—including public stakeholders—may exert in order to protect their own interests.

Qualifying stakeholders

This analysis brings us to the stakeholder paradigm. Mitchell et al. (1997) indicate that there are three relational attributes that all must all be present before management will recognize a stakeholder—these attributes being power, legitimacy and urgency. If any one relational attribute is missing the firm will not recognize a stakeholder as salient to the firm. Berman, Wicks, Kotha & Jones (1999) empirically established a strong correlation between strategic stakeholder management and corporate performance, identifying that, beyond agency relationships, employees and customers are recognized as salient stakeholders. However, in terms of intrinsic stakeholder commitment, there was no empirical evidence linking the community, diversity or natural environment as a class of salient stakeholders (Berman et al., 1999) to corporate performance.

Jawahar & McLaughlin (2001) suggest that the organization's potential to address the various needs of each of its stakeholders is dependent on what stage the MNE's life cycle is at. Applying resource dependency theory and prospect

theory, the authors hypothesize that organizations in the start-up phase adopt a 'loss frame' to organizational survival. As a consequence, the start-up will pursue a risky strategy of only addressing those issues that are immediately relevant to it and will ignore other stakeholder issues not presently posing a threat. In the emerging growth phase, the MNE is actively engaged and seeking expansion opportunities. Here, organizations adopt a 'gain frame' focal position. Under this position, the MNE pursues a risk-averse strategy of attempting to address all identifiable stakeholder issues. In this instance, Jawahar & McLaughlin (2001) observe that MNEs will proactively address issues with employees, customers and stockholders, as well as accommodating issues with creditors, trade associations, governments, communities and environmental groups.

Stakeholder responses

How do stakeholders and stakeholder groups react to their salient classification and temporal identification by the MNEs? Academic research on the stakeholder viewpoint has received less attention. Rowley & Moldoveanu (2003) adopt an interest-based perspective on stakeholder responses that may be related to the likelihood of them mobilizing in order to protect their interests. Using identity theory, the authors observe that group interests and group identities are the prime drivers of stakeholder mobilization: 'From an interest-based perspective...a stakeholder group is more likely to act when the overlapping stakeholder group has similar interests... From an identity-based perspective, however, overlapping identity...diminishes the likelihood that a stakeholder group will take action.' (Rowley & Moldoveanu, 2003 p.215)

Strategic and normative framing

Traditional agency theorists argue that stakeholder theory deflects managerial power in favour of the directors (Jensen, 2002), thereby increasing the possibility of agency loss. Recognizing the interests of stakeholders in addition to stockholders increases the business judgment power of directors. The counterargument is that directors are restrained in any event by the fiduciary obligations that they owe to the organization (Blair & Stout, 2001; Lan & Heracleous, 2010).

Traditional agency theorists also argue that stakeholder theory is not a complete theory (Jensen, 2002). One strand of stakeholder theorists emphasize its strategic focus (Freeman, 1999; Parmar et al., 2010), while, another emphasizes its normative focus (Jones & Wicks, 1999). The strategic focus provides economic justification for recognizing the broader class of stakeholders that have a 'stake' in the firm. The normative focus sets in place longer-term monitoring of the organization's sustainability and legitimacy. In stakeholder theory, it is about whether the two competing streams can be accommodated, remain divergent or accept dominance of one stream over another (Laplume, Sonpar & Litz, 2008). Arguably, the issue hinges on the trade-off dilemma. That is, the more emphasis that is given to the strategic stream, the less accommodation is made for the normative stream, and vice versa. In essence, the real challenge is balancing the contrasting responses of the strategic stream with that of the normative stream of stakeholder governance (Donaldson & Preston, 1995b).

How is the asymmetry of information problem resolved under stakeholder theory? Stakeholder theory retains the contract-like mechanism encompassing express, implied and incomplete contracts, linking the organization with persons

having a 'stake' in it (Donaldson & Preston, 1995b). That is, stakeholder theory not only recognizes owners and management as stakeholders, but a much broader class of persons having proprietary, equitable and moral interests or 'stakes' in the organization. Property and proprietary rights are recognized as a finite class (Jacobs & Getz, 1995), but for purposes of stakeholder theory, they are applied in the broader context, including equitable rights and rights in action (Smith, 2014), and legitimate expectation of having a recognizable 'stake' (Donaldson & Preston, 1995a) in the organization. For example, the process of commodification is yet another novel way of creating new property to broaden participation in financial goods and services, which is otherwise outside actors contractual capacity (Smith, 2014). On this basis, the inclusive framework of governance mechanisms incorporating voluntary disclosure, mandatory disclosure and mediation by information intermediaries (Healy & Palepu, 2001) continues to be equally valid and applicable under stakeholder theory.

Corporate Social Responsibility

In this section, I discuss the corporate social responsibility (CSR) literature only to the extent that it illuminates the normative dimensions of corporate citizenship and responsibility that influence the evaluative judgements made by stakeholders (Bitektine, 2011). The CSR literature makes explicit those elements of trust (Bratton, 2001; Woolthuis et al., 2005), ethics (Dowling, 2014; Walsh, Weber, & Margolis, 2003) and prosocial behaviours (Matten & Crane, 2005; Scherer & Palazzo, 2011) that are absent from the discourse of contract-like governance systems, but that are integral to the maintenance of legitimacy,

reputation and status of the firm (Patriotta, Gond, & Schultz, 2011; Suchman, 1995).

Scope

Academic research on corporate CSR has encouraged knowledge development in adjacent social science domains, such as stakeholder theory (Barnett, 2007), corporate citizenship (Matten & Crane, 2005), corporate social performance (Berman et al., 1999) and, more broadly, in a range of disclosure tools (Cooper & Owen, 2007; Roberts, 1992) and databases used by information intermediaries and investors alike (Johnson & Greening, 1999).

Traditional agency theory addresses two of the four definitional components raised by Carroll (1979). According to Friedman (1970), the first and fundamental CSR responsibility of an organization is the carrying on of a profit-making enterprise, creating employment and satisfying customer needs. The second is complying with the applicable laws from nation-state to nation-state (Matten & Moon, 2008). Traditional agency theory explicitly excludes the ethical and the discretionary elements of CSR (Agle et al., 2008; Carroll, 1979). (Friedman, 1970) argues that admitting responsibility for the ethical and the discretionary is tantamount to granting taxation rights to the board. Since the board is not democratically representing the electors' wishes, they should not be granted such distributive powers.

On the other hand, legal agency theory and stakeholder theory do incorporate responsibilities for the ethical (Donaldson & Preston, 1995b) and for the discretionary (Wang & Qian, 2011). The instrumental or strategic stream of stakeholder theory does empirically demonstrate the positive impact of corporate financial performance (Aguilera, Rupp, Williams & Ganapathi, 2007; Walsh,

Weber & Margolis, 2003). In order to distinguish and better assess the impact of CSR on performance, Barnett (2007) indicates the need to re-categorize corporate resource allocations. Specifically, the following three non-qualifying categories should be excluded from CSR—the agency loss activities arising from unrelated corporate philanthropy; the outgoings made to ‘direct influence tactics’ on political lobbying and campaign endorsements; and the outgoings incurred on process improvement efforts, such as waste reduction or energy conservation.

Impact of ownership types

The composition of investor ownership types has a significant bearing on how MNEs engage in CSR commitments. Johnson & Greening (1999) empirically established a positive correlation between pension fund investment stockholdings—the commitment of those firms in their people and product quality dimensions—and the corporate social performance (CSP) of those firms. In contrast to the pension fund findings, Johnson & Greening (1999) identified no correlation between mutual funds and investment banks and the CSP of the firms these institutional investors had invested in. The authors inconclusive findings on the mutual funds and investment banks accord with earlier findings by David et al. (1998), identifying these institutional investors as the pressure-indeterminate institutional class.

Antecedent stakeholder motives on CSR

Aguilera et al. (2007) indicate that there are three core motives for stakeholders pressuring organizations to engage in CSR. Instrumental motives reflect stakeholder self-interest, relational motives concern relationships among members and moral motives indicate how stakeholders should conform to ethical standards and moral principles. The authors argue that under the Anglo-American

short-termism model stockholders will have instrumental motives when pressurizing firms to engage in CSR to further a firm's competitiveness and reputation.

Stakeholders will have relational motives when pressurizing contract-like model firms to conform to industry norms, beliefs and values in order to preserve the firm's social legitimacy (Aguilera et al., 2007). Stakeholders will have moral motives when embracing stewardship interests beyond the economic to include personal morality-based values. The authors hypothesize that top management teams prioritize their ordering of motives differently to other stakeholder classes. Top management teams will act from instrumental motives followed by relational and then moral motives, whereas, external stakeholder classes, like consumers, will prioritize moral motives followed by relational and instrumental motives (Aguilera et al., 2007).

Governments of advanced nation-states (Grant, 1991; Makino, Isobe & Chan, 2004) have instrumental motives for encouraging economic growth by establishing competitive domestic markets and by supporting international economic activity (Aguilera et al., 2007; Vallentin & Murillo, 2011). Governments also have relational motives for promoting CSR for social cohesion purposes (Aaronson, 2003), and moral motives to encourage CSR for collective nation-state responsibilities. The authors indicate that, 'Governments will advance CSR policies when they see instrumental value promoting business competitiveness' (Aguilera et al., 2007 p.850). The priority ordering of motives by governments is not as critical as their compensatory role. Governments enact the compensatory role in promoting CSR regulatory intervention (Steurer, 2010;

Vallentin & Murillo, 2011) when deficiencies emerge in economic growth, social cohesion or collective responsibility.

At a transnational level, it is relevant to distinguish inter-governmental organizations (IGOs), such as the EU and OECD, business interest groups like GRI, IFRS and IIRC, and non-governmental organizations (NGOs) from other types of organizations. Aguilera et al. (2007) hypothesize that IGOs will push CSR to promote competition, social cohesion and collective responsibility. Conversely, NGOs will push for CSR for relational motives to secure social cohesion and for moral motives of altruism (Aguilera et al., 2007).

Conclusion

The separation of asset ownership from control is not merely an issue of agency loss, as convincingly measured under a 'closed system' economic model (Dalton et al., 2007). Jensen (2002) himself acknowledged some three decades on from his 1976 landmark paper that an enlightened value maximization approach requires trade-offs. Bratton (2001) indicates that those trade-offs involve a careful balancing of the contract-like model and trust-like model attributes in protecting proprietary interests (Donaldson & Preston, 1995a) and, more generally, extending them to participants with legitimate expectations and a 'stake' in the corporations' activities. Where greater emphasis is given to the contract-like model, due weight will be given to the economic responsibility of the firm (Carroll, 1979) and there will be minimum compliance with legal responsibilities (McGee, 1991). On the other hand, where greater emphasis is given to the trust-like model, due weight will be given to a broader set of responsibilities (Freeman, 1999).

What emerges from this analysis of the trade-off in contract-like and trust-like governance systems is that stockholder-primacy governance logic is not designed to detect or minimize the base erosion problem. Under the stockholder-primacy logic accountability is framed by the deeply-embedded meaning of the user (Pelger, 2016; Young, 2006) of MNE corporate reports. Thus, where the cultural context of host location, such as the UK is inculcated in stockholder-primacy logic, it is more likely that the base erosion problem is prevalent. The empirical findings of Jones & Temouri (2016) associating varieties of capitalism in MNEs' home location with the level of technology, inter-group tax haven entities and incidence of legal tax avoidance bears this out.

In the next chapter, I will describe the various modes of internationalizing by MNEs to illuminate the firms' view on their value-creating frameworks. I will explain how the base erosion phenomenon is inextricably linked with the MNEs' processes of internationalization and their value-creation frameworks, drawing on transaction cost economics and organizational capabilities.

Chapter 3 – Internationalization Process of MNEs: Building on the Value-Creation Frameworks

Introduction

In this chapter, I will identify the various modes of internationalizing (Johanson & Vahlne, 1977, 2009) by MNEs across overseas host locations to explicate the firms' views on their value-creating frameworks (Forsgren, 2013b; Teece, Pisano & Shuen, 1997). The base erosion phenomenon (Biscontri, Ng & Yuen, 2001; Dharmapala, 2014) is inextricably linked with the MNEs' processes of internationalizing across overseas host locations and their valuation practices (Espeland & Lom, 2015; Kornberger, 2017).

As the research focus of my empirical data—that incorporates evidence given by the MNEs, Amazon, Google and Starbucks, at the PAC-UK (2012) and PAC-UK (2013) hearings with UK host policymakers—is about a public stakeholders' perspective on the distributive fairness of value-creation across host locations, my literature review in this chapter will concern: (a) value-creation emerging from internationalization; (b) the processes involved in traditional and accelerated modes of internationalizing; (c) the talk of business model frames by firms communicating their value-creation strategy to stakeholders; (d) the role of HQs and subsidiaries in the value-creation framework; and (e) the organizing views on changing the order of worth of economic transactions across borders.

Internationalization Modes

Traditional incremental market entry

There is more than one pattern and process that explains how MNEs internationalize. The traditional incremental market entry mode of internationalizing is explained by Johanson & Vahlne (1977 p.23) as ‘a process in which firms gradually increase their international involvement’. The reason for the staged entry into host markets is to provide time for the firm to assimilate knowledge (Welch, Nummela & Liesch, 2016) about host markets and develop capabilities to operate efficiently in those foreign markets. MNEs lack knowledge about foreign markets and foreign operations, and it takes time for firms to assimilate sufficient experiential knowledge to cope with the liability of foreignness (Leiblein, 2002; Zaheer, 1995). There are also multiple dimensions of distance for MNEs from their home markets, whether it be in the form of cultural distance (Shenkar, 2001), geographical distance (Beugelsdijk & Mudambi, 2013) or psychic distance (O’Grady & Lane, 1996).

Under the traditional incremental market entry mode of internationalizing, firms progress from exporting to licensing agents, appointing distributors, establishing sales subsidiaries and eventually committing to foreign direct investment. The sequence and form of outward foreign direct investment (FDI) is heterogeneous, depending on firm-specific advantages. The form of outward FDI deployed by MNEs may be to engage in research and development (Almeida & Phene, 2004), non-equity alliance and partnering (Reuer & Devarakonda, 2016; Zollo, Reuer & Singh, 2002), or to commence their own production facilities in the host location (Andersen, 1993; Johanson & Vahlne, 1977, 2009;

Melin, 1992) or to engage in trade and provision of services from a fixed base situated in the host location.

Exporting and engaging in trade with customers beyond home headquarters of the MNE's nation-state is the first step in the internationalization process. Exporting behaviour is not homogenous. Cavusgil (1984) identifies three specific types of exporters, whose categorization is relevant for policymakers—they are the experimental exporters, the active exporters and the committed exporters. The experimental exporters demonstrate little commitment to developing overseas markets. The active exporters adapt products for overseas customers and access unused firm capacity to support their export initiatives. The committed exporters represent the final stage in the evolution of the exporting process, where the firm searches not only for regional but also global opportunities for exporting and assesses overseas opportunities for sourcing, licensing, distribution arrangements and, ultimately, outward foreign direct investment. More recently, Bernini, Du & Love (2016) have explained the phenomenon of the intermittent exporter, representing the exporter who opportunistically takes up exporting when the demand in foreign markets is relatively higher than that of their domestic markets. Upon the reversal of market positions, these intermittent exporters exit their exporting phase—but this is a phenomenon that is more commonly associated with small to medium enterprises.

Foreign direct investment represents an advanced stage of commitment in the internationalization process of a firm. However, stockholders do not necessarily value all forms of foreign direct investment equally. Based on a data set of 191 US manufacturing MNEs and their foreign investment commitments over a 20-year period (1981–2000), Berry (2006) shows that foreign direct investment into

developing countries is riskier than into advanced economies. The implications for valuation practice is that stockholders will only approve of that path of internationalization once the MNE can demonstrate the experience and organizational capabilities to manage those higher levels of risk and uncertainty. This result on stockholder acceptability of new market risk is more significant for knowledge-intensive industries than for low-level knowledge-intensive industries. The exporting and foreign direct investment stages of internationalizing are not necessarily mutually exclusive. Lee & Makhija (2009), using a data set comprising Korean MNE firms, show that MNEs flexibly committed to both exporting and foreign direct investment have improved their performance stability in times of economic crisis.

International new ventures

Under the accelerated mode of internationalizing, otherwise referred to as ‘born-global’ firms (Knight & Cavusgil, 2004; Oviatt & McDougall, 1994), which is an alternative to the traditional incremental mode of market entry, the particular features of time and space in organizing assume prominence. Whereas the traditional staged mode of internationalizing posits that firms internationalize later in their development, Autio, Sapienza & Almeida (2000) observe that entrepreneurial high-technology firms both start to internationalize earlier and progress more rapidly in the course of internationalizing. Younger firms are more adaptive in the formative stages of their organizational learning (Autio et al., 2000; Cyert & March, 1992). As younger firms internationalize earlier, they develop a culture that is more accepting of the challenges forced upon them (Autio et al., 2000; Penrose, 1980), such as coping with the liability of foreignness

(Leiblein, 2002; Zaheer, 1995), or with the liability of outsidership (Brouthers, Geisser & Rothlauf, 2015; Johanson & Vahlne, 2009).

The data set used by Autio et al. (2000) to measure the impact of the pace and speed features of the accelerated mode of internationalizing was based on export sales or international sales as reported by Finnish public companies in the period 1992 to 1997, relative to total firm sales and relative to annual growth as the dependent variables. The independent variables were the age of the firm when those firms commenced exporting, indicating that it took, on average, five and half years from firm setup to commence exporting, and the mean age of the firms, which, on average had been 15 years since setup. Interestingly, just over 20 percent of the firms in the dataset had commenced exporting in the first year of their operations. Notwithstanding the traditional staged process mode indicating an incremental progression to foreign market entry, the internationalization literature recognizes that there is no strict sequence of stages, but rather there is a rationalized order to particular patterns of internationalizing, such as those that are distinguishable by time, speed and context (Andersen, 1993; Bernini et al., 2016; Casillas & Acedo, 2013).

Business model frames

Host corporate governance regulators have been encouraging MNEs to communicate with their stakeholders about how they create value through the mode of their business model frames (Financial Reporting Council, 2014). The discussion that follows, addresses: the emergence of discourse on business model talk; and the association of business model talk with value creation within the ubiquity of the digitalized economy.

Closely allied to the mode of accelerated internationalization and the emergence of the born-global firms or international new ventures was the emergence of the cultural talk about business model frames (Ghaziani & Ventresca, 2005; Lounsbury & Glynn, 2001). The authors' findings showed that 'Nearly 70% of public talk concerning business models occurs after 1995, suggesting an association between a cultural change and increased public talk about keywords' (Ghaziani & Ventresca, 2005 p.543). The advent of the digital economy and e-commerce (Castells, 2002, 2010; Santos & Eisenhardt, 2009) is embodied in the increase use of business model talk.

E-businesses (Amit & Zott, 2001; Zott et al., 2011), I-businesses (Brouthers et al., 2015) and, more generally, cloud computing forms of business models (OECD, 2014a pp.80-81; Zubeldia, 2016), such as infrastructure-as-a-service or software-as-a-service, are examples of entrepreneurial firms adopting accelerated modes of internationalization or as distinctive new international ventures. E-business models cover a diverse range of activities, from mere electronic ordering and physical delivery, to complete electronic engagement between supplier and recipient.

For the purposes of measuring the impact of information technology, the OECD defines e-commerce transactions broadly as: 'the sale or purchase of goods or services, conducted over computer networks by methods specifically designed for the purpose of receiving or placing orders. The goods or services are ordered by those methods, but the payment and the ultimate delivery of the goods or services do not have to be conducted online. An e-commerce transaction can be between enterprises, households, individuals, governments, and other public or private organizations.' (OECD, 2011 p.72). Amit & Zott (2001 p.494) observe

that e-commerce businesses create value not merely from the design of their supply chains, but more specifically from four interrelated value drivers of ‘novelty, lock-in, complementarity and efficiency’.

It is helpful to state here what business model frames are not. Business model frames are not: business process flowcharts, product market strategies, revenue/cost structures, firm corporate strategies, network structures or internal control and monitoring systems (Osterwalder et al., 2005; Zott et al., 2011). Rather it is a new unit of analysis that bridges traditional value-creation frameworks and offers a holistic perspective of business value-creating logics, without the constraints of stockholder-primacy logics, corporate group structure or specificity to corporate disclosure reporting requirements (De Villiers, Rinaldi & Unerman, 2014; Van Bommel, 2014; Zott et al., 2011).

Firm View of its Value-Creation Frameworks

In this section, I discuss: the concept of value generally, as considered in strategy literature; the correlation of firm multinationality with corporate performance; and the value-creating role of home HQs and host subsidiaries that may be supported by subnational insidership networks—see Table 3.1 as an overview of MNE value-creation frameworks.

Table 3.1 – Table on MNE value-creation frameworks

Concepts	Theoretical lens	Articles
<i>Value in strategy</i>	Value strategy as value practices	Kornberger, (2017)
	Processes, resources and dynamic capabilities as building blocks	Teece, (2014)

	Dichotomy of use value and exchange value	Bowman & Ambrosini, (2000)
	Internalized and externalized elements	Garcia-Castro & Aguilera, (2015)
<i>Internationalization and performance</i>	Positive correlation to multinationality	Contractor et. al., (2003)
	Summative versus progressive incremental value returns	Contractor (2007); Hennart (2007)
<i>Headquarters and parenting</i>	Entrepreneurial versus administrative or loss-preventing roles	Chandler, (1991)
	Typology & capabilities in value-creating roles	Goold et al., (1994); Foss (1997)
<i>Internal firm markets</i>	Functional categories of internal firm markets	Rugman, (2006a,b&c);
	Insourcing and outsourcing decisions	Leibein, (2002); Mayer & Salomon, (2006)
<i>Subsidiaries and intermediate units</i>	Multiplicity of FDI motives	Birkinshaw & Hood, (1998); Rugman & Verbeke, (2001)
	Resource allocation and distributed management mandates	Chakravarty et. al., (2017)

<i>Subnational networks</i>	Managing liability of foreignness	Cantwell et. al., (2010); Monaghan et. al., (2014)
	Attraction of preferential fiscal regimes	Arginelli, (2015); Evers et. al., (2014)

Concept of value in strategy literature

Kornberger (2017 p.2) observes that: ‘if strategy is concerned with the creation of value; and if value is the correlate of valuation practices; then it follows that strategy has to be understood in relation to valuation practices’. In order to understand how organizations create value (Lepak, Smith & Taylor, 2007) and capture value (Becerra, 2008; Pitelis, 2009), it is necessary to examine the MNEs’ processes in creating and capturing value. Resource-based view theory (Barney, 1991; Forsgren, 2013b; Wernerfelt, 1984) provides the foundation for an understanding of MNEs’ capabilities in creating and capturing value.

Teece (2014) describes the core building blocks in MNEs’ value-creation frameworks as being its processes, its resources (position), and its ordinary and dynamic capabilities (path) in orchestrating its processes and resources (Sirmon, Hitt & Ireland, 2007). Bowman & Ambrosini (2000) use the classical economic dichotomy of use value and exchange value to explicate how use value is created and augmented within the firm’s organizing capabilities, whilst exchange value reflects the incremental crystallization or realization of value as goods, services or things moved through the subsidiaries, intermediate units and subunits of the MNE group.

Use value has both an internalized element and an externalized element of co-value creation. The internalized element emerges from firms working on acquired use value in goods, services and things, and, creating new use value, by using the firm's existing resource capabilities (Bowman & Ambrosini, 2000). The externalized element emerges from customers and other stakeholders perceived worth in those goods or services acquired for their own particular needs (Garcia-Castro & Aguilera, 2015; Gronroos, 2008). A particular application of value-in-use practice occurs when firms assess the fair carrying value of their intangible assets, such as goodwill (Huikku, Mouritsen & Silvola, 2017).

Internationalization and corporate performance

Academic research has established that there is a positive correlation between the extent of a firm's multinationality and the group's financial performance (Contractor et al., 2003). Reconciling prior findings, Contractor et al. (2003 p.7) express the correlation as a 'three-stage theory of international expansion': early internationalizers experience an initial negative correlation; mid-stage internationalizers regain a strong positive correlation; and in certain circumstances some over-internationalized firms experience a degree of negative correlation. Although the third stage has not been identified in manufacturing businesses, it can appear in the case of high-technology businesses (Contractor et al., 2003).

Hennart (2007) questions whether the positive correlation to a firm's financial performance is attributable jointly to economies of scale, flexibility in reconfiguring the group and adaptability in the experiential learning process, or whether it is merely a summative outcome of firm growth that may also be achievable within the home location. Contractor (2007) explains that the

internationalization process captures more than mere summative outcomes; progressively, it also captures incremental returns. This is achieved cumulatively: ‘(1) as an exploiter of internalized capabilities, (2) as a learning organization absorbing knowledge from abroad, and (3) as a coordinator and arbitrageur across national borders’ (Contractor, 2007 p.460) by progressively capturing incremental returns.

Role of home headquarters and parenting

The role of the home HQs of the MNE group encompasses both the entrepreneurial value-creating functions as well as the administrative coordinating or loss-preventing functions (Chandler, 1991). In its value-creating role, the home HQ is responsible (Bartlett & Ghoshal, 1993; Chandler, 1991) for setting and managing the MNE’s group strategy by deploying its group’s resources, developing its organizational capabilities and implementing processes to coordinate the deployment of its resources and organizational capabilities. In its administrative role, the home HQ is responsible for implementing information reporting systems, budgeting and financial control, setting processes of delegation and monitoring, and assuming the mediator role with government agencies and other public bodies (Chandler, 1991).

The home HQ can create value, but can also destroy value (Goold, Campbell & Alexander, 1994). Academic research indicates that value can be more readily destroyed by stand-alone parenting decisions than by the costs of maintaining its administrative function. However, in contrast stand-alone parenting decisions can create value, such as in the areas of strategy reviews, capital investment decisions, the appointment of general management to subsidiaries, intermediate units and subunits of the group (Goold et al., 1994). Foss (1997) emphasizes the importance

of the organizational capabilities of the home headquarters in its parenting role. These organizational capabilities (Forsgren, 2013a, b) consist of its ability to create and augment its internal capital markets (Bowe, Filatotchev & Marshall, 2010; Nguyen & Rugman, 2015), its internal know-how markets (Chen, 2005; Rugman, 2006a) and to exploit its economies of scope through the functions of knowledge-direction and flexibility.

Developing internal firm markets

The efficiency gains that MNE headquarters derive from developing their internal markets, whether for group treasury facilities (Rugman, 2006b), group research and development or know-how transfers (Rugman, 2006c) are explicated by transaction cost theory (Coase, 1937; Forsgren, 2013a; Williamson, 1991). However, the sustainable competitive advantages or firm specific advantages that MNE headquarters achieve through organizational capabilities in coordinating these internal markets are explicated by the value-creation frameworks and resource-based theory (Kogut & Zander, 1992; Rugman & Verbeke, 2002; Teece, 2014).

The MNE headquarters creates value not only from its value-creating role and its administrative-coordinating role, but also from the manner in which it embeds itself in the host location markets of its subsidiaries, intermediate units and subunits. Nel & Ambos (2013) indicate that MNE headquarters embed themselves in host locations with varying degrees of commitment. That is, instead of merely relying on internal information processing by the firm, MNE headquarters may also engage in external relationship-building in host locations jointly with their subsidiaries (Nel & Ambos, 2013), and, where undertaken,

empirical evidence supports the value-creating impact for the embedded host subsidiaries.

As part of the process of developing their own internal markets, MNEs make decisions about the insourcing or outsourcing of constituent parts of their group tasks and activities motivated by both efficiency (Williamson, 1991) and level of their capabilities (Mayer & Salomon, 2006). Besides transaction attributes, contractual hazards and asset specificity, Leiblein (2002) explicates that because of the heterogeneity of transaction attributes, the level of technological performance (Teece, 1996) achieved is dependent on the fit between governance mode choice and firm capabilities. Keeping transaction attributes constant, Mayer & Salomon (2006 p.955) show that firms with technological capabilities have easier ways 'to monitor, contract with, and manage contractors' and generally have more options, both internally and externally to deal with contractual hazards. That is, firms are 'more likely to use the market in the presence of hold-up hazards but are more likely to internalize transactions in the presence of other hazards'(Mayer & Salomon, 2006 p.955).

Role of host subsidiaries, intermediate units and subunits

The overseas host units of MNEs take on a multiplicity of alternative structural forms, whether as subsidiaries, intermediate units or subunits with broad or narrow charters (Birkinshaw & Hood, 1998) or with location-bound or non location-bound firm specific advantages (Rugman & Verbeke, 2001), with a variety of motives, such as efficiency seeking, market seeking, resources seeking, regulatory-capture seeking, geopolitics seeking, or even secrecy seeking. In all these alternative structural forms, the host unit is viewed as a 'value-adding entity in the host country' (Birkinshaw & Hood, 1998 p.774), subject to varying degrees

of value-added that are dependent on its processes, position and path (Teece et al., 1997) and the valuation practices (Kornberger, 2017) deployed across the host locations.

Besides the internalization of markets within MNE groups for capital and treasury functions, and the internalization of markets for research development and know-how positioning and group licensing, the internalization of regional management mandates to intermediate units (Chakravarty, Hsieh, Schotter & Beamish, 2017) is also becoming more prevalent. The authors distinguish those intermediate units as: regional headquarters (RHQs) that carry out coordination and supporting roles on behalf of the MNE headquarters; regional management mandate units (RMMs) that prioritize operations in the region; and regional holding companies that are primarily set up inter-group for corporate taxation purposes (the latter regional holding companies thereafter excluded from their analysis). Chakravarty et al. (2017) find that there is a higher proportion of RHQs and RMMs relative to subsidiaries within the European Union (EU) and North America than in Asia; that RHQs tend to be wholly-owned while RMMs because they are also regional operating units they are majority-owned, with a small equity share held by regional joint venture participants; and that RMM earnings tend to be more reflective of entrepreneurial risk assumed than the RHQs.

Host subnational insidership networks

In defence of the Uppsala model of internationalization, Johanson & Vahlne (2009) highlight that insidership in cross-border business networks is one of the common features of successful foreign market entry, whether viewed as a traditional or an accelerated mode of MNE internationalization (Welch et al., 2016). Not only is insidership in business networks important to host market

entry, so are the host subnational-level networks (Cantwell, Dunning & Lundan, 2010; Monaghan, Gunnigle & Lavelle, 2014). Contextually, host institutions are able to reduce the extent of the uncertainties that MNEs face when entering new markets.

Using the empirical setting of Ireland, Monaghan et al. (2014) showed that inward foreign direct investment is accelerated when subnational institutions develop insidership network coalitions in order to facilitate the market entry of foreign-headquartered MNEs. Monaghan et al. (2014 p.145) explained that ‘subnational offices of the national inward investment agency typically act as the fundamental coordinator and driver of customized coalitions...responsible for enlisting other institutions to constitute the national consortium for inward investors’. Preferably, subnational insider networks should pursue a social corporatist collective agency perspective (Spencer, Murtha & Lenway, 2005) rather than a liberal pluralist perspective as a means of encouraging new industry creation that supports both domestic and inward foreign direct investment.

Insidership coalition networks also promote to foreign-headquartered MNEs the attractiveness of host location preferential fiscal regimes (Arginelli, 2015; OECD, 2015c), such as intellectual patent box regimes (Evers, Miller & Spengel, 2014), that are aimed at increasing investment in innovative activities and attracting mobile capital resources to host locations (Miller & Pope, 2015). The desired outcomes for these preferential fiscal regimes are not always as was originally intended. Possible harms or unintended outcomes for the host location include not capturing the value created from innovative activities performed in host locations (Evers et al., 2014), giving an inference of favouring inward

foreign direct investment, or not redressing the environmental impact of abandoned facilities on MNE exit (Killian, 2006).

Transfer Pricing Organizing Views

There are different organizational perspectives on internal transfer pricing decisions and practices (Colbert & Spicer, 1995; Swieringa & Waterhouse, 1982). Swieringa & Waterhouse (1982 p.150) examined transfer pricing decisions through the lenses of, ‘the Cyert & March (1963) behavioural theory of the firm model, the Cohen & March (1974) garbage can model, the Weick (1969,1979) organizing model and the Williamson (1975a, 1975b) markets and hierarchies model’. The purpose of examining these internal transfer pricing decisions through the lens of the alternative organizing models is, as stated by the authors, to illuminate ‘different images [that] allow us to perceive things differently’ (Swieringa & Waterhouse, 1982 p.152).

In essence, Cyert & March’s behavioural model explains how pricing is used in the bargaining process between MNE home headquarters and its intermediate units and subunits, ensuring contractual commitment and thereby avoiding uncertainty. The garbage can model shows that transfer pricing decisions provide choice opportunities for solutions to particular problems, while Weick’s organizing model explains how transfer pricing decisions are legitimated through cyclical process of enactment, selection and retention. Williamson’s markets and hierarchies model explains how transfer pricing mediates between transactions that should be internalized and those that should be supplied by markets, acknowledging the behavioural implications of bounded rationality and opportunistic social actors. Other than emphasizing the constraining effects of

transfer pricing regulation (Cools, Emmanuel & Jorissen, 2008) and possible alternatives to the arm's length pricing principles (Avi-Yonah & Benshalom, 2011; Martini, Nieman & Simons, 2012), there has been little further development of the organizational perspectives on transfer pricing.

From an international tax policy perspective on transfer pricing, Dischinger & Riedel (2010) indicate that host locations are more likely to be impacted by the base erosion phenomenon than home-headquartered locations of MNEs. That is, empirical evidence indicates there is a bias in favour of the home headquarters. Where the corporate tax rate prevailing in the home headquarters is lower than in overseas host intermediate units and subunits, there is empirical evidence of MNEs shifting their activities, whereas where prevailing corporate tax rates in the home-headquartered locations are higher than in host locations there is no discernible evidence of MNEs shifting their activities away from the home headquarters (Cools et al., 2008; Dischinger & Riedel, 2010). On the other hand, where MNE groups include tax haven subsidiaries, intermediate units or subunits within the overseas host locations, there is empirical evidence of MNEs achieving a reduced effective corporate tax rate across its overseas host locations (Jones & Temouri, 2016; Maffini, 2009).

In addition, the more bilateral tax treaties that are entered into between nation-states for the avoidance of double taxation, the greater is there the opportunity for MNEs to engage in the reconfiguration their transactions and economic activities across multiple borders in order to engage in treaty-shopping arrangements. Arel-Bundock (2017 p.351) observes that 'by using bilateralism to solve a coordination problem, states have inadvertently created opportunities for treaty shopping by

multinationals... When capital is mobile and firms engage in treaty shopping, bilateral agreements produce spillovers and have unintended consequences’.

There are two key concepts that guide international tax convention on transfer pricing (OECD, 2010): the permanent establishment concept (Vann, 2010) and the arm’s length principle (Eden, Dacin & Wan, 2001). The OECD model convention provides a precedent for nation-states to use when negotiating and interpreting bilateral double tax avoidance treaties. In the context of internalization, as firms progressively engage in international trade, from the initial stage of exporting through to a more engaged commitment in foreign direct investment, once the threshold of the permanent establishment is reached in the host location, the bilateral treaties grant taxing rights to the host location and grant relief from double taxation to the home location. Firstly, by virtue of the fictional nature (Vann, 2010) of the permanent establishment concept in the law, with its deemed inclusions and exclusions, unintended outcomes may arise, for example, in the configuration of boundaries for activities deemed in or outside the permanent establishment concept. Secondly, through the use of the arm’s length principle (Eden et al., 2001) in measuring the value of transactions between related parties, the subject of the value practices is not the holistic view of the firm but rather the fiction of closed market settings (Avi-Yonah, Clausing & Durst, 2008). On January 20, 2014 the *Financial Times* reported:

High-tech companies have become the focus of political criticism over their aggressive tax planning, with British MPs attacking UK tax avoidance by Amazon and Google as “immoral”... John Lewis has warned of companies such as Amazon “destroying the UK tax base” by out-trading its competitors,

Britain collected just £54m in corporate tax in 2012 from seven US high-tech businesses with aggregate sales of over \$15bn. (Houlder, 2014)

Gap in the Value-Creation Literature

Whereas extant literature provides a coherent bricolage on the related concepts that theorize about the MNE's value-creation frameworks—from value in strategy, internationalization and performance, the role of HQs and parenting, internal firm markets, the role of subsidiaries and their intermediate units to the subnational insidership networks across host locations—there has been little research on value creation from a public stakeholder level of analysis. The gap in the literature is in understanding how host policymakers make sense of value-creation and value-capture processes that MNEs engage in beyond the home HQs.

Conclusion

In this chapter, I developed the firm view on value-creation frameworks by explicating the role of parenting by the home MNE HQs, the evolution of MNEs' internal markets for deployment of their capital resources, engagement in research and development and in transfer of their know-how capabilities and the devolution of power to foreign intermediate units, subsidiaries and subunits to coordinate their activities regionally and globally. To give context to the internationalizing process, I explicated how subnational insidership networks provide the institutional setting that facilitates and incentivizes the entry of foreign-HQ MNEs into overseas host locations. Whereas Porter understated the importance of the role of government in international business (Carter, Clegg & Kornberger, 2008; Narula, 1993), institutional theorists have emphasized the decisive role that government has in shaping competition, international business

and host location economic prosperity (Cantwell et al., 2010; Monaghan et al., 2014).

As the base erosion phenomenon inextricably links internationalization and transfer pricing, this thesis brought together the literature on the organizing views of transfer pricing with what we know about base erosion and the international tax convention concepts of permanent establishment and arm's length principle. The analysis of my findings in Chapter 6 will explicate a public stakeholders' perspective to MNE value-creation and appropriation across host locations.

In the next chapter, I will indicate how social problems emerge, distinguishing between problem emergence through routine monitoring indicators and the intervention of transforming or focusing events. I will explicate how host policymakers use a public deliberative process to inform citizens and social movements of the construct of less visible problems and gain legitimacy in setting the public policy agenda.

Chapter 4 – Legitimacy in Setting Public Policy Agenda

Introduction

In this Chapter 4, I will explicate how social problems emerge, how social problems translate into public policy problems, how focusing events have a transformative role and how a public deliberative process democratizes the social movement in social problem framing.

As the research focus of my empirical data is about a public stakeholders' perspective on the distributive fairness of MNE value-creation frameworks across host locations, my literature review in this chapter will concern: (a) the process and typology of social judgements; (b) how social judgements are mobilized by public stakeholders affecting organizational legitimacy; (c) distinguishing particular forms of fairness in judgements; and (d) giving context to the public policy domains of corporate reporting and taxation.

Agenda Setting

In this section, I discuss extant literature on the key features in the stages of public policy process concerning: (a) how social problems emerge; (b) what distinguishes routine and focusing or transforming events; (c) the use of a public deliberative process by public stakeholders; and (d) the unpredictability in the convergence of the problems, policies and politics streams.

Problem emergence

It was Blumer (1971) in his seminal paper who explicated the sociologically emergent nature of problem definition. Social problems do not exist

independently as objective social conditions that are waiting to be placed on a public policy agenda (Blumer, 1971; Coburn, 2006; Kingdon, 2011). Social problems become apparent through the audience giving perspective to the conditions, through collective evaluation giving legitimacy, and in the mobilization of stakeholder action (Benford & Snow, 2000; Blumer, 1971).

Social problems become political problems once they enter the political sphere (Kingdon, 2011; Oberg & Uba, 2014). The most common way for these problems to get onto political agendas is through systemic indicators (Nistotskaya & Cingolani, 2016; Weick & Sutcliffe, 2015), such as economic indices, annual fiscal budgets, current account and capital account movements, rates of unemployment, general price indices, consumer-confidence indicators, levels of foreign direct investment and work performed on those indicators (Farazmand, 2009; Ferraro, Pfeffer & Sutton, 2005). Nation-states are concerned with the economic and social wellbeing of their citizens and general matters affecting economic growth thereby take on greater significance to nation-states (Cobb, 2016; Moran & Ghosal, 1999; Suzuki, 2003).

There are a number of additional vehicles for the routine monitoring of systemic indicators, including the role played by government bureaucracy and government agencies, public/private interest intermediaries (Dubnick & Frederickson, 2009; McCaffrey, Smith & Martinez-Moyano, 2007), the media (Aerts & Cormier, 2009), social movements (Benford & Snow, 2000), protest activism (Wouters & Walgrave, 2017), internet activism (Luo et al., 2016), or academic advocacy on grand societal challenges (Ferraro & Etzion, 2015) or matters of a more routine nature affecting individuals, organizations and society. The results of these reports, submissions, protests or other forms of stakeholder

activism may also identify problems that governments should add to the public policy agenda.

An example of stakeholder activism, taking the form of a submission, is the George Bompas QC Opinion (2013) that was prepared on behalf of the Local Authority Pension Fund Forum (LAPFF), the UK Shareholders' Association and other associated investor group actors (LAPFF Associations) and lodged with the Financial Reporting Council (UK) in August 2014. This submission, together with its supporting legal opinion, questioned whether an emphasis on neutrality over prudence in international standards of accounting principles was jeopardizing the 'true and fair' view as perceived by the LAPFF Associations. More specifically, the LAPFF Associations expressed concern that mere compliance with International Financial Reporting Standards (IFRS) would give sufficient recognition to the capital maintenance principles and to the disclosure obligations on distributable reserves as implied in UK's Company Law and Regulations. Notwithstanding that the international accounting principles were silent on this issue (Bouvier, 2015), the LAPFF Associations wanted an express assurance from the UK government agency that the 'true and fair' overriding disclosure principle should not be compromised by the socially-constructed legitimacy embodied in the IFRS standards alone.

Social problems that enter the political sphere through the monitoring indicator route or, through studies or submissions, are either discarded or remedied through a process of incrementalism (Hill, 2009; Lindblom, 1959). Lindblom (1979) describes this process that may be simple or disjointed, as a process involving limited comparisons exercised at successive intervals. That is to say, because of our bounded rationality (Simon, 1991), social actors including policymakers cope

cognitively by comparing a limited set of choices at a particular time exercised on a successive iterative basis (Hill, 2009; Lindblom, 1979). In this way changes can be made to laws and regulations on a test and evaluation basis, thus supporting the continuity of a stable environment.

Focusing events

A less common way for problems to get onto political agendas is through the sudden intervention of focusing or transforming events, such as a crisis (Kingdon, 2011) or a disaster (Birkland, 1998). A crisis or disaster draws attention to preexisting conditions or features of an emergent problem. Not only is such an event sudden and relatively uncommon, but Birkland (1998 p.54) also observes that it ‘can be reasonably defined as harmful or revealing the possibility of potentially greater future harms...concentrated in particular geographical area or community of interest...known to policymakers and the public simultaneously’.

Why is it that some problems remain undetected for some time before the onset of a crisis or a disaster? Kingdon (2011) compared problems that emerged from his research on health and transportation issues. He observed that a significantly greater proportion of transportation problems emerged from a crisis than was the case for health problems. He hypothesized that the reason for this outcome is that the transportation domain is materially less visible than the health domain. The implication is that focusing events are more likely to detect problems that may subsist in less visible sectors of the economy or society. One isolated focusing event is unlikely on its own to adequately frame the problem. However, when a crisis or disaster is followed by another crisis or disaster, then the recurrence of a similar type of event will assist in defining the problem (Kingdon, 2011). Likewise, the aggregation of disasters is also likely to have the same result.

Kingdon (2011) cites the DC-10 crash in Chicago in 1979 and the mid-air collision over San Diego as an example of the aggregation of disasters.

A common factor that can also explain both long periods of stability followed by short periods of rapid change in policy is a drastic disruption to shared beliefs and values (Baumgartner & Jones, 1991). That is, the underlying interaction of shared beliefs and values is common to both long periods of stability and short periods of rapid change. The short periods of rapid change are associated with contested divergence in the interaction of those shared beliefs and values. Baumgartner & Jones (1991) use the economic crisis of the 1970s to show how many of the narrow-interest policy subsystems or communities collapsed or radically altered in the spheres of tobacco, pesticides, air and water pollution, airlines, trucking, telecommunications and nuclear power. The crisis saw the United States stock market lose 45 per cent of its value whilst the London Stock Exchange suffered a staggering 78 per cent loss of its market capitalization (Sentance, 2013). The key economic events triggering the 1970s crisis were the abandonment by the United States of its currency link to the price of gold and the announcement by the OPEC countries of a series of oil price rises (Sentance, 2013).

Baumgartner & Jones (1991) note that the preexisting problems, which were identified following the 1970s crisis, were the closed and limited participation systems for governing these particular areas of public policy. Applying this to nuclear power policy, Baumgartner & Jones (1991) contend that, prior to the 1970s, the government agency the Atomic Energy Commission had been given tight and closed control over the development of atomic energy. But by 1969 the National Environmental Policy Act prescribed that any future nuclear power

developments would require the filing of environmental impact statements before a grant of any development licence was made. Henceforth, the entire development process became open to much broader stakeholder scrutiny and participation. In an age of rapid globalization and the formation of regional trade pacts and incentives, followed by the unexpected prompt dissolution of those arrangements, there were calls for governments to build administrative capabilities to cope with these dynamics (Cumming & Zahra, 2016; Farazmand, 2009; Weick & Sutcliffe, 2015).

Harm visibility is another attribute that is relevant to focusing events. Birkland (1998, p.67) observes that industrial accidents or disasters are ‘dramatic events for which blame can be assigned to corporate interests, possibly resulting in anti-industry mobilization’. In this instance, coherent policy communities will attribute human negligence and causation to the adverse outcome. In the case of the trade in so-called conflict-minerals in the Democratic Republic of Congo, Reinecke & Ansari (2015) show how companies are made responsible for the humanitarian crisis in the region. Policy entrepreneurs will argue that the adverse outcome is evidence of the failure of existing policy (Birkland, 1998). Blame, however, cannot immediately be attributed to or apportioned in incidences of natural disaster or acts of God. Focusing events are the less common way for events to get onto political agendas, but can have a profound impact on policies and politics.

The base erosion phenomenon that emerged following the 2008 global financial crisis (Callinicos, 2012; Whittle & Mueller, 2011) and which drew the attention of host nation-states, such as the United Kingdom (PAC-UK, 2012, 2013), is a social problem that has its source in a focusing event by way of a crisis

(Boudes & Laroche, 2009; Pimlot & Giles, 2010; Riaz, Buchanan & Bapuji, 2011). It did not result from routine or systematic monitoring by host location governments. The 2008 global financial crisis attracted competing storylines with bankers portrayed as either the villains or the victims (Whittle & Mueller, 2011) in this crisis.

Many of the post-inquiry reports issued following the 2008 global financial crisis sought to take the heat off the chaos, loss and suffering by simplifying the narrative as an event that was not foreseeable at the time (Boudes & Laroche, 2009; Von Krogh et al., 2012), and attributed the blame to the lower-level actors in order to maintain the legitimacy of bureaucratic governance in public administration (Olsen, 2005; Rhodes, 2007). Immediately following the aftermath of the crisis, elite actors in the financial and banking field defended their dominant positions internally by providing rational guarantees and expressing normative responsibilities, and externally, by strengthening their epistemic authority by critiquing judgements and questioning motives (Riaz et al., 2016).

Public deliberative process

The way in which policymakers construct social problems has important consequences, such as targeting blame (Boudes & Laroche, 2009), assigning responsibility (Reinecke & Ansari, 2015) and legitimizing particular policy response avenues whilst excluding others (Benford & Snow, 2000; Coburn, 2006). Policymakers use an open, deliberative approach (Carpini, Cook & Jacobs, 2004) to empower citizens (Lee & Romano, 2013), and familiarize them with the problem construct (Boudes & Laroche, 2009). The naming and blaming logic supports the problem construct by attributing culpability to human agency rather

than to public administration and bureaucratic governance (Olsen, 2005). In turn, the course of problem framing is likely to determine the form of policy response (Coburn, 2006).

Deliberative progress is dependent on national mood, election results, changes in public administration, efforts of policy entrepreneurs (Mintrom & Norman, 2009; Mintrom & Vergari, 1996) and on the capabilities of government and their public administration to strategically engage in public deliberation (Lee & Romano, 2013). National mood, according to Gray, Purdy & Ansari (2015), is inherently bidirectional and structural, consisting of both top-down polity deliberation and bottom-up community expectations.

Lee & Romano (2013) show that deliberation is a strategic tool that organizations, both public and private, use when faced with resistance from institutional fields seeking to protect and maintain intra-field stability (Harmon, Green & Goodnight, 2015). In triangulating their multiple data sources, the authors observed that the common theme to situations where the deliberative process was availed of was in 'contentious framings emphasizing systemic failure and inequality' (Lee & Romano, 2013 p.743).

Converging problems, policies and politics

Although much of Kingdon's empirical research work was undertaken in the United States, Hill (2009) notes that his important contribution to the agenda setting process is the generalization: (a) in explicating the three self-determining streams and, (b) indicating the unpredictable process of their convergence. The occurrence and temporality of convergence, is in many instances unpredictable and may be likened to the biological behaviour of molecules genetically combining (Hill, 2009).

The policy stream is temporally independent of the problem-defining stream, and is guided by existing sub-systems (Nistotskaya & Cingolani, 2016), policy communities (Kingdon, 2011; Mintrom & Vergari, 1996) and intermediary role of inter-governmental organizations (Schemeil, 2013; Tatham & Bauer, 2016). The policy communities may be dependent on or autonomous of the administrative and legislative constituencies. Baumgartner & Jones (1991) observe that the venue of policy communities or policy entrepreneurs can alternate and change over time, as can the image of policy shaping. The policy venue may be more specific and less inclusive when policy issues are very technical in nature.

When ethical, social or political issues are involved, however, a much broader range of participants is more likely to become involved (Baumgartner & Jones, 1991). Sub-systems of policy communities can shift from delegated agencies of government, professional or private-expert groups, state or local authorities (Baumgartner & Jones, 1991; Nistotskaya & Cingolani, 2016), or inter-governmental and supra-governmental agencies (Schemeil, 2013). One policy initiative is also capable of dragging along a whole series of self-reinforcing changes in both policy image and venue. This occurred in the United States with the promulgation of the National Environmental Protection Act in 1969, with the requirement to compile environmental impact statements (Baumgartner & Jones, 1991; Tatham & Bauer, 2016).

Where policy communities have supportive sub-systems and coherent strategies, they are more likely to have greater impact. Research by Birkland (1998) on natural disasters and industrial accidents indicates that coherent and ongoing policy communities in the domain of earthquakes enabled substantive

changes to prevailing policy. For example, the ‘earthquake advocacy coalition’ was successful in pushing along the drafting and passing through Congress of the National Earthquake Hazard Reduction Act of 1977 (Birkland, 1998). Conversely, where policy communities are fragmented, as in the case of the hurricane domain, policy entrepreneurs are less likely to impact the policy agenda, as Birkland (1998 p.66) observed ‘the prospects for improved hurricane policy are dim’.

Besides the coherence of policy communities and the choice of venue and policy image, Kingdon (2011) identifies two functional attributes that support the survivability of policy ideas: their technical implementation feasibility and their value acceptability. The threshold test for technical feasibility is the likelihood that the new policy will actually achieve its intended outcome. The assessment for value acceptability is more complex. The value acceptability threshold incorporates an ideological or cultural element as well as a quantitative efficiency element. Kingdon (2011) observes that the ideological element may incorporate cultural views on size of government. It may also consider the likely effect on equity balance following implementation, whilst quantitative efficiency is concerned not only with absolute cost but also with cost-benefit analysis, trade-offs or subsidy effects and effective use of public administrative resources (Lee & Whitford, 2012).

The politics stream is temporally independent of the problem and policy streams. The politics stream depends on national mood, election results, changes in government and changes in public administration. In the context of national moods, Gray et al. (2015) observe that framing is inherently a bidirectional, structuration process (Poole, Seibold & McPhee, 1985), being both a top-down

polity framing as well as a bottom-up expression of shared understandings and expectations. Whilst the executive arm of government bargain and promise concessions to its electorate in order to secure re-election (Bryer, 2006; Killian, 2006; Kingdon, 2011), government is also faced with complex preferences that are shaped by demands from domestic interest groups and foreign direct investors (Dowling, 2014; Henisz & Zelner, 2005). On January 14, 2013 the *Financial Times* reported:

Attempts at reform will, however, face powerful headwinds. The forces of tax temptation to grab the most mobile profits, such as those arising from intellectual property—remain significant. In spite of the soaring rhetoric, governments must proceed with some caution, fearing any cooling off of investment because of a crackdown on tax avoidance. “Member states are defensive” says a Brussels-based official contemplating efforts to co-ordinate a tougher code. (Houlder, 2013)

Theory of Social Judgements

In this section, I discuss extant literature on the mobilization of social judgements addressing: (a) the sociological meaning of ‘legitimacy’ and ‘judgement’; (b) the formative and constituent features of cognitive legitimacy judgements and sociopolitical legitimacy judgements; and (c) the interconnectivity of the three forms of fairness judgements in organization decisions that impact stakeholder reciprocity and firm value-creation capabilities.

Defining legitimacy and judgement

Extant literature (Bitektine & Haack, 2015; Golant & Sillince, 2007; Hybels, 1995) repeatedly reverts to Suchman's definition of legitimacy applied in organizational theory as 'a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions' (Suchman, 1995 p.574). Legitimacy is an abstract construct that performs a critical role in social systems in explaining social behaviour (Hybels, 1995) and individual cognition (DiMaggio & Powell, 1991). Legitimacy affords stability to incumbent organizational structures (Suddaby & Greenwood, 2005), resists challenges for change (Elsbach, 1994), raises entry barriers for new entrants (Aldrich & Fiol, 1994) and reduces share price volatility for organizations that release new information on the natural environment (Bansal & Clelland, 2004).

On the other hand, legitimacy induces inertia to act when technological advances demand responsiveness (Tripsas & Gavetti, 2000) and will expedite the demise of organizations without institutional linkages (Baum & Oliver, 1991) or those that are imprinted by an earlier institutional logic (Oertel, Thommes & Walgenbach, 2016). Whilst Suchman (1995) describes a typology of 12 distinct types of legitimacy, extant literature recognizes that there are two overarching substantive foci of legitimacy (Aldrich & Fiol, 1994; Bitektine, 2011; Deephouse & Suchman, 2008; Tost, 2011), namely, the evaluative form of sociopolitical legitimacy and the taken-for-granted orthodoxy of cognitive legitimacy.

For purposes of this thesis, I use Suchman's definition of legitimacy and the two overarching substantive foci of legitimacy. I also use Parsons' (1960) definition of judgment as the 'appraisal of action in terms of shared or common

values in the context of the involvement of the action in the social system' (Parsons, 1960 p.175).

Cognitive legitimacy judgements

Cognitive legitimacy is identifiable in community audience responses that manifest their 'widely held beliefs and taken-for-granted assumptions' (Scott, 1994 p.81). Decisions made by community actors on routines, operations and structures, observe Golant & Sillince (2007 p.1150), are 'considered to form part of the "natural order" within their social context (Hannan and Carroll)'. Justification for cognitive legitimacy decisions lies beyond the scope of individual evaluation. It is developed over time through recursive historical inculcation (Ashforth & Gibbs, 1990; Bitektine, 2011), with the implication, according to Golant & Sillince (2007 p.1153), that 'traces of authorship are erased through this translation process'. For actors within a community field, it can explain conditions that induce inertia to act (Barr, Stimpert & Huff, 1992; Tripsas & Gavetti, 2000), induce resistance to change in professional regulatory fields (Greenwood, Suddaby & Hinings, 2002), or an inability to respond to environment changes (He & Baruch, 2010; Porac, Thomas & Baden-Fuller, 1989, 2011). Under cognitive legitimacy, once the evaluator has classified the organization or action the process of evaluation stops (Bitektine, 2011).

Sociopolitical legitimacy judgements

Sociopolitical legitimacy decisions, by contrast, are analytically evaluative in nature (Golant & Sillince, 2007). They are 'benchmarked against the prevailing social norms: the actor renders a judgement as to whether the organization, its form, its processes, its outcomes, or its other features are socially acceptable'

(Bitektine, 2011 p.157). In situations where observed norms of firms do not conform to prevailing beliefs and social norms, they will be challenged, for example, by regulatory authorities (Baum & Oliver, 1991; Kostova & Zaheer, 1999; Suchman, 1995), by the media (Aerts & Cormier, 2009; Hybels, 1995; Pollock & Rindover, 2003), by host location barriers (Johanson & Vahlne, 2009; Zaheer, 1995) and by incumbents challenging new entrants (Aldrich & Fiol, 1994; Gurses & Ozcan, 2015).

Forms of fairness in judgements

The concept of fairness is not limited to an economic evaluation of an exchange between a provider and a recipient. Adams (1963 p.422) observes there is also ‘an element of relative justice involved that supervenes economics and underlies perceptions of equity and inequity’, with inequity (Skarlicki & Folger, 1997) being perceived as a contextually relative matter of magnitude as between self and others. Because of the contextually relative assessment, the concept of fairness extends beyond the dyadic relationship between the provider and recipient to a broader class of affected stakeholders.

From a stakeholder framework perspective, Bosse, Phillips & Harrison (2009) describe three forms of fairness in organizational decisions that impact stakeholder reciprocity and firm value-creation capabilities—originating from the early work on equity theory by Adams (1963).

Firstly, distributive fairness refers to how an evaluative stakeholder, whether it is an employee, a customer, a stockholder or a regulator that engages with the firm, perceives the relative equity in the outcomes (Cropanzana, Bowen & Gilliland, 2007; Luo, 2007) of organizational decisions, such as on pay and promotion decisions (Folger & Konovsky, 1989; Skarlicki & Folger, 1997), on

service delivery and price decisions (Homburg, Hoyer & Koschate, 2005; Seiders & Berry, 1998), on CEO compensation and conflict resolution decisions (Cai & Pan, 2011; Pepper, Gosling & Gore, 2015), or on transparency and compliance decisions in regulatory matters (Desai, 2016; Marti & Scherer, 2016).

Secondly, procedural justice refers to how an evaluative stakeholder perceives the process implemented in the distributive outcome. Some of the core attributes that make processes and procedures equitable include: ‘A process...that is applied consistently to all, free of bias, accurate, representative of relevant stakeholders, correctable, and consistent with ethical norms.’ (Cropanzana et al., 2007 p.38). Notwithstanding that distributive justice has a dominant and substantive impact on perceived equity, procedural justice has an ameliorative moderating affect, such as being given the opportunity to challenge or rebut an evaluation in a performance appraisal process (Folger & Konovsky, 1989).

Thirdly, interactional justice refers to how information is communicated between the provider and the recipient and the mannerisms portrayed in such delivery. Importantly, the three forms of fairness interact, such that unjust outcomes are ameliorated by acts of procedural fairness, and unjust procedures are ameliorated by acts of interactional fairness (Cropanzana et al., 2007; Harrison, Bosse & Phillips, 2010).

In the base erosion phenomenon, stakeholders are drawn into the process of making cognitive and sociopolitical legitimacy judgements. The fairness typology indicates how stakeholders perceive forms of inequity, whether affecting outcomes, processes or interactive communication and how these perceptions in turn influence the evaluative sociopolitical legitimacy judgements that are made by affected stakeholders. Understanding these alternative forms of

fairness judgements is important to my analysis because public stakeholders, as evaluators, are primarily concerned with distributive justice when dealing with the base erosion problem—that is, with the relative equity in attribution of profits across host locations. Whereas the mere compliance with the law by the MNEs—Amazon, Google and Starbucks—may have a moderating effect on public stakeholders' evaluation, it is of secondary effect on perceived equity.

Context in Public Policy Matters

Relevance of context

Extant literature provides a plurality of reasons for the relevance of context, including: as a means of illuminating the phenomena and the factors associated with the unit of analysis; the conditions that may constrain or afford opportunities of behaviour; and as the basis for describing research settings or conveying the means for applying the research findings to other settings (Johns, 2000, 2006). In Chapter 5, I will describe the empirical setting of the base erosion phenomenon in general terms and, more specifically, the research setting in the United Kingdom, more specifically. Whilst in this chapter, I will briefly outline the context of corporate disclosure reporting policies and host location corporate taxation policies in relation to conditions that constrain or afford opportunities of behaviour exhibited by foreign-headquartered MNE, as perceived by host policymakers.

Perspective on corporate reporting disclosure policies

Host location policymakers mandate transnational standardization (Botzem & Dobusch, 2012) of corporate reporting disclosures for firms that are listed on their capital markets (Alon & Dwyer, 2016; Healy & Palepu, 2001). In order to give

stockholders and prospective investors confidence in capital markets, host locations appoint government agencies, such as the Financial Reporting Council (FRC) in the United Kingdom (Linsley & Shrides, 2014; Veldman & Willmott, 2016), and the Securities Exchange Commission (SEC) in the United States (Alon & Dwyer, 2016; Barth, 2008) to oversee the quality of both the corporate reporting provided by corporations and their consolidated interests that are publicly quoted on their capital markets.

Features of the host location corporate reporting disclosure policies that are contextually relevant to this thesis are: (a) the framing of who are considered as ‘users’ of annual corporate reports by government agencies (Durocher, Fortin & Cote, 2007; Pelger, 2016; Young, 2006); (b) the boundary framing aspects of consolidated group reporting (IFRS 10, 2011; IFRS 12, 2011); (c) how decision-usefulness of information impacts the disclosure information relevant to segment reporting (IFRS 8, 2007); and (d) the function that related-party disclosure policies (IAS 24, 2009) perform under the conceptual framework to international financial reporting standards (IASB, 2010). The accounting professions and MNE corporate representatives, through self-governing associations, have followed market logic (Bengtsson, 2011) in the setting of international accounting standards, with cautionary intervention by host location policymakers to reduce capital market instability following the 2008 global financial crisis.

Since the 1970s, market logic has narrowed the audience for annual reports issued by listed corporations to so-called financial statement ‘users’ (Barth, 2008; Durocher et al., 2007; Young, 2006). Over time, the taken-for-granted category of financial statement users has become limited to stockholders and prospective capital market investors. The implication of this institutionally-embedded

assumption is that only corporate disclosure policies that satisfy the user decision-usefulness threshold are considered eligible for inclusion in international accounting standards.

From a host location base erosion phenomenon perspective, the socially-constructed definition of the consolidated group in boundary scope, comprising: the parent home headquarters, local and foreign subsidiaries and intermediary and subunits under its control (Hsu, Duh & Cheng, 2012; Maroun & Van Zijl, 2016), is an important communicating instrument. Top management teams discharge their ongoing duty of accountability over the management and control of their groups' resources, operations and internationalizing strategy through the consolidated annual reports that are prepared for their users. Espeland & Hirsch (1990) redefine the corporation not only passively as an aggregation of diversified interests, but also actively 'as a growing and shrinking bundle of self-standing assets'. Tensions in the interpretative scope of control and boundaries of the corporate groups have been exposed in earlier corporate collapses involving reconfigured off-balance-sheet financing arrangements (Baker & Hayes, 2004; Benston & Hartgraves, 2002) and reclassified revenue recognition of inter-group economic activities (Moerman & van der Laan, 2015).

The balance between the value of aggregated information and segregated operating segment information has also been much contested over the years (Ahadiat, 1993; Emmanuel & Garrod, 1992; Nichols, Street & Cereola, 2012). With an increasing emphasis on the financial statement user, as distinct from a broader class of salient stakeholders, the framing of operating segment disclosures, applying to both line of business and geographic regions, are top managements' decision-making perspectives (Leung & Verriest, 2015; Nichols

et al., 2012) on allocating group resources and assessing segment performance. Of relevance to host location policymakers and the base erosion phenomenon is that attempts to introduce transnational standardization of country-by-country disclosures has failed through not being seen as information that is decision-relevant for users (PIR IFRS 8, 2013).

Related-party disclosures, as mandated under IAS 24 (2009), has had the least amount of theoretical and academic attention. Related-party disclosures receive some attention in the literature on corporate failures (Baker & Hayes, 2004; Moerman & van der Laan, 2015) and network coordination (Hakansson & Lind, 2004; Kastberg, 2014). From a host location policymaker's perspective, related-party disclosures provide the tracing links between the MNE's host location operations and the other entities transnationally within the group.

Perspective on corporate taxation policies

Liability to host taxation is ordinarily understood by MNEs as being based on a strict literal interpretation (Boden, Killian, Mulligan & Oats, 2010; Freedman, 2008; Norton, 2012) of domestic law as varied by the bilateral double taxation treaties. Whereas there may be some political spillover in shaping corporate reporting conventions (Alon & Dwyer, 2016; Bengtsson, 2011), host location tax rules are substantively a political process (Hanlon & Heitzman, 2010). James (2010) and Norton (2012) indicate that in recent decades nation-states have shifted emphasis to a purposive interpretative approach as a means of challenging aggressive tax planning (Freedman, Loomer & Vella, 2009) or tax avoidance practices (Shackleford & Shevlin, 2001).

In this context, the organizing process of tax planning infers a stakeholder perspective (Hanlon & Heitzman, 2010). Tax planning involves not only taking

into account all costs and taxes, both explicit and implicit (Mills, Erickson & Maydew, 1998; Scholes et al., 2016), but also recognizing the salient interests of all parties connected to an MNE transaction, activity or restructuring arrangement (Mulligan & Oats, 2016; Shackleford & Shevlin, 2001). The more contentious issue is how the salient interests of all parties may be accommodated (Doyle, Hughes & Summers, 2013; Ylonen & Laine, 2015), or should be accommodated (Dowling, 2014; Friedman, 2007; Lanis & Richardson, 2015). In granting the judiciary a purposive approach to challenging aggressive tax planning, care needs to be taken that the balance of power between the state and its subjects is not skewed (Gracia & Oats, 2012; James, 2010).

The base erosion phenomenon brings into focus the boundary between the host location regulator's perception of MNEs acceptable and unacceptable tax practices (Gracia & Oats, 2012 p.308). The authors describe this boundary as 'not simply a case of legality on the one side and illegality on the other', but also as a conditioning over time shifting the regulator's stance on what no longer may be construed as unacceptable. The base erosion phenomenon reflects this boundary action response by host regulatory authorities (PAC-UK, 2012, 2013) on how MNEs should be attributing profits to their permanent establishments situated in overseas host locations.

Bilateral double taxation agreements entered into between home and host locations define a 'permanent establishment' as a fixed place of business through which the business of the enterprise is wholly or partly carried on (OECD, 2015h). Following the German Supreme Court's so-called '1996 Pipeline Decision', which held that remotely-controlled pipelines, permanently affixed and traversing a host location, would constitute a permanent establishment (Buchanan, 2001;

Thorpe, 1997), the view had developed that e-commerce profits could be attributed to host locations. That is to say, whilst websites would not constitute permanent physical presence, webservers could constitute a permanent establishment if the enterprise had dedicated access to the webservers as part of its FDI commitment in the host location (Buchanan, 2001; OECD, 2010).

Gap in the Extant Literature

Whereas the theory of social judgements describes how a type of judgement is guided by task characteristics, the evaluator's social environment, the evaluator's individual properties, the argumentation fit and the importance of the decision (Bitektine, 2011; Bouwmeester, 2013; Harmon et al., 2015), there is little research on how public policymakers and regulators, as public stakeholder evaluators, mount challenges to the taken-for-granted views held by intra-field audiences and shift the public deliberative discourse inter-field toward more responsive sectors for change.

I address this gap in the literature—as a result of my analysis and findings in Chapters 7 and 8—I identify the contextual boundary conditions that resist intra-field instability and I explain the types of inter-field iterative rhetorical techniques used to mediate public policy changes that reflect upon procedural justice (Adams, 1963; Skarlicki & Folger, 1997), but primarily demand distributive justice (Bosse et al., 2009; Coff, 1999).

Conclusion

In this Chapter, I have explained how social problems become apparent (Blumer, 1971; Coburn, 2006) through audiences giving perspective to the

conditions, mobilizing stakeholder action and making collective evaluations that gave legitimacy to those socially-constructed problems. Where social problems emerge through focusing events, it is because they subsist in less visible sectors of the economy. However, once the harm is made visible, social actors seek to attribute blame to human agency (Boudes & Laroche, 2009; Whittle & Mueller, 2011) in order to preserve the legitimacy of incumbent systems and institutionalized practices. The 2008 global financial crisis is a noteworthy example of a focusing event.

I also indicated how policymakers effectively use a public deliberative process (Carpini et al., 2004; Lee & Romano, 2013) in order to inform citizens and social movements of the possible construct of less visible problems. The naming and blaming logic reduces the surrounding chaos and uncertainty, and seeks containment by attributing blame to human agency (Boudes & Laroche, 2009; Reinecke & Ansari, 2015), rather than to failures by public administration or bureaucratic governance (Farazmand, 2009; Olsen, 2005).

Whereas the intra-field evaluative process stops for cognitive legitimacy judgements once the evaluator has completed such an act of classification (Golant & Sillince, 2007), for sociopolitical legitimacy judgements the evaluative process is ongoing (Bitektine, 2011), occurring both intra-field and inter-field. In making sociopolitical evaluations, evaluators expressly or implicitly consider three forms of fairness in organizational decisions, comprising distributive, procedural and interactional fairness decisions (Bosse et al., 2009; Harrison et al., 2010). In the base erosion phenomenon (OECD, 2013), public stakeholders make evaluative judgements about the distributive fairness of organizing choice decisions that are made by MNEs operating across host locations.

Finally, in order to provide context for the public policies associated with the base erosion phenomenon, I provide a perspective on the corporate reporting disclosure policies (Pelger, 2016; Veldman & Willmott, 2016; Young, 2006) and the corporate taxation policies (Boden et al., 2010; Gracia & Oats, 2012; Norton, 2012) that are associated with such social problems.

In the next chapter, I will explain the methodological inductive framework I have used to interrogate, analyse and theorize from the three-part triangulated data set. I will show how I structured the phenomenon-driven research enquiry, comprising three distinct stages, in order to establish contextualized authenticity in developing my contribution.

Chapter 5 – Methodology

Introduction

In this chapter, I will discuss the philosophy underpinning phenomenon-driven research and theory building; the methodological framework I have synthesized to interrogate, analyze and theorize from the data; and the three-part triangulated data set I have collated and worked on in applying the synthesized methodological framework.

I will start by discussing the difference between phenomenon-driven research and theory-driven research. I explain that phenomena are regularities that are unexpected and challenge extant literature. I indicate that, although phenomenon-driven research is expansive in its inquiry, the data inspires the imagination of researchers to approach the phenomenon without any preconceived propositions or hypotheses. The base erosion phenomenon that emerged following the 2008 global financial crisis displays attributes of regularities having occurred in prior decades and it challenges extant theories—such as, theories on corporate governance, varieties of capitalism, stakeholder thinking and reciprocity in exchange, the resource-based view of the firm and its dynamic capabilities, and the agenda setting process of nation-states balancing economic growth and societal welfare.

Taking a pragmatist philosophical paradigm, I seek to bridge the rigidities of the ontological, epistemological and methodological divides and give greater emphasis to human experience. I will synthesize the Shepherd & Sutcliffe (2011) bidirectional inductive framework: first, by working bottom-up from the data using

the Gioia et al. (2012) method; second, by being informed top-down by the literature on a recursively iterative basis throughout the research (Corley & Schinoff, 2017); and, third, by using abductive reasoning to theorize about inferences that are consistent with context and fit (Hatch & Yanow, 2008; Martela, 2015). I discuss each of these three distinct stages below by establishing first-order codes from the data, moving from codes to second-order themes, and from themes to aggregate conceptual dimensions.

I will explain the composition of my data set. As an overview, my data set is constructed from three sources: (a) the transcript data from the 25 semi-structured face-to-face interviews I conducted comprising 403 pages, together with my fieldnotes comprising a further 57 pages; (b) the public hearings' transcripts from the 27 interrogees and witnesses that attended the PAC-UK (2012) and PAC-UK (2013) public hearings comprising 137 pages; and, (c) the home annual reports for Amazon, Google and Starbucks comprising 747 pages together with their UK host reports comprising 98 pages and the 26 documents that were referred to by interviewees during the course of the conduct of the fieldwork comprising 688 pages.

Researching Phenomena

Phenomenon-driven research

Eisenhardt & Graebner (2007) contrast phenomenon-driven research with theory-driven research in the following manner. Whereas in theory-driven research, the researcher 'has to frame the research within the context of this theory...[that] is tightly scoped within the context of [the] existing theory' (Eisenhardt & Graebner, 2007 p.26), for phenomenon-driven research the

researcher ‘has to frame the research in terms of the importance of the phenomenon and the lack of plausible existing theory’ (Eisenhardt & Graebner, 2007 p.26). The authors do not provide a definition for the term ‘phenomenon’ rather they provide examples of phenomenon-driven research, such as on the collapse of the decision-making process in the Mann Gulch fire disaster (Weick, 1993), or the cognitive foundational work in organizational learning (Bingham & Eisenhardt, 2006) or the screening of the homelessness problem at the Port Authority of New York and New Jersey through the image and identity of the organization (Dutton & Dukerich, 1991).

Von Krogh, Rossi-Lamastra & Haefliger (2012 p.278) define phenomena as ‘regularities that are unexpected, that challenge existing knowledge (including extant theory) and that are relevant to scientific discourse’. The authors indicate that phenomenon-driven research has broadened organizational management research domains in ways that theory-driven research is not able to do. For example, in the international management domain, through a ‘process of inquiry by observing interesting phenomena and then identifying and describing their salient aspects’ (Von Krogh et al., 2012), international management has expanded its inquiry into the management of transnational enterprises and their interface with the information age, service-based economy, delegation to intermediate units devolving regional management mandates and, more generally the worldwide impact of deregulation (Bartlett & Ghosal, 2008).

Inspiring role of empirical data

The reason I was drawn to study the ‘base erosion’ phenomenon is that the phenomenon displays attributes of regularities that have occurred in the past (Congress of the United States, 1961) but re-emerge unexpectedly, in this instance following the 2008 global financial crisis (Callinicos, 2012; Starkey, 2015) and challenges our understanding on extant theories—such as, theories on corporate governance, varieties of capitalism, stakeholder thinking and reciprocity in exchange, resource-based view of the firm and its dynamic capabilities, the firm’s value-creation frameworks and the agenda-setting process of nation-states balancing economic growth and societal welfare.

It is recognized and acknowledged that schemas for expressing profit (Lukka, 1990) and representing economic activity (Suzuki, 2003) take on distinctive meanings within accounting and taxation rules and practice. However, the interpretation of these rules and practices through the ‘base erosion’ discourse become polarized as either MNEs blatantly abusing host nation-states economic markets or policymakers and regulators expediently altering their emphasis on the value-capture mechanisms of MNE global activities, thereby exposing the tensions in seeking ‘fairness’ while encouraging the benefits of global trade and competition. At the end of 1999, the OECD signaled concern about whether international tax regulations were adequate for dealing with new business models (Ghaziani & Ventresca, 2005) based on new information technologies (OECD, 2003). It concluded at that time that because of a lack of consensus on mechanisms for attributing profits bilaterally across borders the ‘historically’ negotiated basis

of profit allocation should prevail over ‘economic principles’ of attribution (OECD, 2003, p.15).

Yet it took a formal public hearing held before the UK’s Committee of Public Accounts in the House of Commons (PAC-UK, 2012) at the end of 2012 to expose the serious misgivings held by various stakeholders. These serious misgivings, as exposed by departments within the government were then followed by vigorous debate and analysis in the media, by the public, self-regulatory associations and inter-governmental agencies. These various classes of stakeholders questioned how financial reporting and corporate governance systems dealt with aspects of transparency, accountability and congruity in meanings in MNE cross-border economic activities. Affected stakeholders were increasingly concerned about how representative or congruent in expression the disclosures in annual reports of UK subsidiaries of overseas MNEs were in relation to the consolidated information portrayed in the group reports of their overseas parent. These stakeholders were also increasingly reflecting on the role corporate governance systems performed in managing the broader information asymmetry problem in this multinational context.

Alvesson & Karreman (2007) note that empirical data provide the inspiration for problematizing theoretical ideas and vocabularies. In this instance, the public hearings before the PAC-UK (2012, 2013) provide the inspiration for problematizing: the faithfulness in representation of corporate information; the capabilities of corporate boards in mediating the multiplicity of interests of their salient stakeholders; and the host policymakers’ perspective on the internationalizing process of MNEs across host locations. From a researcher’s

perspective, what this translates into is ‘problematiz[ing] means to challenge the value of a theory and to explore its weaknesses and problems in relation to the phenomenon it is supposed to explicate.’ (Alvesson & Karreman, 2007, p.1266).

Philosophical paradigm

In applying a qualitative inductive methodology to my research question, I am guided by the pragmatist paradigm (Morgan, 2014). The pragmatist paradigm seeks to bridge the rigidities of the ontological, epistemological and methodological divides in social science research (Morgan, 2014). Whereas social science scholars (Morgan, 1980) prescribe the interrelated network of knowledge, theory and research to establish qualitative rigour in subjective inquiries (Cunliffe, 2011; Morgan, 1980), the pragmatist paradigm emphasizes human experience—based on beliefs, self-conscious decision-making and emotion (Cohen, 2007; Morgan, 2014)—each mode of human experience directing action and, in turn, each action informing human experience. Also, human experience always occurs within some specific context and so context dependency in human experience implies that ‘our ability to use prior experience to predict the outcome of a current action is fallible and probabilistic’ (Morgan, 2014 p.1046). Cunliffe (2011 p.648) observes ‘At the risk of oversimplifying the crux of the argument, there are no universal criteria with which to judge “good” knowledge; rather criteria are based on the assumptions underpinning the work within a particular paradigm.’

The pragmatist paradigm is appropriate for my research question because it is sensitive to the different ways in which host policymakers may frame a problem (Blumer, 1971). The possible line of action (Fehr & Gachter, 2000; Skarlicki & Folger, 1997) is also likely to correspond with the way that host policymakers

perceive the problem of base erosion. Also, recognizing that human experience involves emotion, the pragmatist paradigm is suited to inquiries involving social justice (Adams, 1963). The media discourse on the base erosion phenomenon exhibited emotive expressions of inequity and unfairness regarding foreign-headquartered MNEs having an ‘unfair advantage’ over domestic enterprises (Houlder, 2011) and not paying their ‘fair share’ of corporate taxes (Back, 2013).

Aim of theory building

Eisenhardt & Graebner (2007) indicate that phenomenon-driven research is particularly appropriate for developing theory when addressing the how and why questions in underexplored research areas, in contrast to the empirical measurement of constructs. Theory-testing research has provided ample evidence of the effects or unintended policy outcomes of the base erosion phenomenon. Dischinger & Riedel (2010) provide empirical evidence of home nation-state bias in the case of MNE headquarters; namely, a reluctance to shift profits away from headquarters even if these are located in high-tax countries, yet an active desire to shift profits to headquarters where these are located in lower-taxed jurisdictions. Outside of the home headquarters, empirical evidence establishes a correlation between profit-shifting between MNEs’ foreign affiliates with bias to low tax or no-tax locations (Huizinga & Laeven, 2008). Karkinsky & Riedel (2009) also provide empirical evidence of MNEs locating economic interest in their intellectual property with their foreign affiliates located in low or no-tax jurisdictions, in stateless localities (Kleinbard, 2013), or in comparably taxed jurisdictions that offer competitive IP-based incentives. In turn, the transparency of financial payments between affiliated organizations become opaque or

extinguished on accounting consolidation (Hsu, Duh & Cheng, 2012; Maroun & Van Zijl, 2016).

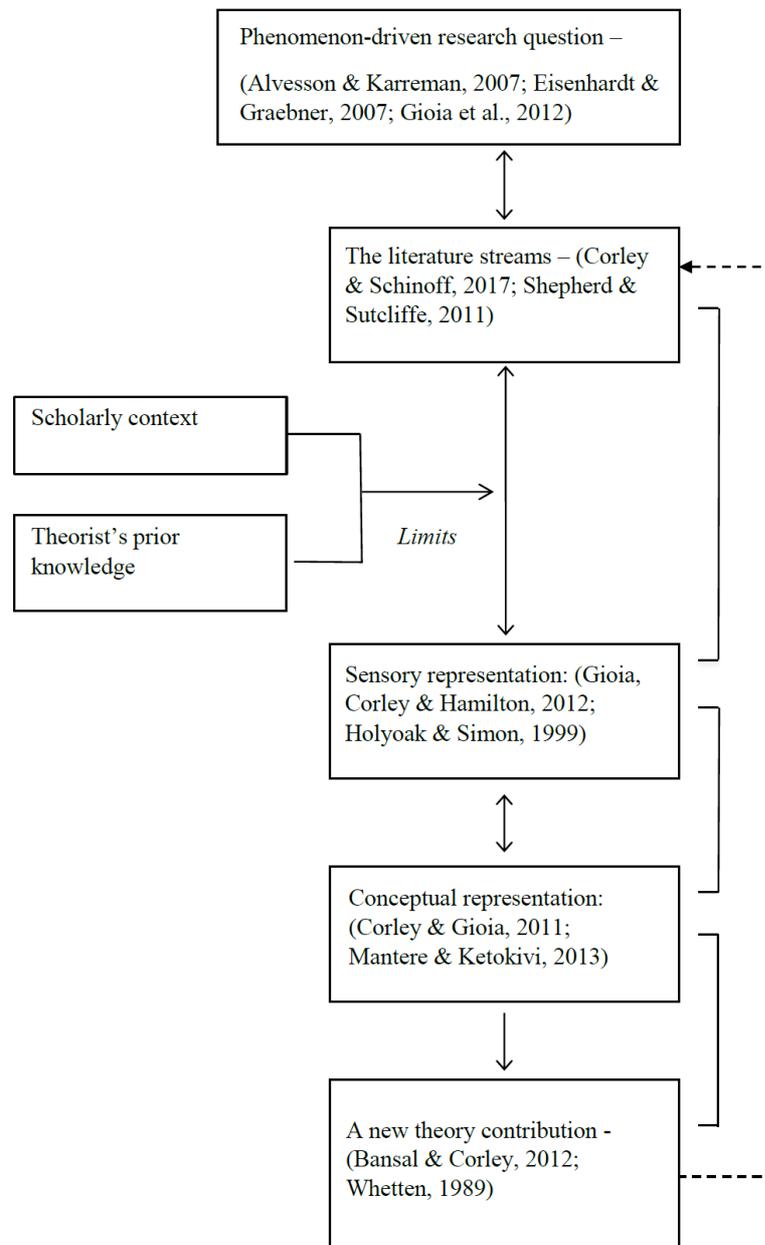
In building theory, Whetten (1989) explains the four building blocks of theory development as: (a) the factors (concepts, constructs, themes or variables) that are logically part of the explanation of the social phenomena balancing comprehensiveness and parsimony embodied in the what question; (b) the relationship that is evident between the salient factors embodied in the how question; (c) the rationale underlying the logic of the interaction between the factors and their relationship embodied in the why question; and (d) the potential for the contribution to remedy deficiencies or augment extant literature embedded in the so what enquiry. These theory building-blocks align with the definition of theory given by Corley & Gioia (2011 p.12), ‘theory is a statement of concepts and their interrelationships that shows how and/or why a phenomenon occurs’.

In moving from theory building to theoretical contribution, Corley & Gioia (2011 p.26) explicate that contribution has ‘two germane dimensions, originality (classified as either incremental or revelatory) and utility (scientific and/or pragmatic usefulness), with a strong preference in the scholarly community for works that are revelatory/surprising and carry mainly scientific value’. In performing my analysis and findings on my data set using the methodological framework described below, I will seek to address the gap in the value-creation literature referred to in chapter 3 and the gap in the social judgements literature referred to in chapter 4. As outlined in the discussion that follows, the methodological framework I use to examine my data set will assist me in

identifying the concepts, their interrelationship and the underlying logic that contextually explicates the salience of the interrelationship.

Methodological Framework

I use the Shepherd & Sutcliffe (2011) bidirectional inductive top-down model (see Figure 5.1) to systematically guide me in answering my research question, as outlined in Chapter 1: ‘How do host policymakers make sense of the base erosion phenomenon?’ I will address the methodological framework in four stages: (a) overview; (b) first-order codes; (c) from codes to second-order aggregate themes; and (d) from themes to aggregate dimensions.

Figure 5.1 – Bidirectional inductive theorizing model***Bidirectional iteration between data, levels and data***

Shepherd & Sutcliffe (2011) observe that a theorist's prior knowledge and the scholarly context they bring to a research topic can both be factors that limit the researcher's creative sensory representation of the phenomenon. In my case, I bring a practitioner's scholarly context to the 'base erosion' phenomenon, which

has allowed me to access salient and high-quality data (Miles, Huberman & Saldana, 2014), and to engage in credible in-depth discussion with respondent interviewees (Johnson & Rowlands, 2012). Gaining access to salient and high-quality data enables the researcher to get much closer to the data in qualitative research and to improve the translation ‘of other persons’ words and actions’ (Corbin & Strauss, 2008, p.49). I ground my work in an empirical data set, which is evident from the sequence of the stages of work explained below. I use foundational aspects of grounded theory method to expansively examine my data set including applying techniques of constant comparison, theoretical or axial coding, theoretical sampling, theoretical saturation and theoretical sensitivity (O’Reilly, Paper & Marx, 2012). Whilst using these techniques to support my data enquiry, I do not holistically apply classical ground theory method (Walsh et al., 2015), as my framework is the Shepherd & Sutcliffe (2011) model. The pragmatist paradigm and methodological framework support the selective use (Walsh et al., 2015) of these grounded theory method techniques.

I approached the research enquiry without a preconceived scholarly perspective (Shepherd & Sutcliffe, 2011) on the salient literature. My initial emphasis was on the contextual and cultural embeddedness of the base erosion phenomenon in corporate governance systems (Daily, Dalton & Cannella, 2003; Dalton, Hitt, Certo & Dalton, 2007; Eisenhardt, 1989) and the complementary institutions of liberal market economy-styled capitalism (Aguilera & Jackson, 2010; Hall & Gingerich, 2009; Jackson & Deeg, 2008) prevailing in the home and host locations. Notwithstanding this informative contextual and cultural background, my data set led me to explore the MNEs’ processes of internationalizing, the resource-based

view of firm, their dynamic capabilities and the nation-states agenda-setting processes. The Shepherd & Sutcliffe (2011) framework is appealing because it emphasizes the recursive nature of working with the literature and data iteratively at each progressive stage, from selecting first-order codes to moving to second-order categories and, thereafter onto aggregate themes. More recently, Corley & Schinoff (2017 p.9), inspired by the illustrative application of this methodological feature (Harrison & Rouse, 2014), explicated the repeated process of moving between data and literature at each progressive stage as ‘we paint a picture of a somewhat linear, well-ordered process. However, grounded theory methods encourage a practice that is actually nonlinear and somewhat disordered.’

Shepherd & Sutcliffe (2011 p.362) refer to their inductive model as ‘top-down in that it is informed by the literature, but it is inductive in that it begins with the data’. This model gives the researcher the imagination and scope to debate and interrogate the data (Alvesson & Kärreman, 2007; Weick, 1989), yet cumulatively build on the existing common vocabulary, concepts and themes (Welch, Rumyantseva & Hewardine, 2016). That is to say, I do not approach the research data set naively as may be advocated in the classical grounded theory method (Locke, 2015), but rather I am alert to the vocabulary, concepts and themes that emerge from recursively moving from data to literature and vice versa. Shepherd & Sutcliffe (2011) observe that there are limitations in applying a unidirectional approach, whether it is an inductive bottom-up approach or a deductive top-down approach. A consequence of solely adopting a top-down deductive approach is that ‘resulting theories are sometimes sterile, debatable, and unable to be widely tested (Weick, 1996)’ (Shepherd & Sutcliffe, 2011, p.362). However, adopting solely an

inductive bottom-up approach can produce ‘resulting theories that lack scope, and abstraction (Glaser, 2001; Sandelowksi, 1997) and sometimes generalizability’ (Shepherd & Sutcliffe, 2011, p.362) because the methodology is more concerned with producing thick descriptions.

As I move through the Shepherd & Sutcliffe (2011) model, I link the Gioia et al. (2012) notes to the model in order to provide a complete tracing of the theoretical progress and sensitizing that is happening at each stage of the research. In addition, I link the Ketokivi & Mantere (2010) strategies for inductive reasoning to the model to explicate how abductive reasoning is used to establish contextualized authenticity of reasoning.

First-order codes

As will be outlined below, there are three core data sets: (a) the transcripts from the 25 semi-structured in-depth interviews conducted by me face-to-face with the respondent interviewees; (b) the transcripts from the 27 respondent interrogees and witnesses that attended the PAC-UK (2012) and PAC-UK (2013) Public Hearings; and a set of 26 public documents that respondent interviewees made reference to during the conduct of the interviews together with the US and UK annual reports for Amazon, Google and Starbucks. The three core data sets were triangulated (Yin, 2014) as I started the process of selecting first-order codes.

In selecting first-order codes, I heed Gioia et al.’s (2012) counsel ‘to give voice to the informants in the early stages of data gathering and analysis and also to represent their voices prominently in the reporting of research’, thereby avoiding the use of template codes or presumed constructs. In this first stage of data interrogation, I adopt in-vivo text coding (Miles et al., 2014) on a MaxQDA

software platform, at the broadest level of incident or occurrence, using the constant comparison technique (Corbin & Strauss, 2008) and memo notes (Corbin & Strauss, 2008) for guiding the code content. By virtue of the open coding basis in this first stage, it is natural that the codes will tend to explode. Gioia et al. (2012) observe that there can easily be 50 to 100 first-order codes.

In my first-order coding exercise, I reached a total of 80 first-order codes that later were collapsed into 66 first-order codes following work on developing the second-order themes. In applying the constant comparison technique or within code comparison, I tag and name data fragments, and using this technique I compare the incident, action or emotion in the data fragment to the next data fragment ensuring that I have captured the same and similar incident, action or emotion for each named code (Corbin & Strauss, 2008; O'Reilly et al., 2012).

From codes to second-order themes

By moving from first-order codes to literature, and from literature back to codes, I started to develop a sensory representation of emerging themes and patterns in the data. That is to say, the nature of sensory representation is to enable the researcher to maintain focus on a limited subset of data or as Shepherd & Sutcliffe (2011 p.365) state, 'attention constructs a limited and temporal coherence field to capture the nature [of a concept, structure or theme] of the phenomenon'. Contrary to our belief that our brains maintain picture-like representations of an entire event or scene, Rensink (2000 p.17) explicates that our focused attention only 'provides spatiotemporal coherence for the stable representation of one object at a time'. That is to say, by focusing attention on a limited set of first-order codes, the field is stabilized, allowing the researcher to recursively move from this limited

set of first-order codes to the literature and vice versa, identifying features of similarity and fit, but now also identifying features of dissimilarity, divergence or omission (Corley & Schinoff, 2017; Shepherd & Sutcliffe, 2011).

In Chapter 6, I use the Gioia et al. (2012) dataflow diagrams to show how I moved from first-order codes to second-order themes in developing the concepts and constructs of the host policymakers' perspective on MNEs' value-creation and value-capture processes in internationalizing across host locations. In Chapters 7 and 8, I again use the Gioia et al. (2012) dataflow diagrams similarly to show how host policymakers moved the base erosion discourse towards an open public deliberative process in order to engage in a sociopolitical legitimacy evaluation process. The dataflow diagrams assist the researcher in communicating the integrity of the methodological framework that grounds the concepts and constructs in the data. The next stage is to develop the conceptual representations, and this involves moving to the aggregate conceptual dimensions.

From themes to aggregate conceptual dimensions

In moving from second-order themes to aggregate conceptual dimensions, Shepherd & Sutcliffe (2011) note that it is the sensory representation of the themes in the data that informs the conceptual representation of the aggregate dimensions. It is then the conceptual representation at the aggregate dimension level that supports theory building, as guided by this recursive iterative process with the literature (Corley & Schinoff, 2017; Shepherd & Sutcliffe, 2011). Gioia et al. (2012 p.20) observe that from the second-order theme flow onwards the researcher is 'firmly in the theoretical realm, asking whether the emerging themes suggest

concepts that might help us describe and explain the phenomena...[and] even further into 2nd-order “aggregate dimensions”.

In the dataflow diagrams that I develop in Chapters 6, 7 and 8, I show how the second-order aggregate dimensions have conceptually evolved from second-order themes. The iterative recursive nature of moving from first-order codes to the literature and again from second-order codes to the literature and back, by implication indicates a second-order interpretation by the researcher that is influenced by the literature—the problem of the double hermeneutic. Hatch & Yanow (2008 p.37) explain the problem as ‘researchers interpret their subject’s interpretations and trace processes that are themselves the traces of others’ sensemaking (see also Geertz 1973 on interpretations of interpretations, and 1983: 57 on emic-etic; and Schutz 1976 on first- and second-order constructs)’.

There are at least two legitimate responses to the problem of the double hermeneutic. Firstly, provided the author explains the prescriptive rules of reasoning applied, then as explained by Mantere & Ketokivi (2013 p.74) ‘Methodological rigor...is achieved through prescriptive evaluation... In such social processes, a scholarly community evaluates methodological rigor in light of local rules that stem from contextual methodological considerations and preferences.’ In this study, I use abductive reasoning to move to the aggregate conceptual dimension. Abductive reasoning (Martela, 2015; Paavola, 2004) is a mode of inference where explanations are searched for that are consistent with the context and provides the best fit (Mantere & Ketokivi, 2013).

The second legitimate response is that the scholarly community that judges theoretical contributions only acknowledges novelty and scientific utility of

contributions that fill a gap in extant literature (Bansal & Corley, 2012; Corley & Gioia, 2011; Locke & Golden-Biddle, 1997). That is to say, the scholarly community or specifically a journal editor acknowledges theoretical contributions that ‘change, challenge, or fundamentally advance theory through insights on focal phenomena’ (Bansal & Corley, 2012 p.509). The conclusion that we can draw from the second legitimate response is that it is the academic community that gives legitimacy to acceptable hermeneutic practices in the social construction of theory—by producing scientific knowledge that addresses incompleteness, inadequacy or incommensurability of extant literature (Alvesson & Sandberg, 2011; Locke & Golden-Biddle, 1997).

The Data Set

My data set comprises three separate components of triangulated data (see Figure 5.2), consisting of 25 face-to-face interviews with supporting field notes, 27 participants’ transcripts extracted from the PAC Public Hearings held in the last quarter of 2012 and second quarter of 2013, and 26 interviewee data reference documents together with the home and host annual reports for Amazon, Google and Starbucks.

Table 5.2 – Data set overview

Description	Source type	Participants	Pages
<i>Part 1</i>			

25 face-to-face interview transcripts	Interviews	FRC, ICAEW, IFRS, IIRC, PAC, HMT, HMRC, OECD, ONS	403
25 field notes on face-to-face interviews	Written notes	Self	57
Part 2			
27 interrogees and witness transcripts	PAC (2012) & (2013) public hearings	PAC & NAO as interrogees; HMRC and foreign-HQ MNEs as witnesses	137
Part 3			
2013 Home HQ annual & quarterly reports: Amazon, Google & Starbucks	Public archival records	SEC (US) Portal	747
2013 Host UK annual reports: Amazon, Google & Starbucks	Public archival records	UK Company House	98
26 Interviewee data reference documents	Public archival records & web portals	Various	688
Total			2,130

Semi-structured interviews

I will firstly discuss the transcript data from the 25 semi-structured interviews conducted over a period of nine months, from August 2014 to April 2015, comprising 403 pages together with the fieldnotes comprising a further 57 pages. Around July 2014 before approaching my targeted respondent interviewees (Marzano, 2012), I prepared a precedent project information sheet and a participant consent form, and soon thereafter obtained ethical clearance from Warwick Business School (WBS) to commence my fieldwork. WBS expressed satisfaction that I had met ESRC's ethics requirements (ESRC, 2012).

My project information sheet outlined, in broad terms, my research question with a brief note on its problematization, my supervisors, my practitioner and researcher background and the contact details for all parties involved in my research project. The participant consent form outlined the rights of the participant (Marzano, 2012) to ask any questions on the scope of the research project, including the process of anonymizing transcripts at the earliest possible moment, having the freedom to withdraw at any stage and, in turn, granting the researcher the right to audio record the interview and to use the primary source data gathered for my thesis and for use in delivering conference papers and preparing academic journal articles.

All respondent interviewees who participated in my research project co-signed the participant consent forms at the completion of each of the interviews. I have retained in locked safekeeping the original hardcopies of the consent forms. I have also scanned a soft copy set of the consent forms into a separate folder on the MaxQDA platform (Silver & Lewins, 2014; Yin, 2014). But for a few participants,

the majority were not concerned about anonymity. Notwithstanding the openness of the public debate and general indifference expressed by the majority, in compliance with the undertakings given, I anonymized the transcripts as soon as these primary source materials were in a form suitable to be exported to the MaxQDA platform. One respondent requested that the inclusion of context in examples divulged be handled sensitively—namely that: ‘But if you then say you’re a FTSE 100 company in the oil or gas industry, there’s only two people it could apply to.’ Another respondent requested prior consent be sought should direct quotes be extracted from his audio transcript data. And in the third instance, the respondent interviewee was visibly uncomfortable with the presence and process of audio recording. In each instance, I have given due consideration to the requests and sensitivities of the respondents (Roulston, deMarrais & Lewis, 2003) in the course of analyzing and reporting on my empirical material. This has not limited in any way, my research design, analysis of the empirical material, or theorizing thereon.

Immediately following the conclusion of each in-depth interview, I prepared my handwritten field notes, independent of my audio recordings of the interviews. On most occasions, I was able to occupy the interview room, otherwise I chose the nearest convenient coffee shop. The purpose of my handwritten field notes post-interview was to record those salient features (Wolfinger, 2002) that stood out in the interview, and to enable me to revisit and reflect on my literature streams (Alvesson, 2003; Van Maanen, Sorenson & Mitchell, 2007). I subsequently typed up my post-interview field notes and uploaded them to a separate MaxQDA folder.

As well as acknowledging any respondent interviewee sensitivities, this process allowed me to critically evaluate responses in the context of the respondents' positions as holders of office, their professional appointments, their functional areas of expertise, and the cultural and value systems that they represent. In this context, I have marked and tracked for constant comparison (Corbin & Strauss, 2008; Shepherd & Sutcliffe, 2011) and analytical reflexive purposes (Alvesson & Kärreman, 2007; Roulston, 2012) the attributes relating to the individual respondent's appointment, the regulator type and the functional area of expertise.

For the appointment attribute, I distinguish respondents who hold full-time executive appointments from those who hold non-executive nominated appointments. The non-executive respondents were either career non-executives, holding other non-executive capital market board appointments or career executives in top management appointments. For the regulator-type attribute, I distinguish whether the institution is a government agency, an inter-governmental authority, or a self-regulated association. The functional areas of expertise that are represented in my transcript data set are the specialist domains of accounting, taxation and agenda-setting in public policy activities undertaken within and across these functional areas of expertise.

In order to understand how policymakers and regulators perceive the ways in which MNEs engage in the base erosion phenomenon, I decided to concentrate on the institutions that formulate and implement rules and regulations that promote, govern and sanction MNE organizational behaviour. The institutions that perform a distinctive role in influencing MNE organizational behaviour include the regulatory agencies, inter-governmental authorities and various self-regulated

associations. Taking the UK as one of the advanced host nation-states affected by the base erosion phenomenon, I approached representatives from the following regulatory institutions – the Financial Reporting Council (FRC), Her Majesty’s Treasury (HMT), HM Revenue & Customs (HMRC), the Public Accounts Committee of the UK’s House of Commons (PAC), the Office of National Statistics (ONS), The International Accounting Standards Board (IASB), the International Integrated Reporting Council (IIRC), the Organization for Economic Cooperation and Development (OECD), the Institute for Fiscal Studies (IFS) and their host HMT/HMRC Tax Administration Research Centre (TARC) in the UK (see Figure 5.3 for legend explaining respondent attributes).

It is important to acknowledge the interconnectedness of the policymakers and regulators in this field (Aram, 1989; DiMaggio & Powell, 1991; Greenwood, Suddaby & Hinings, 2002). Many of the non-executive appointees on various FRC committees or boards are either career non-executive directors on the boards of companies listed on the London Stock Exchange, or hold an executive director office on the boards of their organization, independent of the FRC. For example, respondent RP05-GXA is both an FRC representative who presently holds three non-executive office appointments with companies listed on the London Stock Exchange and has previously held CEO executive appointments. The same situation relates to the IASB, the ICAEW, the IIRC and OECD. For example, in the case of the OECD, it has representatives from HMT/HMRC on its working committees for the OECD BEPS Project (the case in point here is respondent RP14-GEP). Also, within the structure of a regulator like the FRC, I ensured I had representative voices across all levels of its policymaking process, from the

Accounting Council, to the Codes and Standards Committee, to the FRC Board. In some instances, a respondent may be on more than one committee or council within the FRC. For example, in my research project, respondent RP01-GEA is on both the Codes and Standards Committee and the FRC Board, and RP03-GXA is on both the Accounting Council and the FRC Board.

Table 5.3 – Legend explaining respondent attributes

<i>Abbreviation</i>	<i>Respondent types</i>	<i>No.</i>
RP	The interviewees face-to-face	25
RQ	The interrogees at PAC hearings	18
RW	The witnesses at PAC hearings	9
	<i>Sub-total</i>	52

Participant attributes		
<i>Legend</i>	<i>Stakeholder-type</i>	<i>No.</i>
G	Governmental agencies	35
S	Self-regulatory authorities	12
I	Inter-governmental agencies	2
O	Multinational, overseas business unit	3
	<i>Sub-total</i>	52

<i>Legend</i>	<i>Office holder-type</i>	<i>No.</i>
E	Executive office holder	44
X	Non-executive office holder	8
	<i>Sub-total</i>	52
<i>Legend</i>	<i>Organizational field</i>	<i>No.</i>
A	Corporate reporting / accounting	7
C	MNE parent corporate headquarters	3
T	Taxation / international tax conventions	9
N	Information intermediaries	4
P	Public policy / agenda setting	29
	<i>Sub-total</i>	52

The spectrum of the FRC's policy process covers committees identifying agenda-setting matters, councils for carrying out the research and drafting or so-called 'heavy-lifting', and the FRC Board that has the final say in approving new codes and standards for implementation. My sampling and selection process has not been random, but has been purposive (Beitin, 2012) in order to represent rich knowledge about my research question. To enhance the multiple perspectives in my research, I have supplemented my primary source interviews with secondary-sourced PAC transcript data.

Public hearings transcripts

The public hearings transcripts, comprising 137 pages, constitute the 27 respondent interrogees and respondent witnesses that attended the PAC-UK (2012) public hearing in the House of Commons at Westminster Palace on Monday, 5th November 2012 and Monday, 12th November 2012 and the PAC-UK (2013) held on Thursday, 16 May 2013. At the 5th November public hearing, the witnesses under examination were: Lin Homer, HMRC Chief Executive and Permanent Secretary and senior HMRC officers. The National Audit Office (NAO) Comptroller and Auditor General, Amyas Morse, and the NAO's senior officers were in attendance by invitation.

At the 12th November hearing, the witnesses under examination were: Troy Alstead, Starbucks Global CFO; Andrew Cecil, Director of Public Policy; and Matt Brittin, Google VP for Sales and Operations, Northern and Central Europe. At the 16th May 2013 public hearing, the witnesses were John Dixon, Head of Tax, Ernst & Young, Matt Britten, Lin Homer and Jim Harra, Director General, Business Tax, HMRC. Again, in attendance by invitation were the NAO Comptroller and Auditor General, together with senior NAO officers.

By triangulating the three core sources of data (see Figure 5.4 for list of respondent interviewees, interrogees and witnesses by stakeholder type), I have been able to reach the threshold of theoretical saturation within the first-order codes. Although theoretical saturation may be difficult to define (Beitin, 2012), Corbin & Strauss (2008, p.113) provide the following guidance: 'It means taking each category and spelling out in considerable detail its properties and dimensions, including variation. It requires a lot of memo writing and a very conscious effort

to fill in gaps in data.’ The result is that any further data gathering beyond theoretical saturation adds little to the conceptualization process, other than possible ‘variations [that] can always be discovered’ (Corbin & Strauss, 2008, p.263).

For data composition purposes, I approached respondents with specialist knowledge (Beitin, 2012; Miles et al., 2014) in policymaking fields across corporate governance codes and standards, financial accounting and corporate disclosure as well as professional actors in the domains of international standards setting, financial information intermediation and corporate taxation. The emphasis on purposive or theoretical sampling was to select respondents not only for their specialist knowledge, but also for their institutional roles in policymaking, corporate disclosure and corporate taxation. The composition of the data set should persuasively represent respondents who are immersed in grappling with the phenomenon. Becker (1998, p.67) explains the rationale for data set composition as ‘it would be better to say that sampling is a kind of synecdoche, in which we want the part of a population or organization or system we have studied to be taken to represent, meaningfully the whole from which it was drawn’.

Table 5.4 – List of respondent interviewees, interrogees and witnesses by stakeholder type

RESPONDENT		Committee	Position
<i>Government agencies (G)</i>			
RP01-GEA	G	FRC Codes & Standards, FRC Board	Exec Director

RP02-GXA	G	FRC Accounting Council	Member
RP03-GXA	G	FRC Accounting Council	Chair
RP05-GXA	G	FRC Codes & Standards	Chair
RP010-GET	G	SA Revenue Services	CFO
RP11-GEP	G	Public Accounts Committee	MP, Member
RP14-GEP	G	HMT Bus & International Tax	Dep. Director
RP16-GEP	G	PAC – Committee member	MP, Member
RP17-GEP	G	HMT Bus & International Tax	Sen. Advisor
RP22-GET	G	HMRC – Tax Policy BEPS	Sen. Advisor
RP23-GEP	G	ONS Industry Classifications	Manager
RP24-GEP	G	ONS Industry Classifications	Statistician
RQ26-GEP	G	PAC – Chair	MP, Chair
RQ27-GEP	G	PAC – Member	MP, Member

RQ28-GEP	G	PAC – Member	MP, Member
RQ29-GEP	G	PAC – Member	MP, Member
RQ30-GEP	G	PAC – Member	MP, Member
RQ31-GEP	G	NAO – National Audit	Comptroller
RQ32-GEP	G	NAO – National Audit	Director
RQ33-GEP	G	DWP – Financial Audit	Fin. Director
RQ34-GEP	G	NAO – National Audit	Treasury Officer
RW35-GEP	G	HMRC – Tax Admin	Chief Executive
RW36-GEP	G	HMRC – Tax Admin	DG, Benefits
RW37-GEP	G	HMRC – Tax Admin	Chief Fin. Officer
RW38-GEP	G	HMRC – Tax Admin	Tax Ass. Officer

RQ39-GEP	G	PAC – Member	MP, Member
RQ40-GEP	G	PAC – Member	MP, Member
RQ41-GEP	G	PAC – Member	MP, Member
RQ42-GEP	G	PAC – Member	MP, Member
RQ43-GEP	G	NAO – National Audit	Asst. A- Gen.
RQ44-GEP	G	NAO – National Audit	Alt. A-Gen.
RQ48-GEP	G	PAC – Member	MP, Member
RQ49-GEP	G	PAC – Member	MP, Member
RW51-GEP	G	HMRC – Tax Admin	Dir. General
RW52-GEP	G	PAC – Member	MP, Member
<i>Inter-governmental agencies (I)</i>			

RP20-IET	I	OECD – Centre for Tax Policy	Head, Policy
RP21-IET	I	OECD – Centre for Tax Policy	Head, Treaties
<i>MNE HQ Representatives (O)</i>			
RW45-OEC	O	Foreign-HQ MNE, Starbucks	CFO
RW46-OEC	O	Foreign-HQ MNE, Amazon	Dir. Public Policy
RW47-OEC	O	Foreign-HQ MNE, Google	VP Sales EU
<i>Self-regulatory authorities (S)</i>			
RP04-SEP	S	IFS –Capital & productivity	Sen. Economist
RP06-SXT	S	TARC – Tax Admin Research	Member
RP07-SXT	S	TARC – Tax Admin Research	Team Leader
RP08-SXT	S	TARC – Tax Admin Research	Member
RP09-SEA	S	IFRS Standards Advisory Forum	Manager
RP12-SXA	S	ICAEW Accounting Council	Chair

RP13-SXN	S	IMA/FRC Accounting Council	Member
RP15-SEN	S	IMA/FRC Accounting Council	Member
RP18-SEN	S	Investment Analyst – Sell-side	Manager
RP19-SEN	S	Investment Analyst – Buy-side	Member
RP25-SEA	S	IIRC Integrated Reporting	CSO
RW50-SET	S	Ernst & Young – Big 4 Accounting	Head of Tax

Interviewee data references

The third core source of data comprise the MNEs' home location annual reports, consisting of 747 pages, the MNEs' host location annual reports, consisting of 98 pages, and the 26 documents referred to by respondents during the conduct of interviews, comprising 688 pages (see Figure 5.5).

I used the reporting calendar year of 2013 to re-construct and contrast how the US-headquartered parent of Amazon portrayed its economic engagement in the overseas UK market with how its UK subsidiary viewed and expressed such economic participation. My secondary source data for Amazon comprise the three 10-Q quarterly reports issued by Amazon.com, Inc. (incorporated in Delaware, USA) for the quarters ended 31st March 2013, 30th June 2013 and 30th September 2013, and filed with the US's Securities and Exchange Commission (SEC). It also comprises the 10-K annual report filed with the SEC for Amazon.com, Inc. for the year ended 31st December 2013. In relation to the UK, my secondary source data comprise the 2013 annual report for Amazon.co.uk Ltd and its 2013 annual return for the year ending 31st December 2013, lodged with the UK's Companies House.

I used similar data sources for the 2013 reporting calendar year for Google to re-construct and contrast the association of US parent headquarters' reporting from that made by the UK host subsidiary. That is, for Google, they comprise the three 10-Q quarterly reports issued by Google Inc. (incorporated in Delaware, USA) for the quarters ended 31st March 2013, 30th June 2013 and 30th September 2013 and filed with the USA's Securities and Exchange Commission (SEC). It also comprises the 10-K annual report filed with the SEC for Google Inc. for the year ending 31st December 2013. In relation to the UK, my secondary source data comprise the 2013 annual report for Google.co.uk Ltd and its 2013 annual return for the year ended 31st December 2013 lodged with the UK's Companies House.

Since Starbucks Corporation was integral to the UK public hearings and many of the respondents also made mention of it, I have repeated the exercise for the US parent headquarters' reporting by Starbucks Corporation (incorporated in Washington, US) and its UK subsidiary, Starbucks Coffee Company (UK) Ltd.

Documents that respondents made reference to during the interview sessions were uploaded to a separate MaxQDA folder, which included the UK's Corporate Governance Code (Financial Reporting Council, 2014c), UK's Stewardship Code (Financial Reporting Council, 2012), UK's Guidance on the Strategic Report (Financial Reporting Council, 2014a), an extract from QC George Bompas' Opinion (UK Parliamentary Commission for Banking Standards, 2013), the updated 'True and Fair View' Opinion given by Martin Moore QC (2013), the UK's affirmed position on 'True and Fair' (Financial Reporting Council, 2014b) and the Myner Review (Myner, 2001). In relation to activist organizations mentioned by respondents, I include the descriptive web portal extracts from the

‘About’ pages for Occupy London (2011), UK Uncut (2010), Tax Justice Network (2003) and the Richard Murphy Tax Research UK (2003).

From an international perspective, I include international reporting standards that were made specific reference to in the course of the interviews: namely, the IASB Conceptual Framework (IASB, 2010), the Related Party Disclosures (IAS 24, 2009), the Operating Segments (IFRS 8, 2007), the Consolidated Financial Statements (IFRS 10, 2011), the Disclosure of Interests in Other Entities (IFRS 12, 2011), the Revenue From Contracts With Customers (IFRS 15, 2014) and the International Integrated Reporting Council (2013) Framework. In relation to the inter-governmental agencies, I include the OECD (2013) report on addressing base erosion and profit shifting, the OECD (2014a) report on the tax challenges of the digital economy, the follow-up report giving emphasis to consensual approaches, the OECD (2015j) report on artificial avoidance of physical economic presence, the OECD (2015i) report on neutralizing the effects of hybrid mismatch arrangements, the OECD (2015c) report on countering harmful tax practices by nation-states, and the OECD (2015d) report on MNE country-by-country reporting guidelines.

Table 5.5 – List of the 26 interviewee data reference documents

Doc #	Description	Context	Pages	Sum
1	UK Budget: 2013	Base erosion	44	
2	UK Autumn Statement: 2014	Base erosion	45	

3	John F. Kennedy: 1961 Special Message to Congress	Base erosion	17	106
4	Conceptual Framework for Financial Reporting: 2010	Corporate reporting	40	
5	International <IR> Framework: 2013	Corporate reporting	45	
6	FRC Guidance on the Strategic Report: 2014	Corporate reporting	60	
7	IFRS 8 Operating Segments: 2007	Corporate reporting	9	
8	IFRS 8 Operating Segments: 2013	Corporate reporting	12	
9	IFRS 10 Consolidated Financial Statements: 2011	Corporate reporting	5	
10	IFRS 12 Disclosure of Interests in other entities: 2011	Corporate reporting	28	
11	IFRS 15 Revenue from Contracts with Customers: 2014	Corporate reporting	36	
12	IAS 24 Related-party Disclosures: 2009	Corporate reporting	7	242

13	FRC – The Corporate Governance Code: 2014	Governance logics	36	
14	FRC – The UK Stewardship Code: 2012	Governance logics	14	
15	FRC – True and Fair Statement: 2014	Governance logics	8	
16	Martin Moore QC Opinion: 2013	Governance logics	26	
17	Parliamentary Commission for Banking Standards: Written Evidence from LAPFF 2013, incorporating George Bompas QC Opinion: 2013	Governance logics	23	
18	LAPFF Associations respond to FRC’s True and Fair Statement– A long-term shareholder perspective: 2014	Governance logics	4	111
19	OECD (2013) Addressing Base Erosion and Profit Shifting	Inter-governmental mediation	44	
20	OECD (2014a) Action 1: Addressing the Tax Challenges of the Digital Economy	Inter-governmental mediation	89	

21	OECD (2014c) Action 13: Guidance on Transfer Pricing Documentation and Country-by-Country Reporting	Inter-governmental mediation	36	
22	OECD (2015a) Action 1: Addressing the Challenges of the Digital Economy	Inter-governmental mediation	48	217
23	Richard Murphy Tax Research UK	Social movements	3	
24	Tax Justice Network: Web portal	Social movements	3	
25	Occupy London: Web portal	Social movements	3	
26	UK Uncut: Web portal	Social movements	3	12
	Total			688

Conclusion

Significant practical progress has been made in making sense of the form, nature and extent of the disruption created by the base erosion phenomenon over the last three years, starting with the call by host nation-states in early 2013 for international collaboration (OECD, 2013) to measure and monitor the extent of this phenomenon, and finishing with a multiple set of positional statements (OECD, 2015f). The positional statements, as prepared by the inter-governmental

agency OECD, recommend specific policy changes that should be implemented at a domestic nation-state level, at a bilateral cross-country level and at a multilateral level (OECD, 2015e).

Whereas there has been much theory-testing on policy outcomes that have failed to meet legislative and regulatory policy aims (Dischinger & Riedel, 2010; Karkinsky & Riedel, 2009), there has been little or no theory-building on the base erosion phenomenon and how host policymakers make sense of MNEs' processes of internationalization across host locations. By adopting the research methodological frame outlined herein, I will be to obtain a much deeper and richer understanding of the base erosion phenomenon as experienced by host policymakers. My aim is to fill the gaps in the literature that I identified in Chapter 3, by theoretically conceptualizing the MNEs' value-creation frameworks as perceived by host policymakers, and that I identified in Chapter 4, by theoretically conceptualizing a sociopolitical legitimation mode to challenge taken-for-granted orthodoxy on MNE corporate financial disclosures and their corporate tax policy outcomes.

Finally, in this chapter, I have explicated a synthesized Shepherd & Sutcliffe (2011) framework to undertake phenomenon-driven research. The synthesized inductive framework comprised three distinct stages: a bottom-up grounded theory method to create first-order codes (Corbin & Strauss, 2008; Gioia et al., 2012); a top-down literature-informed enquiry (Corley & Schinoff, 2017; Shepherd & Sutcliffe, 2011); and using abductive reasoning to establish a contextualized authenticity in theoretical conceptualization (Ketokivi & Mantere, 2010; Mantere & Ketokivi, 2013).

In the next chapter, I will discuss the analysis of my data and findings, firstly, on the principles of and tensions involved in internationalizing and, secondly, explicate the host policymakers' perspective on the value-creation and value-capture processes of those foreign-headquartered MNEs that are more inclined to engage in base erosion.

Chapter 6 – Analysis and Findings on MNE Internationalizing Process under Base Erosion

Introduction

In this chapter, I will discuss, firstly, my analysis and findings on the principles and tensions that underlie the governance modes implemented by MNE groups in internationalizing across host locations, and, secondly, the host policymakers' perspective on the value-creation and value-capture processes of those foreign-HQ MNEs that are more inclined to engaged in base erosion practices. I use the data set, as more fully described in Chapter 5, to first of all examine how UK host policymakers problematized the multinationalizing process of foreign-HQ MNEs perceived as being integrally involved in the base erosion phenomenon (Ault, Schon & Shay, 2014; Dharmapala, 2014; Dischinger & Riedel, 2010). In this chapter, I work from the data to develop the first-order codes, second-order themes and the aggregate dimension of the host policymakers' view on MNEs' value-creation frameworks in internalizing across host locations. See Figure 6.1 for an illustration of the second-order interpretation of the dataflow on internationalizing principles/tensions and value-creation process.

It is only when we understand the principles of and tensions involved in internationalizing, and how host policymakers problematized this multinationalizing process and strategic behaviours (Avi-Yonah, 2008; Friedman, 2007), that the researcher is able to analyze the governance logics, the dynamic capabilities of MNEs and how host policymakers respond to stakeholder conflict resolution. The research findings and an analysis of the methods used by host

policymakers to challenge MNEs' base erosion practices and frame policy solutions will be dealt with separately in Chapters 7 and 8.

In terms of the principles and tensions of multinationalizing, three core features emerge from the findings. These features are: the need for MNEs to acquire and maintain legitimacy in host locations (Kostova & Zaheer, 1999; Suchman, 1995; Suddaby & Greenwood, 2005); and the MNE reliance on procedural legitimacy by adopting a rules-based expression (Baker & Hayes, 2004; Hines, 1988; Suzuki, 2003), whilst coping with the tensions of globalized competition that demands a system of borderless corporate reporting (Agmon, 2003; Buckley & Ghauri, 2004; Healy & Palepu, 2001) by MNEs.

As an overview to the second-order themes that emerged from the analysis and findings on MNE value creation across host location, see Table 6.0 below.

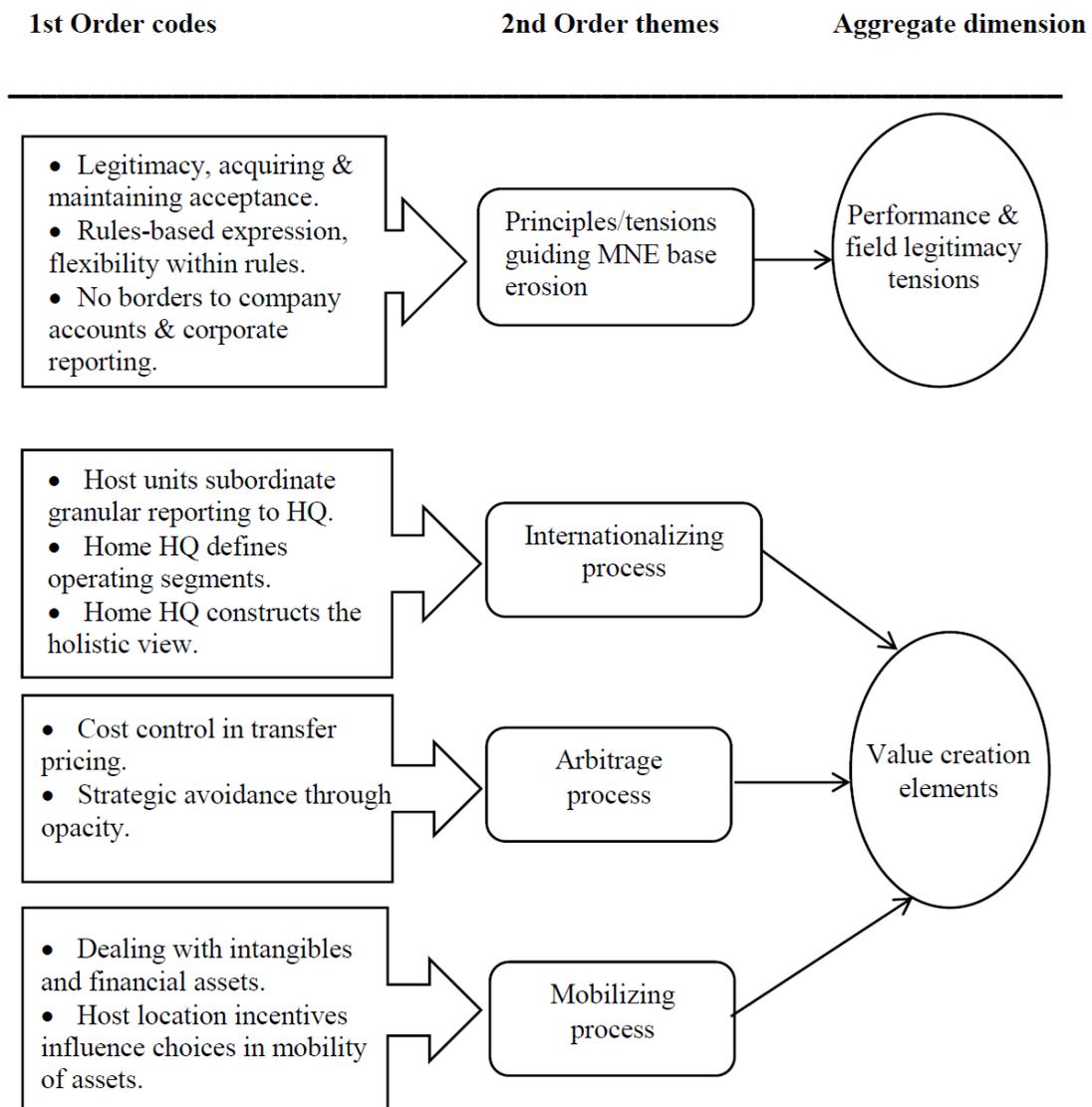
Table 6.0 – Overview of second-order themes of MNE value-creation frameworks from host policymakers' perspective

Aggregate dimension	Second-order themes	Illustrations
<i>Field legitimacy</i>	Principles/tensions guiding MNE base erosion across host locations	See Figure 6.1
<i>MNE Value creation</i>	Involving the processes of internationalizing, arbitrage and mobilizing	See Figure 6.1

<i>MNE Value capture</i>	Involving the processes of fragmenting, captive insourcing, valorizing and consolidating	See Figure 6.2

Note: Table 6.0 is a summary guide to the key concepts emerging and developed in this chapter.

Figure 6.1 – Dataflow on internationalizing principles/tensions and value-creation process



Note: Figure 6.1 links an extract of the first-order codes to: (i) the principles guiding MNE base erosion; and (ii) public stakeholders’ view on MNEs’ value-creation process.

As regards the host policymakers’ perspective of MNEs value-creation and capture framework as a researcher’s second-order interpretation (Hatch & Yanow,

2008; Heracleous & Hendry, 2000), seven key sub-processes (Sandberg, Loacker & Alvesson, 2015) emerge from the findings. The sub-processes that characterize elements of MNE value creation and mechanisms of MNE value capture involved fragmenting (Dunning, 2003; Williamson, 1991), captive insourcing and offshoring (Leiblein, 2002; Mayer & Salomon, 2006), internationalizing (Contractor, Sumit & Chin-Chun, 2003; Hennart, 2007), mobilizing (Dischinger & Riedel, 2010; Karkinsky & Riedel, 2009), arbitraging (Lohse & Riedel, 2013; Spicer, 1988), valorizing (Avi-Yonah, 2008; Cools, Emmanuel & Jorissen, 2008) and consolidating (Clarke & Dean, 1993; Maroun & Van Zijl, 2016). See Figure 6.2 for an illustration of the dataflow in the MNE value-capture process as a second-order interpretation.

Principles and Tensions in Internationalizing

Overview

My fieldwork shows how UK policymakers selected for scrutiny large foreign-HQ MNEs, took evidence, and examined the host location operations of Amazon.com, Google and Starbucks situated in the UK. I analyzed the interviewee transcript data, the interrogees and witnesses transcript data from the public hearings (PAC-UK, 2012, 2013) and the archival data that my interviewees made reference to, together with the annual and quarterly reports filed by these MNEs, in order to extract the principles/tensions underlying the multinationalization process. All three foreign-HQ MNEs vigorously defended their organizational structures implemented outside their home nation-state. More pertinently, all three MNEs vigorously defended the legitimacy of self-selecting geographically where and structurally how to locate their economic activities.

The basis of these legitimacy claims (Kostova & Zaheer, 1999; Suchman, 1995) were that the strategic arrangement of their economic activities conformed to the institutionalized norms (Westphal & Zajac, 2013), values and beliefs of the host jurisdiction. Secondly, the symbolic approach of the foreign-HQ MNEs in adhering to rules-based expression (Patriotta, Gond & Schultz, 2011) has intentionally been applied as a safe harbour buffer (Messner, 2009) against the legitimacy challenges. That is, MNE legitimacy is justified through expression of conformity with established rules and norms. Thirdly, as organizational environments become more global, with MNEs' subunits and intermediary units engaging in economic activities that extend beyond multiple borders (Agmon, 2003; Buckley & Ghauri, 2004), contradictory demands (Smith & Lewis, 2011) are imposed on foreign-headquartered MNEs.

Legitimacy

Acquiring and maintaining legitimacy (Aldrich & Fiol, 1994) through conformity with rules is based on the principle or 'work of justification' (Patriotta et al., 2011), which is justification through procedural conformity to established rules and practices (Folger & Konovsky, 1989). Taking an extract from the first-order code on acquiring and maintaining legitimacy, RW47-OEC justified management's position at the PAC-UK (2012) hearings, stating:

We comply with the law in the UK. It would be very hard for us to pay more tax here based on the way we are required to structure by the system. Tax is not a matter of personal choice, but a matter of following the law and the rules, which is what we do. It is complicated internationally, but we follow the law in every country in which we operate.

When pressed by the PAC chair on whether the firm's choice of structure amounts to avoiding UK tax within the remit of the law, RW47-OEC again defended the legitimacy of the firm's choice of structure, responding: 'No. What I am saying is that we pay the tax required in every company in every country in which we operate... I cannot comment on the hypothetical proposal. We run the business in a robust way. We think we do it in a way that is appropriate. It is certainly legal.'

Suddaby & Greenwood (2005) affirm the rhetorical strategies that organizations engage in to acquire and maintain legitimacy through the use of institutional vocabularies and theorizations on justification work. Those vocabularies are about compliance and conformity, whilst work of justification is about serving customers' needs and paying all dues and imposts wherever arising. As expressed by RW46-OEC, 'We set up our business across Europe for the benefit of our tens of millions of customers and sellers across Europe. We pay all applicable taxes in all jurisdictions.' New organizations, particularly those linked to emerging industries (Aldrich & Fiol, 1994; Gurses & Ozcan, 2015), have to gain legitimacy in order to enter and capture value from their economic activity. It is not only new organizations and emerging industries, but also well-established organizations that need to maintain their legitimacy, particularly on gaining entry into multiple host environments (Kostova & Zaheer, 1999). Prior research has recognized that foreign operating subunits of MNEs will face greater challenges to their legitimacy from host environments. This may be due to stereotyping or

liability of foreignness, MNE size and visibility, or the domino effect of being challenged by other host environments (Kostova & Zaheer, 1999).

In the case of the three MNEs that gave evidence before the PAC-UK (2012) public hearings, all are well-established organizations. Amazon.com was listed on Nasdaq on May 15, 1997, achieving sales of US\$147.8m in its first year of listing (Amazon.com, 2013). Jeff Bezos founded the entrepreneurial internet start-up in July 1995 (Stone, 2013). After 20 years of commercial enterprise, Amazon.com had achieved global sales of US\$74.4bn by end of December 31, 2013 (Amazon.com, 2013). Google was listed on Nasdaq on August 19, 2004. Larry Page and Sergey Brin founded the internet search engine enterprise in 1998, following the breakthrough work of Berners-Lee in inventing the World Wide Web in 1990 (Castells, 2002; Levy, 2011). After 15 years of monetizing its search engine business model, Google had achieved global sales of US\$59.8bn (Google Inc, 2013). The third organization under scrutiny was Starbucks, founded in March 1971 with Howard Schultz joining it shortly after its start-up. Starbucks went public by listing on the Nasdaq in 1992 with 165 stores. By September 29, 2013 Starbucks had 10,194 company-owned stores, 9,573 licensed stores and global sales of US\$14.9bn (Starbucks Corporation, 2013).

Rules-based expression

Legitimacy and rules-based expression are related concepts. Organizations maintain legitimacy by complying, or more pertinently, by working on justifications of procedural compliance. Rules can be either elective or prescriptive. Where elective, organizations will make decisions and communicate how they have exercised their discretion. In the context of multinationalizing

decisions, MNEs can choose how to allocate, to configure, to integrate and to report on the economic activities and social processes of their domestic and foreign operating subunits. Citing an extract from the first-order code on rules-based expression, flexibility within rules, RP02-GXA commented on the process in applying IFRS rules: ‘They say do what the rules say and then show me the rule.’ For example, in applying the elective rules under IFRS 8 (2007) on operating segments, RP02-GXA noted:

It's the question of how the management discovered and determined what is the most sensible way of monitoring performance and monitoring the performance of the individual segments of their business. If they decided that there is a particular parameter on which they've defined that segment, and they monitor it period on period, well that's what they'll report. Now, how the management of the consolidated entity monitors versus how the more granular management at an individual UK company entity monitors can be quite different, because at an individual entity level, my segments could be different.

Pertinently, the elective rules in IFRS 8 (2007) give HQ management (Hermann & Thomas, 2000) the discretion to communicate how they intend to delineate their operating units and subunits both in home and in host environments.

Emphasizing this relation between rules-based expression and legitimacy, RP25-SEA commented: ‘So much of corporate decision making today and corporate disclosure is about compliance. It isn't about communication; it isn't about managing businesses in a better way. It's about, “Do we meet the rules?” And actually, if you say to a lot of businesses around the world, and there are some

exceptions, there's some really progressive and good businesses, but if you say to some CEOs, "Why don't you disclose more about yourself?" They'll say, "Why should we disclose more than we have to? Why should we ever disclose more than we're told to by our regulators?" RP05-GXA re-emphasizes the literal use of rules-based expression:

I give you another example, just real. Is that you try and follow goodwill impairment testing through accounts. And you have no chance... from year to year, there's a value on the balance sheet, 100, let's say. They would do a goodwill impairment test of that asset to see if the CGU [cash generating unit] has got the cash generating ability to formally meet the rule. Last year, they got an answer, 500. So 100 was okay. This year they got around 250, so 100 was okay. Now, to your economic value question, it's doubtful that the asset really halved in value because it went from 500 to 250 per the sum.

As far as prescriptive rules are concerned, boundaries are set as to what is permissible or legitimate and what will constitute a breach of the rules (Gracia & Oats, 2012). RW35-GET reframed the regulator's dilemma when administering prescriptive rules: 'The second question you asked is about the application of the law. All that HMRC can do and all that you would want us to do is apply the laws. I acknowledge that in an international setting, multinational businesses can choose, to some extent, where some parts of their business are based and where some of their profits are based. As I acknowledged in front of the TSC, I think that that is hard for individuals to understand. It is one reason why the Chancellor and his colleagues want to make sure that OECD stays ahead of that game and does not

allow an inappropriate amount of moving-around activity that would undermine the good tax systems of most of the countries involved.’

Conduct that is based on the principle of rules-based expression, whether bounded by prescription or by discretion, does not inhibit creativity or decision opportunities (Cohen, March & Olsen, 1972). As Hines (1988) and Suzuki (2003) theorized, converting economic reality into an artefact of accounting is conditioned by what is sought to be expressed. RP11-GEP alludes to MNEs’ creativity in rules-based expression:

I mean, I suppose it's a truism that rules are often there to be bent, and I don't mean that in an illegal sense. I think you're right; they were very clever people looking at how you worked within the rules, but maximized your profit and minimized your tax responsibility. And frankly, I just think we were all amazed that you could pretend—as we saw it—that the contract was between somebody and me in Luxembourg—or some company in Luxembourg. And really, Amazon and Dunfermline, for example, which is a big distribution place was only the delivery mechanism.

Where creativity in rules-based expression is procedurally justifiable, but leads to unintended or unreasonable outcomes, stakeholders’ evaluation of an organization’s legitimacy is intensified. The evaluative stance on organizational legitimacy moves beyond an assessment of compliance or conformity and instead shifts towards a contested justification of the logic and the fair-mindedness. However, the initial reaction of inter-field actors is to resist a justification based

on fair-mindedness, instead demanding certainty in rule-making, RP08-SXT remarking:

In the context of Amazon, try to explain to somebody that a warehouse is not recognized for tax purposes in the UK because dozens and dozens of countries around the world have agreed that to be the case. When they live in a house that's only a mile from the biggest warehouse they've ever seen full of books that is shipping them out to customers, they say, "What? That's not a tax presence? Of course, it's a tax presence." But they haven't understood, have they? They haven't understood the technicality of a warehouse is simply not included within the definition of PE [permanent establishment]. That's very different from being told that these people have cheated.

But over time, the justification of procedural conformity and technical certainty in rules become contested by evaluative assessments of equity and fairness. An information intermediary, RP15-SEN, observed: 'Because they're effectively gaming things to suit themselves. And I think it could come back and bite them.'

No borders for corporations and accounts

Corporations have one place of incorporation, their home HQ, but have no borders when creating and capturing economic value globally (Guenther & Young, 2000). This introduces the third principle of globalization and competition in internalizing. These three principles of internationalizing in seeking host location legitimacy, justifying a rules-based expression and coping with global competition individually draw on the dynamic capabilities of the firm. However, when viewed jointly, these three principles expose the paradoxical tensions that MNEs

dynamically cope with in delivering performance and success (Smith & Lewis, 2011).

Taking an extract from the first-order code on no borders to company accounts & corporate reporting, respondent RP02-GXA commented on the role of MNEs in global trade facilitation: ‘Frankly, companies these days, businesses these days, have no borders. Investors have no borders. Money has no borders. It's all border-less. As an investor, I think as the company, I am very much interested in getting consistent separate accounting principles so that I can raise money in a border-less fashion, because I operate in a border-less fashion.’ The consequence of corporations having no borders in global value creation and value capture creates the problem of attributing profits to competing nation-states (Lepak, Smith & Taylor, 2007).

Each nation-state has a stake in the financial accounting and corporate taxation conventions that direct profit attribution claims with reference to the location or to multiple locations where the economic activity occurs. Respondent RP04-SEP analyzed the challenge of directing profit attribution claims as:

You can write down how many people are employed in different locations. You can write down where all of your factories are, where all of your intellectual property is held. You can have the full view of the company, full information—brilliant. Then you have profit and you still have to allocate that profit to this man versus that man, versus this woman, versus that piece of intellectual property, versus this building and then you have that same idea. Even if you know where the physical things are, you still can't attribute, necessarily the value, and you're still back to having to work out how much

value is associated with each different element. I think knowing just where things are physically isn't a huge help.

Recognizing the challenge of tracking the location where value creation arises and where value capture occurs, respondent information analyst RP15-SEN observed: 'Because I think, people think they're investing in the FTSE 100. You know, Aunt Agatha thinks she's investing in Marks and Spencer or BP—not these Russian mining companies, which a lot of it is.'

Policymakers acknowledge the limits of sovereign reach over MNEs' borderless economic engagement. RP20-IET describes the conditions and nexus for sovereign reach:

But when you move into the realm of regulation, whether it be in the area of tax or anywhere else, in the absence of global regulation—and there are very few places where that occurs in any meaningful or effective way—in the absence of global regulation, nation-states will rely upon their sovereign right to regulate the activities of all players that touch upon or have a connection with their jurisdiction. The difficulty, of course, with trying to ensure that the reach of a company that traverses so many jurisdictions might be properly and effectively regulated is that there are limits to the extent to which any one jurisdiction can legislate within its own sovereign realm.

In summary, the findings highlight three core principles/tensions that support the internationalizing process of MNEs. These are: the corporate rhetoric involved in acquiring and maintaining legitimacy through vocabulary use and work of

justification; the justification of procedural compliance and conformity with the rules-based expression; and the dynamic capabilities of MNEs to cope with the tensions of globalization in exploiting the borderless opportunities to create and capture economic value whilst counterbalancing the host location demands of legitimacy justification. These three core principles, considered individually, enhance MNE performance but when assessed jointly introduce paradoxical tensions that challenge MNEs ordinary and dynamic capabilities.

Host Policymakers' View of the MNE Internationalizing Process

My analysis and findings indicate that there are seven distinct processes that MNE HQs strategically engage in when inclined to engage in base erosion practices in the course of multinationalizing. These are: fragmenting the organization's value-creating economic activities; the captive insourcing and offshoring of either integral or ancillary economic activities; internationalizing to augment firm performance; mobilizing the MNE group's intangibles and fungibles; arbitraging strategically and opportunistically; valorizing economic activities intragroup and consolidating all earlier MNE HQ interventions.

Internationalizing Process

I synthesize the literature with three first-order codes to reflect on the host policymakers' perspective of internationalizing as the organizational ability of MNEs, as conditioned by time, pace and space, to engage in economic activity between their home location and overseas counterparties—their foreign intermediate units, their foreign subsidiaries and subunits, their customers and other salient stakeholder classes. The three first-order codes reflecting on the

internationalizing process are: host units subordinating granular reporting expression to HQ; home HQ defines operating segments; and home HQ constructs holistic view.

Host units subordinate granular reporting expression to HQ

In the course of internationalizing, host foreign intermediate units, subsidiaries and subunits generally assign discretion for granular reporting decisions to the home HQ. And since fostering economic growth and social welfare are key objectives of nation-states (Blake & Moschieri, 2017; Moran & Ghosal, 1999), capital market regulators will, primarily, focus on the accounting expression of the home HQ (Nielsen & Roslender, 2015). As a consequence, granular aspects of host reporting expression are of lesser concern to the host regulator. This is re-affirmed by RP01-GEA, noting that: ‘At the subsidiary level, there’ll be lesser requirements in terms of granular information, but only on the grounds that the relevant information is obtained in the consolidated financial statements.’

When asked to interpret particular notes extracted from UK host annual reports for Amazon.co.uk Ltd and Google UK Ltd, RP02-GXA concluded:

They're far too generic for me to understand anything. They don't tell me anything about revenue recognitions. They don't tell me about what the company does... it is frankly meaningless. What you need is a proper description, and that's why we describe what we now call “strategic report”... Now, you're required not only to describe what you do, but also link to the underlying data.

The consequence is that host reporting expression can become less purposeful.

Home HQ defines operating segments

It is senior management, or more specifically, the organization's chief operating decision maker (IFRS 8, 2007; Kou & Hussain, 2007), who is given the discretion to define the composition of its operating segments. The rationale for delegating this prerogative to the organization's chief operating decision maker is so that stockholders are able to make a judgment on the decision maker's competency in allocating the organization's resources and in assessing its performance (Leung & Verriest, 2015). Senior management of each subunit or subsidiary within the corporate group technically has this prerogative.

In reflecting on the operating segment information, RP02-GXA explained: 'it's the question of how the management discovered and determined what is the most sensible way of monitoring performance... Now, how the management of the consolidated entity monitors versus how the more granular management at an individual UK company entity monitors can be quite different, because at an individual entity level, my segments could be different.' Applying this to the host subsidiaries in question, RP02-GXA commented: 'At the subsidiary level, you may have a very small entity focused on one activity and one jurisdiction. Very different business issues, very different KPIs, very different way of looking at performance management so they may define completely different segments.'

Notwithstanding the prerogative afforded to each entity's chief operating decision maker, it is important to recognize the multinationalizing role of the home HQ (Crilly, 2011). So the home HQ chief operating decision maker sets the lead in identifying the most relevant interpretative lens. In the case of the home parent, Amazon.com, it states in Note 12 on segment information: 'We have organized

our operations into two segments: North America and International. We present our segment information along the same lines that our Chief Executive Officer reviews our operating results in assessing performance and allocating resources.’ (Amazon.com, 2013 p.64). The International segment consists of:

amounts earned from retail sales of consumer products (including from sellers) and subscriptions through internationally-focused websites. This segment includes export sales from these internationally based websites (including export sales from these sites to customers in the U.S. and Canada), but excludes export sales from our U.S. and Canadian websites.’ (Amazon.com, 2013 p.65).

Included in the disclosure of the International segment are UK-focused websites, which generated revenues of US\$7,291bn. From the UK subsidiary host perspective, Amazon.co.uk does not provide operating segment disclosure. Instead, its Strategic Report states: ‘The principal activity of the Company is the provision of fulfillment and corporate support services to group undertakings... The key performance indicator for the company is the control of administrative expenses.’ (Amazon.co.uk, 2013 p.5). The turnover reported by the host UK subsidiary for these group services amounted to GB£449m.

What the multinationalizing process reveals is that for Amazon.com, its international sales from UK-focused websites are transacted through a Luxembourg-based subsidiary, while the group fulfillment of its sales obligations are independently furnished by a UK organization, Amazon.co.uk Ltd. That is, Amazon.co.uk Ltd’s only customer is its fellow group subsidiary in Luxembourg.

In essence, not only is the related-party disclosure making invisible what otherwise was previously visible, so too is the disclosure on operating segments making invisible what otherwise was previously visible.

A similar feature of multinationalizing is evident in the case of Google Inc. Its HQ home Annual Report states that:

we operate two operating segments: Google—includes our advertising and other non-advertising businesses; and Motorola Mobile—includes our mobile devices businesses acquired from Motorola. Our chief operating decision maker does not evaluate operating segments using asset information...Revenues by geography are based on the billing addresses of our customers for the Google segment and the ship-to-addresses of our customers for the Motorola Mobile segment'. (Google, 2013 p.75)

In the HQ accounts, Google Inc. disclosed its derived revenues from customers with UK billing addresses amounted to US\$4,057bn. From the UK host subsidiary perspective, Google.co.uk Ltd does not provide operating segment disclosure. Instead, in its Strategic Report, it discloses the business activities it provides to the group as 'the provision of marketing services to Google Ireland Ltd and the provision of research and development services to Google Inc.' (Google UK Ltd, 2013 p.3). The turnover reported by the host UK subsidiary for these group services amounted to GB£642m.

On closer scrutiny of Google Inc., its UK operations are limited to providing marketing and promotion as well as research and development functions solely to -parties within Google Inc. A Google senior executive, RW47-OEC, explained the

UK host operational aspects as: ‘I have tried to describe very clearly what people actually do, because as I understand it, it is what people actually do and what actually happens that is important here. What actually happens is that when people spend money with Google, they spend it on a technology platform that is built globally and that is owned in Ireland. The transactions are closed with Ireland, the billing is with Ireland and the technology is owned there, so the people in the UK cannot sell, because they do not own the property.’

Host policymakers have a different perspective on the internationalizing process and operating segments of MNEs. RP10-GET frames the prejudicial effects on host environment as: ‘So basically, I think you have to look at the multinational (as a whole)—this is what I think—rather than what necessarily the OECD thinks. You’ve got to find a way to actually capture the data points, if you like, and then apply a reasonable assessment to whether what is actually being done is reasonable in all the circumstances.’ The tension between the global and local features arising from the process of MNEs creating structural boundaries around discrete operating segments in host locations is evident in the problem of how to attribute value among subunits or subsidiaries that are taken to be operating independently but in reality are not (Avi-Yonah, Clausing & Durst, 2008; Lohse & Riedel, 2013).

The OECD head of treaties, RP21-IET, clarified this tension between local and global features of the MNE:

For example, if the facts of the case show that, in fact, there is some form of collaborative relationship between the two parts of the same entity, you should also price the transaction as being on a collaborative basis. You shouldn't try

to say, “Well, you should be kind of competing with each other,” because you can also see in third party situations, situations where such collaboration exists. For example, when you're talking about joint ventures. So what we say is when you're establishing the facts and circumstances of the transaction, when you're defining what the actual transaction is, you should very carefully look at also the way that being part of the global firm determines the facts.

Constructing a holistic group view

With the home HQ creating a holistic group view, the multi-nationalizing process obfuscates reconciliation of the intermediary units, subsidiaries and subunits—comprising the home and host operating segments—to the whole. At the PAC-UK (2012), the PAC chair RQ26-GEP, asked Starbucks senior management:

How do you explain the difference? I am sorry to interrupt you. As I understand it there are transcripts of the conference calls—right? ... and you then promote the guy responsible for the UK business to run your US business, it just doesn't match. It doesn't ring true... I can take you to 2011: losses of £33 million, and John Culver, president of the international division, told investors, “we are very pleased with the performance in the UK.” Yet you filed £33 million losses.

RW45-OEC's responded:

No. I assure you we are not making money and the investors we are speaking to are all of the investors in the company. We have never targeted just to the

UK, although we understand that audience. In all earnings releases and conference calls, our primary message has to be under the SEC rules for the US, which are addressing primarily US-based accounting rules and reporting rules.

With the home HQ creating a holistic group view, the multi-nationalizing process obfuscates reconciliation of the intermediary units, subsidiaries and subunits—comprising the home and host operating segments—to the whole.

Where parts of the organization are not adequately reconciled to the whole under accounting expression, UK host regulators impose an overriding principle that corporate disclosure be fair, balanced and understandable. RP01-GEA alluded to this principle by observing: ‘[that] went into the 2012 version of the code...basically, boards have got to make a statement that the annual report and the accounts is fair balanced and understandable and we have changed the audit standards so that the auditor has to speak up, if he doesn't agree... Part of fair is you can't leave things out if it's necessary for a balanced view.’ The fair, balanced and understandable override is a UK accounting principle. The home HQs for Amazon.com, Google Inc. and Starbucks are, however, subject to the US SEC code.

Mobilizing Process

Emerging from the data, I use the second-order theme of mobilizing to indicate the policymakers' view on the degree of relative ease with which a particular class or category of a firm's resources can be relocated from one nation-state to another. Two first-order codes that inform the policymakers' view on the mobilizing

process are: dealing with intangibles and financial assets; and, host location incentives influencing choices in mobility.

Dealing with intangibles and financial assets

Intangibles and financial asset classes are inherently more mobile than physical assets (Arginelli, 2015; Karkinsky & Riedel, 2009). Respondent RP07-SXT observed that: ‘Mobility is much greater now I think and also the speed at which things happen is much quicker—everything is much quicker now, I think. So I guess the risk of base erosion is possibly greater now than it was then, and it's probably right that we have a look at it again.’

Provided international transfer pricing rules are complied with (Cools et al., 2008; OECD, 2015b), it is legitimately possible to shift profits to the new locations of the mobilized intangibles and financial assets. In the context of financial assets, a director of UK HMT, RP14-GEP, observed:

Yes. But this isn't just a factor of technology; it's also a factor of capital becoming more globally mobile, and more countries becoming economic actors. In the past you had a much, much smaller number of countries that were significant capital providers. Now if you look at investment float into countries like China, huge volumes of these are accounted for by funds, companies, entities of other sorts based in Bermuda, Cayman Islands, Mauritius.

Intangibles cover both formal intellectual property, like trademarks and patents, and informal intellectual property like brands and exclusive marketing distribution rights. Chief executive of the HMRC, RW35-GET, stressed that: ‘Intellectual

property is a real thing. It is important to say that it has a market value: if it did not, there would not be many franchises prepared to pay a sum to some of the intellectual property owners in order to have the intellectual property.’ The dilemma is that complexity increases as intangible assets and intellectual property devolve into multiple forms of proprietary rights, such as: entering into cost-sharing arrangements over research & development (Heriford, Keats, Lamoureux & Wright, 2013); handling of buy-in payments; acquiring or foregoing rights under collaborative research & development arrangements; and subsequent licensing arrangements.

Host location incentives influence choices in mobility

Nation-states recognize the value of intellectual property and compete in encouraging entrepreneurial firms to relocate their innovation (Evers, Miller & Spengel, 2014). RW35-GET indicated the UK’s competitive stance as:

We have, for a number of years, heavily encouraged scientific entrepreneurs.

We have tax approaches that are designed to allow quite significant recognition of the investment costs up front for stonkingly good new developments. We then developed some very successful businesses that make a global impact.

This concern over the complexity and opportunism in the unbundling of proprietary rights and know-how was expressed by PAC member RQ28-GEP: ‘But surely there is a difference...between brand value, which we are talking about with this company, and intellectual property, which involves masses of research and investment over many years, and which is a different issue... You use this

caveat of intellectual property as a catch-all term to give carte blanche, it seems, to admittedly legal and, for the moment, legitimate tax avoidance. But surely it must have crossed your mind that we need to establish some kind of legal precedent to distinguish between brand value and intellectual property.’

All three MNEs that gave evidence at the PAC hearings engaged in multiple forms of mobilizing, for example: Starbucks licensed trademark rights to its UK host subsidiary; Amazon granted warehousing rights to its UK host subsidiary but denied it the commercial right to sell books and literary works; and Google paid the UK host subsidiary for their local intelligence gathering, but denied the UK host subsidiary the commercial rights to sell advertising.

Arbitraging Process

Two first-order codes comprise the second-order theme of the arbitrage process: cost control in transfer pricing, and strategic avoidance through opacity.

Cost control in transfer pricing

Arbitrage, at its most basic, involves taking advantage of differing prices for the same goods or services. Arbitrage has multiple guises. In my fieldwork, respondents consciously categorized arbitrage either as good, grey or bad practice. Controlling costs is a core competency of efficient management (Coase, 1937; Williamson, 1991). For management, taxes, imposts and duties are like any other business expense that should be competently managed and controlled (Mulligan & Oats, 2016). The greater the scale of operations, the greater is the opportunity for economizing (Badertscher, Katz & Rego, 2013). RP07-SXT expressed the pragmatic, benign view of economizing as:

I don't subscribe to this fair share sort of argument. I think it is a cost and it needs to be managed and I don't think the really big multinationals are...money-laundering and stuff or evading taxes or doing highly artificial things through tax havens and things because you've got these regulatory constraints on them.

This pragmatic view of economizing, notes HMT deputy director, RP14-GEP, will also involve: 'the manipulation of internal transactions, primarily through the transfer pricing rules and ... engaging in transactions or creating structures or doing other activities that enable them to maximize their access to legitimate reliefs in the tax system'. When the PAC chair, RQ26-GEP, asked Starbucks senior management: 'So there is a tax advantage to you from paying the royalties in the Netherlands?' RW45-OEC replied: 'It is a favourable tax rate that we have in the Netherlands on all income that comes in from all over.' In relation to the internalized purchasing of coffee supplies, RQ41-GEP asked: 'And then you charge 20% for selling it on to everybody else?' Starbucks senior management, RW45-OEC, replied: 'We must require to get cost and generate a profit whenever activities happen wherever they happen around the world.' and 'Yes. The Swiss tax rate has been approximately 12% over history [on the coffee supplies markup].'

Strategic avoidance using opacity

Then there are the grey practices of arbitrage. The activities performed may have sufficient scale to indicate normality but on closer scrutiny may have questionable internalized substance. The OECD head of treaties, RP21-IET, noted: 'the real risk in transfer pricing is, or in tax, is in minimum functional entities that

have a lot of capital allocated ... and that are located in low tax jurisdictions’.

When PAC committee member, RQ39-GEP, asked:

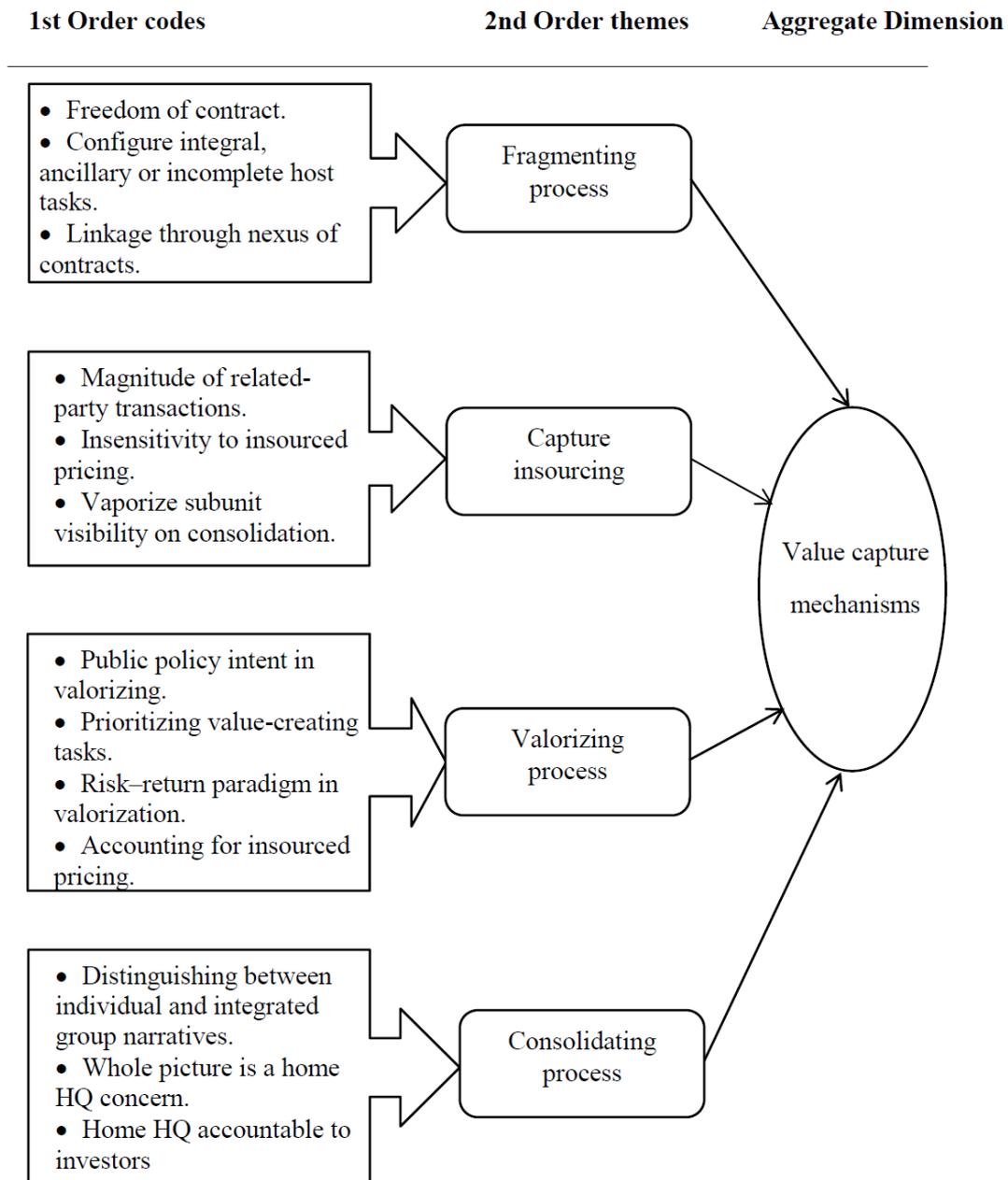
What I am interested in is how you are stripping out the profits in Luxembourg... If it is €9.1 billion going to €20 million, that suggests that you are stripping out the profit in Luxembourg. Who owns the holding company?

Amazon senior management, RW46-OEC, responded: ‘I will need to come back to the Committee on that.’

Alternatively, the MNE group may incorporate opaque structures that opportunistically exploit cross-border statelessness (Kleinbard, 2013). A director of UK HMT, RP14-GEP, commented: ‘The problems arise where you have companies that have sufficient capital and scale to be able to invest, to put substance, in different jurisdictions and to create complicated structures which have an underlying commercial purpose, no denying that at all. The entities concerned can clearly assume their contractual responsibilities, but these arrangements lead to a very advantageous tax outcome for the company.’ The OECD head of tax policy, RP20-IET, is more explicit on these grey practices: ‘But what's not legitimate is where companies are able to take advantage of interactions and mismatches between tax systems in order to, in some cases, effectively pay no tax on transactions, or arrangements, or activities that were not intended to be tax-free, and would otherwise not be arrangements that would go tax-free. So I think that's the crucial point.’ The dilemma for public policymakers, notes RP14-GEP, is that: ‘it's quite hard to challenge these arrangements effectively, particularly when they're made by large corporations that don't engage in transactions that are

wholly artificial. The wholly artificial stuff you can pick up, it's the stuff that falls into the grey area, where they don't need to do this, but they can, and they benefit a great deal from doing it.'

Finally, there are those practices of arbitrage that go beyond strategic exploitation to being explicitly illegal. The UK's HMRC senior advisor, RP22-GEP, demarcates the boundary between grey and bad as: 'they've got different functions. GAAR [general anti-abuse rule]—and I see this maybe sort of ties in with the difference between where domestic legislation operates and where you're looking at the international tax rules, which is where BEPS project comes in—but GAAR was always and is always intended to be a measure that bit at the very extreme end of abusive transactions.'

Figure 6.2 – Dataflow on value-capture process

Note: Figure 6.2 links an extract of first-order codes to illustrate a public stakeholders' view of the value-capture mechanisms.

Fragmenting Process

I use the term fragmenting in this thesis as a second-order theme to represent host policymakers' views on the choice opportunities that MNEs have to flexibly reconfigure their internal operations across national boundaries in order to direct value to firm preferred locations. Three first-order codes explicate the fragmenting process: freedom of contract; configure integral, ancillary or incomplete tasks; and nexus of contracts linkage.

Freedom of contract

As the frame of reference affecting host locations is base erosion (Contractor, 2016; Dharmapala, 2014), my focus is on within-group fragmenting as distinct from decisions about externalizing part of the group's activities. By within-group fragmenting (Nebus, 2016), I mean that the HQ configures multiple subunits or subsidiaries to perform distinct activities it considers may be optimally undertaken within group. Transaction cost economics explains the rationale for firms to internalize transactions due to market failure or inefficiencies (Coase, 1937; Williamson, 1991), but not necessarily the need for further within-group fragmentation. Whereas externalizing a part of the firm's activities through outsourcing, external contracting or by entering into alliances or joint venture arrangements (Reuer & Devarakonda, 2016) is motivated by the efficiency of markets or geographical clustering (McCann, Reuer & Lahiri, 2016).

Freedom of contract is the enabling feature for initiating the process of within-group fragmenting as well as external contracting. That is to say, by structurally fragmenting the firm, the incidence of contracting is salient for both within-group conduct as well as external engagement. Subject to statutory intervention,

individuals and groups possess this universal freedom to negotiate contract terms and conditions. RW35-GET expressed the UK regulatory agency's views on the freedom of contract as: 'And multinationals have choices. Multinational companies are companies that can choose where to put their headquarters and where to put their outlets, and they are taxed in the country where they carry on economic activity, not where their customers are. That is an international arrangement.' RP08-SXT restated this universal right more forcibly as:

'But more fundamentally than that—haven't thought about this in any great detail - but giving contract law the substance is human rights law, because human rights law contains the provision that every person, whether natural or legal as a company, has the right to the enjoyment of his possessions, and that right cannot be interfered with by the state except for the benefit of all.'

Decisions on within-group fragmentation have consequences. When RW45-OEC suggested that: 'Respectfully, those jurisdictions require us to report profit where the activity happens. We have no choice but to do that', PAC indicated that the purported determinism, as recounted by the respondent witness, arose because of the choices they made in fragmenting their operations within group. PAC interrogant, RQ42-GEP, remarked: 'But that is partly because you make it so... It does not need to be that complicated.'

Configuring integral, ancillary or incomplete tasks

Contrary to popular understanding, at aggregate level, MNE groups are not affected by within-group fragmentation. For example, labour or human capital can now be reconfigured quite flexibly across the organization (Hirst & Humphreys,

2015). However, when within group fragmentation occurs across multiple jurisdictions, then the sovereign interests of affected nation-states are invoked (Contractor, 2016). The complexity and ambiguity that pervades the process of within-group fragmentation is explained by a senior economist, RP04-SEP, as: ‘Of course, then, if you've got a profit that's being created by some workers, a factory, and a patent, you have to allocate those profits to those three sections... They're complementary. So it makes no sense to think of the value of the patent completely independently of the value of all the other inputs that went into it, but the tax system makes you separate them out.’

On the other hand, the process of fragmenting within-group tasks considered as integral, ancillary or incomplete does opportunistically take advantage of the principle of justification, applying procedural rules-based expression in international tax conventions. UK senior HMT representative, RP14-GEP, explains the opportunism as:

I think our view would be that what you have to do is focus on whether the activities that a company is undertaking constitute essential and significant functions. And rather than having some of the exemptions that are currently provided for in the permanent establishment [PE] definition, things like warehousing, or marketing activities, you actually qualify those by saying, “but in the case where this activity is essential and significant, it creates a taxable presence”. Where it isn't, then it doesn't.

Nexus of contracts linkage

What then attaches the integral or ancillary economic activities of host subsidiaries and subunits to overseas locations? It is the nexus of contracts that performs this link. The FRC respondent, RP02-GXA, explained how this nexus of contracts linkage operates in practice by reference to the European operations of Amazon.com: ‘Who is the principal in the transaction? So, if a Luxembourg company is the principal in the transaction, it's their revenues, it's their loss if something doesn't go right. That is where the customer has ultimate recourse to for the service provision and everything else. So it's quite conceivable, as I say, that the UK company, despite the fact that it's a UK website address, but those companies that are actually providing the goods and services could be registered anywhere. It doesn't bother me.’

The nexus of contracts provides the link not only for integral tasks but also for ancillary tasks. The tracing of links to host subunits and subsidiaries requires the contracting capacity of all parties engaged in performing those tasks to be clearly delineated. For ancillary economic activities, RP02-GXA explained: ‘It's internal subcontracting to other companies. What really matters here is who is the principal in the transaction and who is an agent. So here is this company that is doing something at the request and on behalf of someone else. So it's acting on behalf of the Luxembourg company who is acting as a principal in the transaction.’ Google respondent, RW47-OEC, distinguished between integral and ancillary task providers as: ‘I have “Sales” in my title, and so do other people... However, any customer who spends with us has to buy from Ireland, because that is where the

intellectual property sits. The Google people do not have the right to sell. You cannot sell what you do not own.’

The FRC Accounting Council member, RP03-GXA, explained the deterministic nature of the nexus of contracts link to host subunits and subsidiaries:

But I'm not sure what alternative they've got because, presumably, the legal contract as we see [it is] in Google Ireland and ... So if I was the auditor of Google Ireland, which is invoicing all these things out of Google Ireland, I'm not sure I'd say, “No, no, you're not allowed to invoice. I'm not going to record those as sales.”

IFRS representative, RP09-SEA, re-stated this nexus of contract link as: ‘But that's a legal concept, I think you'll find. I don't know but I think IFRS 15 will tell you how to recognize revenue... Well, it'll also tell you what to recognize. But that's a legal concept, it's not an accounting concept – as to who's undertaken a transaction.’

The nexus of contracts not only links economic activities to host subunits and subsidiaries but also indicates geographically where part or whole of the economic activity has taken place. Google respondent, RW47-OEC, indicated that: ‘people in Google UK Ltd, are promoting our properties and encouraging people to spend money with Google. Clients may well feel that they are selling: we hire people with sales skills and they are encouraging people to spend money and showing them the business case, but what is very clear is that no one in the UK team can execute a transaction... The people here can only encourage that to happen’. Reverting to Amazon.com UK’s situation, notwithstanding that deliveries may be

dispatched from UK fulfillment centres with UK postage stamps, its senior management, RW46-OEC, remarked that: ‘No, I think you will see that Amazon.co.uk is a trading name for a Luxembourg company, Amazon EU Sarl...I can assure you, Chair, that you will be billed by a Luxembourg company.’

These findings are congruent with contract law convention, the privity of contract doctrine (McKendrick, 2011), and international accounting standard IFRS 15 (2014) on the recognition of revenue from contracts with customers. Under the privity of contract doctrine, ‘a third party cannot be subjected to a burden by a contract to which he is not a party’ (McKendrick, 2011 p.112). Under IFRS 15 (2014), the first step in the revenue recognition process is to identify ‘an agreement between two or more parties that creates enforceable rights and obligations. The requirements of IFRS 15 apply to each contract that has been agreed upon with a customer and meets specified criteria.’ (IFRS 15, 2014 para IN.7(a)). These specified criteria are: ‘(a) the parties to the contract approved the contract...and are committed to perform their respective obligations; (b) the entity can identify each party’s rights regarding the goods or services to be transferred; (c) the entity can identify the payment terms for the goods or services to be transferred; (d) the contract has commercial substance...; and it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer’ (IFRS 15, 2014 para 9).

Captive Insourcing Process

I use the term captive insourcing as a second-order theme to refer to decisions made by the firm to internalize transactions, not only because of contractual hazards and technological capabilities, but also to direct value capture to specific

entities within an MNE group. The three first-order codes comprising the captive insourcing theme are: magnitude of related-party transactions; insensitivity to insourced pricing; and vaporization of subunit visibility on consolidation.

Magnitude of related-party transactions

A distinctive feature of captive insourcing is that not only is the host subunit or subsidiary closely held and controlled by the parent firm, but all or a major part of its economic activities are conducted with related parties (Nebus, 2016). For example, in the case of the host subsidiary, Amazon.co.uk Ltd, according to its Annual Return lodged with the UK's Company House, all its issued ordinary share capital of 10,366,036 is held by Amazon EU SARL, being its 'immediate parent company...incorporated in Luxembourg (Amazon.co.uk, 2013), which is ultimately controlled and held by the home parent, Amazon.com Inc. The host subsidiary has not provided related-party disclosures, as is ordinarily required by IFRS, on the basis that it is eligible for and has elected to have exemption from related-party disclosures under UK GAAP.'

Notwithstanding the fact that no related-party disclosures were made in Amazon.co.uk Ltd's 2013 Annual Report, it can be inferred that the whole or major part of its GB£449m turnover is derived from sales and services to group companies. Its Strategic Report states that:

The principal activity of the Company is the provision of fulfillment and corporate support services to other Amazon group undertakings...Turnover and headcount has increased as the Company continues to support the growth of the Amazon group...The Company is dependent on the continued success of the Amazon group companies.' (Amazon.co.uk, 2013 p.5)

At the PAC hearings, Amazon's representative, RPW46-OEC, affirmed its related-party transactional activity as: 'That is essentially for providing services in the UK for the Amazon Europe companies—services such as operating the fulfillment centres, which is going to be receiving inventory, picking, packing and then passing on those products to our...[interruption by RQ39-GEP]'.

Google UK Ltd's 2013 Annual Report discloses that its entire 50,001,000 issued ordinary share capital is held by its immediate parent, Google International LLC, which is ultimately held and controlled by Google Inc. Again, the UK host subsidiary availed itself of the exemption to not provide related-party disclosures. However, in this instance the host subsidiary has been more explicit. In its 2013 Strategic Report, it states: 'The Company is engaged in the provision of marketing services to Google Ireland Limited and the provision of research and development services to Google Inc.' (Google UK Ltd, 2013 p.3). Then, in its Turnover Note, it discloses that GB£100m is attributable to research and development services provided to the USA (Google UK Ltd, 2013 p.14), which accords with the Directors' Report disclosure that the research and development services were performed for its ultimate parent company, Google Inc. The remaining component of the 2013 turnover of GB£542m is related to marketing and services fees earned from Ireland.

Google UK Ltd's related-party transactions can be inferred from disclosures in the Strategic Report on marketing and services fees that were earned wholly or in substantial part from another group host entity, Google Ireland Ltd. The captive insourcing of transactions can also be inferred from evidence given by Google's

management at the PAC hearings. RW47-OEC stated: ‘What the people in the UK do is provide services that are charged to Google Ireland. Those services are principally around promoting our products and making sure they work in the UK for UK consumers. What is different about Google versus the other businesses you have been talking about, is that we are not selling books or making coffee’.

In the case of Starbucks Corporation, the manner in which it has fragmented its value supply chain and incorporated its captive insourcing subunits differs from Amazon.com and Google Inc. as it affects the host UK. Whereas Amazon.com and Google Inc avoided establishing their integral operating segments in the UK, the Starbucks business model required the physical presence of its integral operating segment in the UK. This UK host presence is through Starbucks Coffee Company (UK) Ltd. Starbucks Coffee Company (UK) Ltd has as its immediate parent Starbucks Coffee Holdings (UK) Ltd, and its ultimate parent is Starbucks Corporation. Its 2013 Annual Report discloses that of its 10,194 company-owned stores, 549 operate in the UK; and of its 9,593 licensed stores, 215 operate in the UK (Starbucks Corporation, 2013 p.6). Note 16 in the Annual Report on Segment Reporting discloses that: ‘Segment information is prepared on the same basis that our ceo, who is our chief operating decision maker, manages the segments...to align with the three-region leadership and organization structure of our retail business...includes: 1) Americas, inclusive of the US, Canada, and Latin America; 2) Europe, Middle East, and Africa (EMEA); and 3) China/Asia Pacific (CAP)’ (Starbucks Corporation, 2013 p.73).

Whereas the Starbucks Corporation did not establish a captive insourcing entity in the UK, it nevertheless established a captive insourcing entity in another host

location. In this instance, a Swiss subunit or subsidiary was established as the captive insourcing entity, functioning as the international procurer of all the MNE group's coffee bean supplies. Starbucks management representative, RW45-OEC, described the captive insourcing activities of its Swiss operations as:

They run all our global buying operations, they run our sustainability programmes, and they have all the agronomy offices that we operate around the world in the growing regions, where we work with farmers around sustainability, transparency and social programmes... All the coffee that we buy globally, including what goes to the US, runs through that central buying operation.

Not unexpectedly, Starbucks Coffee Company (UK) Ltd also availed itself of the exemption to not report related-party transactions arising from purchasing its coffee supplies intergroup.

Starbucks' UK 2013 Annual Report reported turnover of GB£399mil comprising revenues from company-owned stores; licensing fees from the UK licensed stores and related channel products. The UK's turnover is, in turn, consolidated and reported in the EMEA region revenues for the Starbucks Corporation. However, all MNE related party transactions are eliminated on consolidation. Thus, in the case of Starbucks all intergroup cost markups on coffee supplies are eliminated. Starbucks management representative, RW45-OEC, described more generally the disclosure effects of related-party transactions as: 'We are required to report our accounts in the UK under one standard. We are also required under US accounting to speak to our profitability in a different way, to

eliminate all inter-company transactions that are involved. So those are requirements that we have to meet both in the UK and the US. There is a difference between those two.’ That difference, in essence, makes related-party transactions in the home location invisible on consolidation, although they were clearly visible in the host location.

Previous empirical research has indicated that insourcing, as a governance mode, may be preferred over outsourcing contingent on particular attributes (Leiblein, 2002) affecting exchange and organizational boundaries. Those particular attributes may include: the degree of contractual hazards (Leiblein, 2002); an MNE’s technological and governance capabilities (Mayer & Salomon, 2006); the parent’s competencies in implementing the alternative governance modes (Foss, 1997; Parmigiani & Holloway, 2011); and the use of ownership and location to internally leverage the parent’s competitive advantage (Dunning, 2000). Depending on the individual circumstances, each of these attributes is capable of influencing the performance and returns from insourcing and internalization. However, extant theory does not adequately explain the captive insourcing arrangements that many MNEs have implemented under base erosion. For example, the captive insourcing arrangements implemented by Amazon and Google are not simply leveraging superior technological capabilities or contracting hazards but, in a more complex manner, are also embedding their internationalizing value-capture strategies.

Insensitivity to insourced pricing

From an agency theory perspective, captive insourcing is insensitive to pricing between MNE group related parties (Avi-Yonah et al., 2008). The UK accounting

regulatory agency, RP01-GEA, succinctly observed: ‘Yeah. So why does it matter? Because actually, from an investor's point of view, you just want to know what's the aggregated value.’ The UK ICAEW respondent, RP12-SXA, also affirmed this indifference to insourced pricing as:

So at group level, it's just irrelevant, all you're looking at is the group as if it was one entity and all its transactions with external parties. So each group entity's transactions are not treated as seriously in that sense, and also, there's cost issues surrounding it as well...from the group perspective, there's an additional cost by imposing a fair value transaction cost on that, in terms of recording it in the books of each of the companies, when actually at group level it is going to be irrelevant.

Organizational behavioural characteristics (Eccles, 1983), hierarchical decision models (Swieringa & Waterhouse, 1982), volume and degree of asset specificity (Spicer, 1988), and legal or international tax constraints (Al-Eryani, Alam & Akhter, 1990; Lohse & Riedel, 2013) are all factors that affect insourced pricing methods. However, there is little or no sensitivity to alternative insourced pricing methodologies, as group accounting, in any event, extinguishes related-party transactions on consolidation (Maroun & Van Zijl, 2016). Recognizing on the one hand, these contextual organizational constraints and on the other, the insensitivity in accounting expression, there remains a constrained space for flexible accounting expression (Avi-Yonah et al., 2008; Cools et al., 2008; Freedman, 2008).

Vaporization of subunit visibility on consolidation

The findings on captive insourcing indicate that related-party transactions that were otherwise visible at subunit or subsidiary level become invisible on group consolidation, and that insourced pricing retains accounting expression flexibility, albeit within an organizational and legally-constrained space. It has also been established in the findings that traditional agency logics (Armstrong, Guay & Weber, 2010; Barth, 2008) support the captive insourcing outcome. On the premise that the information about captive insourcing transactions is not viewed as decision-relevant information for stockholders or prospective investors, then such invisibility is deemed acceptable. The FRC respondent, RP01-GEA, succinctly frames accounting expression under traditional agency logics as: ‘but I think you need to start from what's the objective of the reporting, and then undoubtedly...So if you were starting with an objective other than information for investors, you probably would arrive at a different way of presenting the information. We've had exactly the same debate with the Parliamentary Commission on Banking Standards, which basically said IFRS is fundamentally flawed because it doesn't give prudential regulators the information that they need. Well, it's not designed to give prudential information to prudential regulators, it's designed to give information to investors.’

Valorizing Process

In this thesis, I use the second-order theme of valorizing to refer to the process whereby the firm incrementally captures value within the transfer pricing constraints that are guided by organizational decisions, institutional values and the regulatory dictate of the home and host locations.

Public policy intent in valorizing

Public policy seeks guidance from economics in the valorization process. Google management representative, RP47-OEC, summarized the MNE perspective as: ‘Tax law suggests that you need to pay tax where the economic value is created, and we believe that that is there. In the case of the economic activity in the UK, which is about helping people to understand how to use the Internet and products and services, we have looked at how best to establish what we should pay for the services that are provided by people in the UK. The way we come to a conclusion on that is, if we went outside and hired other firms to do those kinds of things, what would we pay there? That is how we have set up our cost structure.’

Economics is, however, challenged in providing guidance on valorizing within group activities that occur cross-border because of the complementary nature of group resources. Restating the position as a general principle, RP004-SEP, adds: ‘But as economists, we know that's a bad principle in some ways too because when you have things that are complementary, you can't value one separately from the other—it makes no sense.’

Prioritizing value-creating tasks

Kornberger (2017) explains that value and the order of worth are best understood by examining the practices of valorization. It is management’s prerogative to prioritize those value-creating activities that should be internalized and the order of worth that should be attributed to specific tasks. As part of their stewardship, management will allocate labour resources, employ capital and assume levels of risk in an appropriate and optimal manner to create and capture

value. Google's senior management views technology and innovation as one of the group's key value-creating resource. Google's respondent, RW47-OEC, explained: 'What creates economic value for Google is the technology and the computer science. Hopefully, people understand that, because it is pretty magical to be able to search the entire web in seconds and get answers fast. That is what we continue to invest in.'

Emphasizing management's discretion in valuation practices, the chair of the FRC Codes & Standards committee, RP05-GXA, noted:

Most people give too little value to the sales process ... But you say, "What's the margin in a jewellery store?" The answer is, they double whatever they paid for it, or something like that. Isn't it? Right? So the value that's been paid by the purchaser of the piece of jewellery, at least half of it, is just to pay for the selling of it. It pays for the rent, the salesperson, and all other sales-related tasks. I don't think people understand that at all as a value... That's particularly true as well for anything—any brand business, like a Google or Amazon. They're not manufacturers of anything, so they are really sellers, so the value is all about the sales process.

Valuation practices and ordering of worth (Aspers & Beckert, 2011; Kornberger, 2017) are not only relevant to firm resources, capabilities and activities but also to the integral nature of their business models. Information intermediary and FRC respondent RP13-SXN explained the integral nature of the Google business models: 'And it completely ignored the aspect that people didn't understand that Google was really an advertising company and it wasn't a search

engine company. Well, you could have been a really busy fool, becoming the biggest expert on the analysis and valuation of search engine companies, and missed that ... was Google saying, “In another five to ten years we're going to have our own phones, we're going to have our own phone infrastructure in Android, huge amounts of our income are going to come through licensing revenues related to that. We're going to be engaging in all kinds of crazy stuff. If you simply value us as a search engine company right now, you're going to miss the visionary aspects of what our business will really be. We're going to replace the Times of London and the New York Times, and all classified advertising, and we're going to put Nielsen out of business, because we're going to know every click rather than trying to estimate it through audience surveys.”

Risk–return paradigm in valorization

In the context of aligning return to the level of risk assumption, RP10-GET observed: ‘So in my head, it's a case of, “Okay, if it's just pure invoicing in Ireland and that's it, then it doesn't use that much capital and you shouldn't get remunerated.” If there is big risk-taking and marketing spend where the sales occur, then obviously allocate out the return to the various places where the sales occur ... You take on risks to actually earn rewards ... Now, that's not a precise science, but it is the common sense test to where the profits are actually being booked.’

More generally, OECD Head of Tax Treaty, RP21-IET, explains the role of risk assumption relative to returns: ‘You should first identify with specificity what kind of risks a company has taken on. There are many, many—because if they don't take on risks, they don't make the premium returns. The premium returns come

from them being able to manage their risks better than others. But what we then also say is—companies don't just take on risks, they do something with it. They perform activities in order to make sure that they are the ones that can mitigate that risk optimally compared to other competitors.' The organizational discourse on the risk–return paradigm refers to the concept of profit as a social construct of value assuming temporal (Hardy & Maquire, 2016) and interdisciplinary dimensions (Lukka, 1990) and comprising of both functional return elements as well as non-functional return elements (Knight, 1921; Weston, 1954). Respondents are seeking to distinguish between the types of risks that MNEs manage, because host policymakers identify the risk–return relationship as an appropriate means of evaluating the existing social construct of profit.

Accounting for insourced pricing

Whereas there may be behavioural, solvency or tax constraints in valorizing insourced transactions, account recording and general contract principles are not sensitive to quantification. At its most simple, a contract is binding provided consideration is given under any agreed bargain. All things being equal, the law will not set aside contracts for lack of adequate consideration (Atiyah, Adams & MacQueen, 2010; McKendrick, 2011). As explained by the ICAEW respondent, RP12-SXA: 'From a stewardship perspective, it's irrelevant to the shareholder because they [the group] own both the subsidiaries. The transfer has been done, they have a bit more value sitting here and now it's sitting there. It doesn't matter because it's all owned by them ...But true and fair is very much in the context, what the accounting rules are—and what they require you to record. So in a situation where you have a contract, which both sides have entered into freely, to

sell something at less than its full value or more than its full value, if it comes to that...then the profit gets shifted, and as long as that contract was a proper one on both sides, that's what will get recorded.'

Consolidating Process

In this thesis, I use the second-order theme of consolidating to infer the host policymakers' view on MNEs' actions to combine their fragmented parts and communicate their value-creating business model to salient stakeholders. The first-order codes that comprise the consolidating theme are: distinguishing between individual and integrated group narratives; whole picture is a home HQ concern; and home HQ accountable to investors.

Distinguishing between individual and integrated group narratives

Depending on whose perspective you take, the reporting narrative will change (Hines, 1988; Stanton & Stanton, 2002). My research sheds light on these distinctive, alternative audience perspectives. Whereas the home HQ's narrative takes an integrated view of the MNE's internationalized operations and activities, the host subsidiary or subunit is only concerned in reporting on the fragmented activities assigned to it. FRC respondent RP01-GEA commented:

I think we just have to be careful again between the difference of a set of group financial statements—consolidated annual report and accounts—and the individual companies [statements]... The FRC was asked by the government to write some guidance to help [group] companies in implementing the strategic report, where we've taken that integrated thinking further. They're really encouraging companies to communicate fully the nature of their

business model. And by business model, we mean how do you create value over the longer term.

Aggregating the fragmented group operations improves coherence and comprehension of the firm's business narrative to both stockholders and stakeholders (Cooper & Ezzamel, 2013; Eccles & Krzus, 2010). The business narrative is not merely accounting for group financial stewardship, but also accounting for other capital forms that are managed by the firm. The director of the IIRC, RP25-SEA, commented: 'And I think what one of the challenges is, that over the last 20 or 30 years, a lot of organizations have been established to look at environmental capital or social capital in isolation. And what we're saying is, you can no longer manage value in isolation. You have to bring all the capitals together and recognize the interconnectedness of them... Because if you don't make that link, then you're never going to make the change to the way management and the board operates.'

Whole picture is a home HQ concern

The home HQ not only makes the decisions about how individual operating segments should be fragmented, but also how the diverse individual operating segments should be re-configured for consolidated reporting purposes. The UK code provides that: 'The board should present a fair, balanced and understandable assessment of the company's position and prospects.' Not unexpectedly, the PAC chair, RQ26-GEP, asked the HMRC: 'But how many of the large businesses have a head office outside this country?' And the interrogant pursued this enquiry further: 'But do you look, for example, with the company we are not allowed to

mention, at what they have been telling their shareholders about the profit rate in the UK? I think one of the things they told their shareholders about was the 15% profit rate in the UK, yet they pay not tax.’

The ICAEW respondent, RP12-SXA, explained the thinking of international accounting setters: ‘So most of the standard setters’ viewpoint is they are creating accounting rules for groups because it’s the ultimate external investor that needs the information because they are outside parties... They don’t actually tend to think very much about individual companies within the group because everything nets-out on consolidation.’

Home HQ accountable to investors

From a capital-raising perspective, home capital markets take the leadership in setting standards to protect investor interests and their reputation (Healy & Palepu, 2001; Kothari, 2001). Those standards devolve from governance logics embedded in the home nation-state’s laws, regulations and codes of conduct (Armstrong et al., 2010; Lubatkin, Lane, Collin & Very, 2005). Recognizing the lead assumed by the home nation-state, host environments generally provide relief or exemption from comprehensive disclosure obligations. The relief or exemption is given on the understanding that the home HQ parent, through their consolidated reporting regime, coordinates the full, fair and balanced disclosure. FRC respondent, RP01-GEA, explained:

It's about determining that the parent has reported a consolidated group view.

As to the “where”, the FRC is agnostic as to where the intermediate parent might be. Now other regulators will be less agnostic.

Emphasizing the governance logics in home HQ accountability, respondent RP01-GEA concluded: ‘it gets back to reporting for investors. So the investors have chosen to invest in companies that are listed wherever, and are subject to that regime. Much as we get in the UK, with close to 50% of UK equities, now being owned by overseas investors. But those investors have chosen to invest in UK listed companies. I don't see it as being as any sort of deferral. It's the investors' choice, that they've placed their money in that way.’ That is, in the final analysis, a full, fair and balanced reporting for worldwide activities of an MNE, like Amazon, Google or Starbucks, is dictated by the home regulator, which in this instance is the US SEC that regulates US capital markets, such as Nasdaq and the New York Stock Exchange.

Conclusion

The findings provide fieldwork evidence of three core principles/tensions that guide internationalizing by MNEs inclined to engage in base erosion practices. These core principles/tensions are: (i) corporate rhetoric involved in acquiring and maintaining legitimacy through vocabulary use and work of justification; (ii) the justification of procedural compliance and conformity with the rules-based expression; and (iii) the dynamic capabilities of MNEs to cope with the tensions of globalization in exploiting the borderless opportunities to create and capture economic value yet counterbalancing this with the host location demands of legitimacy justification.

Building on first-order codes, I developed seven second-order themes. Working recursively between first-order codes, second-order themes and extant literature, I

developed a sensory representation of the themes being associated with the means of value creation and the mechanisms of value capture. The dataflow for the aggregate dimension of value creation is illustrated in Figure 6.1 and the aggregate dimension of value capture is illustrated in Figure 6.2. From a host policymakers' perspective, the elements of value creation starts with the internationalizing process across host locations and are augmented by the mobilizing of intangible and financial assets and the structural decision choices made by MNEs in engaging in arbitraging the plurality of differences across host locations.

Also, in recursively working from first-order codes to second-order themes to extant literature and back again, I identified the four second-order themes that comprise the host policymakers' perspective on the MNEs mechanisms for value capture. These value capture mechanisms comprise the processes of fragmenting, captive insourcing, valorizing and consolidating. The processes of fragmenting and captive insourcing provide MNE decision-makers with the mechanisms to direct the extent and location of value capture. The process of valorizing provides MNE decision-makers with the mechanism to influence the extent of value shifting and capture, whilst the process of consolidation enables MNE decision-makers to deliver integrative group narratives to their stockholders and prospective investors. The implications of this analysis and findings and its implications for theory and practice will be discussed in Chapter 9.

In the next chapter, I will discuss the analysis of my data and findings on how the UK austerity cuts announcement in late 2010 became the sudden intervening event that placed the base erosion on the host public policy agenda and how host

policymakers opened the public deliberative discourse in order to make the problem more readily understood by the broader stakeholder class.

Chapter 7 – Host Policymakers Communicate, Mobilize and Challenge MNEs’ Conventions and Practices

Introduction

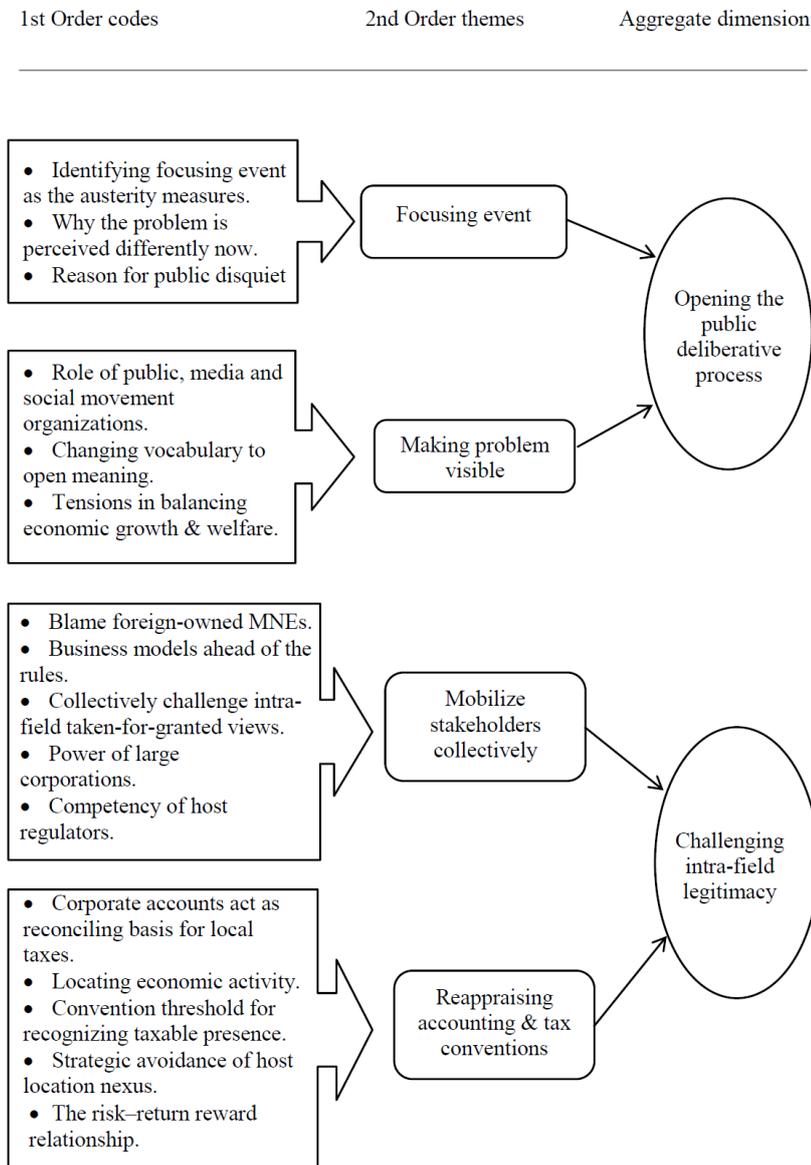
In this chapter, I will provide an analysis of my data and findings on the events leading to host policymakers challenging MNEs corporate reporting and taxation conventions and practices. As an overview to the second-order themes that emerged from the analysis and findings on moving the sociopolitical deliberative discourse for change, see Table 7.0 below.

Table 7.0 – Overview to second-order themes on moving the sociopolitical deliberative discourse for change

Aggregate dimension	Second-order themes	Illustrations
<i>Opening the public deliberative process</i>	Identifying the focusing event and making the problem visible	Figure 7.1, Chapter 7
<i>Challenging intra-field legitimacy</i>	Mobilizing stakeholders collectively and reappraising accounting and tax conventions	Figure 7.1, Chapter 7
<i>Public policymaking dexterity</i>	Public policymaking deliberative approach, maintain stockholder-primacy logic and redress equity through distributive justice	Figure 8.1, Chapter 8

Note: Table 7.0 is a summary guide to the key concepts emerging and developed in Chapters 7 and 8.

Figure 7.1 – Dataflow of focusing event and public policy deliberative process



Note: Figure 7.1 links an extract of the first-order codes for opening the public deliberative process and challenging intra-field legitimacy.

I will explain how an open deliberative process evolved to address the MNE base erosion problem in the UK. I will do this by identifying the focusing event

as being the announcement of the austerity measures that triggered stakeholder action. I will discuss how the imposition of the austerity cuts, as a means of coping with unsustainable UK budgetary deficits, created the impetus for public deliberation around substantive institutional reform. I will show how the vocabulary changed in order to make this complex problem apparent and understandable to the host location electorate.

I will also explain how host policymakers became mobilized to challenge the legitimacy of taken-for-granted conventions firmly adhered to by actors within each of the corporate reporting and taxation policy domains. I will also reveal the rationale deployed by host policymakers to collectively mobilize stakeholders by: naming and blaming foreign-owned MNEs; suggesting that new business models are ahead of host regulatory rules; and inferring that large corporations abuse their power. Finally, I will explore the critical elements of the problem that host policymakers brought to the attention of stakeholders for their deliberation and appraisal.

Focusing Event

Three first-order codes comprise the second-order theme of focusing event. The three codes are: identifying the focusing event as the austerity measures; why problem of base erosion is perceived differently now; and, the reason for the public disquiet.

Identifying the focusing event as the austerity measures

My initial conjecture was that the global financial crisis (GFC) that unfolded from mid-2008 was the focusing event prompting host policymakers to examine the base erosion phenomenon. Commentators (Bengtsson, 2011; Laux & Leuz,

2009) have suggested that international accounting standards and reporting on fair-value measurement in annual reports contributed to the onset of the GFC. Accountants have not only been criticized for reporting on fair-value measurement, but have also been discredited for failing to identify at what point in time a corporation ceases to be a going concern (Alzola, 2017; Kauser, Taffler & Tan, 2017). It has always been the role of corporate reporting to disclose risks that organizations face (Sikka, 2009; Whittle, Carter & Mueller, 2014). But as FRC respondent, RP01-GEA, observed: ‘the administrator has got to be on his way in a cab before an accountant will conclude that you can't use a going-concern basis of accounting. So actually the accounting basis isn't providing very much of a nuanced signal about the health of the company.’

However, the GFC was provoked by more than a group of corporations falling upon bad economic times (Kerr & Robinson, 2012; Starkey, 2015). It resulted from banks lending money at levels that exceeded any adequate security obtained from their borrowers; from financial institutions creating new forms of financial assets by batch securitizing their mortgages beyond the levels of the underlying collateral; and from individuals living beyond their means. Respondent RP22-GEP commented on the failure of bank auditors (Humphrey, Loft & Woods, 2009) to provide adequate warning signals of the pending collapse of financial institutions: ‘the Permanent Secretary ...said, “There was a point beyond which even the Treasury auditors couldn't track. And for me that raised the question, ‘What the hell were the accountants doing that were auditing these banks?’” FRC respondent, RP01-GEA, observed: ‘actually I think the financial crisis showed us that we didn't, in financial services necessarily know where the money was.’ Respondent RP07-SXT added: ‘I think you need to probe a little bit more deeply

into the demand for this. A lot of the problems came from people wanting to live beyond their means and borrow too much money.’

But for the intervention of nation-states ‘in the form of bank bailouts and fiscal stimuli’ (Callinicos, 2012 p.65), the global financial crisis of 2008-09 could have been much worse. Paradoxically, the success of the initial stimulatory intervention undertaken by each of the nation-states was, in time, followed by harsh austerity cuts (Callinicos, 2012). Significantly, the respondent findings indicate that it was the onset of the harsh austerity cuts that become the focusing event for highlighting the base erosion problem, not the earlier GFC, as commonly understood by commentators. PAC respondent, RP11-GEP, commented:

It was a period in time with austerity cuts and with the real pressure that people were feeling in terms of their own incomes and obviously we were still getting the backlash...against the bankers for the way in which they had managed or not managed their business to the detriment of the taxpayer.

In identifying the announcement of the austerity measures and austerity cuts as the focusing event in public policy, HMRC respondent, RP22-GET, commented: ‘But I think there was a time delay in that, but it is probably explained by when austerity started to bite in the UK. When you started getting things like that bedroom tax through, those sorts of things, you started to see the cuts in public spending.’ As a result, my fieldwork supports the austerity measures announcement as the focusing event that put the base erosion problem on the public policy agenda. The austerity measures announced in late-2010

(Pimlot & Giles, 2010) were paradoxically the consequence of the failure of the government's earlier intervention (Callinicos, 2012).

Why the problem is perceived differently now

Respondent RP07-SXT explained why the problem is perceived differently now: 'Academics, policymakers and think tanks have all been thinking about these things for a long time. I think what's different now is that suddenly other people have become aware that these things are being looked at.' Boudes & Laroche (2009) explain that meaning is created following a crisis by simplifying the story. The post-crisis narrative to base erosion is that this problem reduces host corporate revenue collections. Respondent RP16-GEP explained: 'I think now the warning signals are going to be flashing even louder than expected tax takes have not been realized and that's because of more and more borrowing.'

Respondent RP19-SEN remarked:

if something is in the public eye and it's being discussed publicly...[and] if you've got several competing issues, there's going to be a high probability that this one is going to be zoned in upon.

Reason for public disquiet

The focusing event of the austerity measures announcement started the public discourse on base erosion. Respondent RP04-SEP explained: 'The reason the public is upset about this [is]...we might not believe what Amazon is doing. One is that we think that we're not getting a share of the profit that's high enough. They are paying the workers and the distributors, but we think that companies make a profit over and above wages and costs to factories as an extra bit.' Respondent

RP11-GEP expressed the public disquiet as: ‘I think the public find it quite difficult to understand how a company that operates in a country and gleans or makes significant profits from their business in that country doesn't pay their—what is seen as—fair share of tax.’

The FRC respondent, RP01-GEA, remarked that: ‘In quite extreme cases you can see that as an investor, if those distortions in the value chain are really very, very marked...the group you're investing in is...acting other than in the public interest...that's clearly something that's going to inform your view as an investor because that potentially is going to have reputational damage.’ The Chairperson for FRC’s Accounting Council, RP05-GXA, rhetorically expressed: ‘and you paid £4 million of tax in the UK, is that right? That has got to be wrong [laughter]. It just doesn't pass the smell test. It's rubbish...economic value creation is heavily selling, and people in the smell test will or won't give much credit to that, I think. My guess.’ Not only was there public doubt about the evidence given before the PAC hearings, or the implicit objectives of the international conventions, but also there was widespread concern about the fairness of the actual outcomes. A member of the Taxation Administration Research Committee (TARC), RP06-SXT, observed:

and if we don't get it from the likes of Google and Starbucks, then the little tea shop down the road is going to have to pay rather more, which I think, intuitively, people would say, “That isn't fair”.

In addition, new business models were seen as benefiting MNEs unfairly by affording them host market access and protection without obliging them to make

a reciprocal contribution to host fiscal revenue collection. Respondent RP11-GEP observed: ‘Once it was exposed...it's a business model that is quite alien to our experience, and...if I put myself in the footsteps of a member of the public, it was just beyond our imagination that that's how a company would operate.’

There is also a more sceptical view on the public disquiet deliberation, as expressed by respondent RP07-SXT: ‘So it's a huge, messy, complex thing. I think that's been one of the problems with the public debate, is this assumption that somehow you can hurt companies or make them pay this tax as if they're coming out of the company's pockets somehow, and it's not. It's just dissipated across society.’

Making the Problem Apparent

The second-order theme of making the problem apparent comprises three first-order codes. These first-order codes are: the role of the public, media and social movements; changing vocabulary in the public deliberative discourse; and the tensions in host nation-states between balancing growth and welfare.

The role of the public, media and social movements

In order to stimulate stakeholder exchanges in situations where complex problems have been identified by society (Blumer, 1971), it is necessary to broaden the participation of the public (Carpini, Cook & Jacobs, 2004; Lee & Romano, 2013), the SMOs (Benford & Snow, 2000), the media, and policymakers in the public deliberation. Notably, the public, social movement organizations (SMOs), such as Occupy London (2011) and UK Uncut (2010), the media (Armitstead, 2012; BBC, 2012; Houlder, 2011), policymakers and inter-

governmental organizations (IGOs) entered this public discourse (Carpini et al., 2004). On the SMOs' role, HMRC respondent, RP022-GET, commented that:

there was obviously the group that were camped out in the city, around St Paul's, setting lasers up in New York...May Day Rallies and Occupy London protests against corporate greed.

On the media role, RP22-GET noted: 'in 2011 and 2012, there were two major press campaigns, The Guardian and The Times. The Guardian's one now very much still carrying on through their relationship with the ICIJ [International Consortium of Investigative Journalists—a US-based non-profit group funded by the Centre for Public Integrity].' Also, RP07-SXT said: 'we've had the Daily Mail and Margaret Hodge and everybody stirring up ideas and tapping into that anti-capitalist sentiment. So I don't think it will ever go back [to] quite the way it was.' On the host policymakers' role, a committee member of the PAC pertinently remarked: 'But we hadn't caught up with that sort of model, and I think that sometimes, it is not just politicians, but even prestigious and really very skilled organizations, like the National Audit Office, are always having to almost try to play catch up. I mean it was astonishing that it took so long for that model to be exposed in the way that it was.'

With the momentum on visibility having been established at the nation-state level, UK policymakers also recognized the need for international visibility and intervention. HMRC respondent, RP22-GET, stated: 'but once it got onto a political agenda I think it was at the Mexico summit—the Los Cabos Summit, [18-19 June 2012 Global Forum on Transparency & Exchange of Information]—

that the G20 actually put down that they were going to watch with interest. I think they said something in their final statements along those lines...work [for] the OECD was doing in that area. That kind of got it onto the political agenda.’ The OECD Head of Treaties, RP21-IET, also explained how host nation-states’ growth initiatives had been exploited: ‘And then you can say, “Well, but we do hire lots of people.” Apparently that story didn't work anymore at a certain stage.’ As international visibility increased, so did the pressure that was exerted on host policymakers. As the narrative became more evocative (Boje, Rosile, Durrant & Luhman, 2004) and more multi-vocal (Boje, 1995), as did the urgency to expedite the agenda for reform (Abolafia, 2010). RP21-IET recounted the impact of this rapidly unfolding drama: ‘So it's very difficult to explain to the public that, for example, you have this picture of a woman having this kind of small soft drink stall next to the big factory somewhere in Africa paying more taxes, and that doesn't leave a lot of room for nuances anymore, because the picture is so vivid.’

Changing the vocabulary in the public deliberative discourse

It is also necessary to communicate in ways that are understandable to different classes of stakeholders (Fisher, 1984; Weick & Browning, 1986). The motivation for participation by each class of stakeholder, however, may vary (Aguilera, Rupp, Williams & Ganapathi, 2007), but the momentum is maintained through the convergence of stakeholder harmony in recognizing the legitimacy of the sociopolitical discourse.

The changing vocabulary highlights the plurality of viewpoints on the problem, from searching for fairness over procedural compliance, comparing corporate citizenship behaviours at home to opportunistic behaviours overseas,

and exposing jargon used by professionals. In highlighting the plurality of viewpoints, respondent RP19-SEN explained:

The public debate is obviously a term which incorporates a whole range of public sources, very informed commentators and very uninformed commentators. So what I wouldn't say is the conclusion reached at in a public debate would necessarily have an influence on what's decided. It may, but it may not. What it would do is...throw into sharp relief the fact that is an issue which...needs to be sorted out.

Clearly, there is also the plurality of motives among the different stakeholders in promoting the sociopolitical discourse, including those of host policymakers, the media and SMOs. RP07-SXT observed: 'I think it was some quite deliberate stirring up of debate going on with a few individuals who had vested interests in creating debate.'

In searching for fairness, whistleblowers (Near & Miceli, 1995) were encouraged to come forward with information on the base erosion activities of MNEs operating in host environments, and were granted protection by the law. The chair of the PAC, RQ026-GEP, observed: 'We will continue having whistleblowers until we get to the bottom of the truth about all this.' As regards the plurality of viewpoints, respondents continually referred to the broader class of affected persons as the 'public' (Contandriopoulos, Denis & Langley, 2004), intending to emphasize the legitimate concerns held by multiple actors. HMRC chief executive, RW035-GET, explained: 'The idea that tax is a topic that is more frequently talked about in the pages of the newspaper, in the pub and around the dinner table is welcomed by staff, and I am encouraging them to continue that

debate...Generally, I think people feel good about the fact that the importance of paying tax is now more recognized and more talked about.'

Regarding the debate on opportunistic behaviour in host locations, RQ26-GEP remarked: 'I use Google, and all of us round the table use Google. They [the UK customers] contribute to your profits but see no proper, fair contribution from you to corporation tax. That is the thing that bugs us all.' With increasing competition from social media, the media has moved on from merely reporting the news to discussing and appraising its implications. TARC member, RP06-SXT, commented: 'the press used to report the news, but they don't do that anymore because 24 hour Internet news does that for them... So, they've got to comment on the news, or possibly make it up.'

Maintaining momentum in the public deliberative discourse involves its own hazards. PAC member, RP11-GEP, observed: 'it's all right for the OECD to put out a report that is then lost in Australia. Next week, the G20 or whenever it is, and if it is lost in of all the conversations around the G20 [agenda], it will take the journalist, and indeed the Public Accounts Committee, the politicians, to say, "Hey, wait a minute, what's going on here" to expose it, to bring it to public attention.' RP17-GEP re-affirmed PAC's communicative initiatives: 'PAC provide a useful parliamentary function in terms of sort of bringing some of these issues to the forefront of people's minds and I think it's obviously captured the imagination of the public and the media.'

In exposing the jargon used by professionals, RP06-SXT observed: 'We did struggle with the "true and fair". What does it really mean? I think you would possibly get the response that it is in accordance with the interpretation of the

law.’ By changing the vocabulary used, host policymakers were opening a window into the problem that previously was only visible to the professionals.

Tensions in host nation-states between balancing growth and welfare

Making the problem visible not only involved the active participation of the multiple stakeholders in the sociopolitical deliberative discourse and changing the vocabulary to simplify the narrative, it also exposed the tensions experienced by host governments in balancing the demands for growth and welfare.

Post the liberalization ideology of the 1980s (Hall & Soskice, 2001; Lazonick & O'Sullivan, 2000), governments from advanced economies, such as the United States and UK, moved regulatory emphasis away from interventionism and instead towards deregulation (Contractor, 1990; Sentance, 2013). The primary motive for liberalization was to encourage economic growth and improve employment opportunities. Academic scholarship recognized this change in regulatory emphasis, particularly for nation-states close to the technological frontier. Mahmood & Rufin (2005 p.339) hypothesize that ‘government can maximize innovation by playing a merely facilitating role that allows innovation networks to thrive without restraint’.

As part of host public policy in promoting economic growth, the chief executive of the HMRC, RW35-GET, noted: ‘It has been a policy of successive governments to make the UK an attractive place for business, so there are policy choices that have led to the reduction [in corporate tax rates].’ During my field interviews, the deputy director of HMT, RP14-GEP, commented on the competition between nation-states: ‘Oh, I like to think it's a fact. Countries certainly compete to be competitive in terms of tax. There are various ways in which they do this. The UK and a number of other countries, and so say, Ireland,

is an example of this, but the Dutch are also taking steps in this direction, do so primarily by setting a low main rate of tax.’ The ICAEW respondent, RP12-SXA, also remarked: ‘countries are competing on tax...but they’re also competing on mechanisms for encouraging certain activities within their countries, which means it’s encouraging people to move offshore from where they’re originally based’.

Google’s representative, RW47-OEC, indicated how his firm’s choice for locating FDI is influenced by host policies: ‘The challenge for governments like the UK Government is to think about what the right set of policies are to encourage competition, innovation and investment in your country, when every country in the world can set the tax rates and regimes that they want... Any international company has to make those kinds of choices on how to operate, but it is complicated.’

Not only do host nation-states invite foreign MNEs to relocate their technology and innovation activities, but home nation-states also encourage their domestic firms to internationalize, but impose protective measures to secure their own home tax base. RP04-SEP explained:

What I’m thinking here is that the US Government has a rule in place, the check-the-box rule, that it knows allows some companies to avoid tax on foreign operations. It knows that because this rule exists, a US multinational can arrange its foreign activities in such a way that income that might otherwise have been taxed in the US isn’t taxed in the US. Now that’s a choice of the government...allowing some of these companies—the Googles’ and Starbucks’ types of companies to get away with some of this activity.

Competition between nation-states can, however, become harmful. PAC member, RP16-GEP, gave an example of when competition is considered to be harmful: ‘clearly, the deal reached by Luxembourg...individual deals with individual firms, which we don't know about...[is] clearly an invidious form of tax competition.’ However, host locations are responding to perceived harmful competitive policies and practices by foreign nation-states by mounting collective action through IGOs, such as the OECD. RP14-GEP also explained the retaliatory approach that may be unilaterally taken: ‘the risk from their perspective is that they find people [host locations] taking countermeasures. We'll say, “Fine but we'll just abrogate our tax treaty with you.” And actually, if you're a country that wants to be competitive and wants to...attract investment and be an economic actor, if you're cut out from the tax treaty network, you just can't do that... And not to be on the various OECD lists means you're not participating effectively in information exchange, and supporting other jurisdictions—increasingly, you risk blacklisting yourself.’

When asked why the UK, as host nation-state, did not respond earlier to the opportunistic behaviours of foreign-owned MNEs, PAC member, RP11-GEP, responded: ‘I think even that's a question for government frankly...they have all sorts of reasons why, but actually it is an issue for government... But there doesn't appear to be any willingness behind it at the moment, and it may well be that some of those calculations that you identified have already been made.’ In assessing whether host locations undertake compensatory calculations by way of benefits derived from increased employment, payroll withholdings, and national insurance collections in the place of corporation tax forgone, HMT respondent, RP14-GEP, replied: ‘Yeah, the closest we've got to doing this is some of the work

that we did on the dynamic modelling of the effects of corporation tax rate cuts on business investment—why we think there is a causal link... It still comes down to this being a pretty crude piece of guesswork. Even with modern economic modelling, behavioural science, and other techniques being employed and the computing power that we can use to make these models work, still it's educated guess work, and no more than that.'

I also asked an information intermediary, RP18-SEN, whether they mark down (Plumlee, 2003) their forward projections on fair-carrying stock values to recognize a possible retaliatory response from host locations. RP18-SEN replied: 'The view from the investment community is that this doesn't come in until...really 2020...It's just not close enough...even that [EU break-up demands] doesn't really seem to be impacting stock market sentiments...because a lot of the investors, 90 percent of Google, is owned by US investors. They're very US focused.' That is to say, information intermediaries view any possible adjustment to profit projections arising from base erosion problem as being too remote or uncertain to affect equity valuations. Notwithstanding the neutral position taken by information intermediaries, the OECD report (OECD, 2013 p.30) highlighted the mandatory disclosure obligations that are imposed on MNEs to provide disclosure on uncertain tax positions 'if it is more likely than not that the tax administration would not accept the position taken, assuming that it was in possession of all the facts'.

The Starbucks Corporation's annual report (Starbucks Corporation, 2013 p.37) stated: 'Income tax liabilities for uncertain tax positions were excluded, as we are not able to make a reliable estimate of the amount and period of related future payments.' Amazon.com (2013 p.12) reported: 'many countries in the European

Union, and a number of other countries are actively considering changes in this regard...the final outcome of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals'. Google Inc (2013 p.40) reported: 'Significant judgment is required in evaluating our uncertain tax positions... Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different.'

Collective Mobilization of Stakeholders

The second-order theme of mobilizing stakeholders collectively comprises four first-order codes. These first-order codes are: blaming the foreign-owned MNEs; business models ahead of the rules; collectively challenging intra-field taken-for-granted views; the power of large corporates; and the competency of host regulators in coping with opportunism from the foreign-owned MNEs.

Blaming the foreign-owned MNEs

The feature of US policy of encouraging their US-headquartered MNEs to invest abroad is not new. More than five decades earlier, on 20 April 1961, John F. Kennedy made a special address to Congress explaining the potential outcomes of such a focus on external FDI. The US President then stated: 'the strains which have developed in our balance of payments position in the last few years, compel us to examine critically certain features of our tax system which, in conjunction with the tax system of other countries, consistently favor United States private investment abroad compared with investment in our own economy' (Congress of the United States, 1961). The President outlined how the home location was being impacted by such policy bias: 'Profits earned abroad by American firms operating

through foreign subsidiaries are, under present tax laws, subject to United States tax only when they are returned to the parent company in the form of dividends. In some cases, this tax deferral has made possible indefinite postponement of the United States tax; and, in those countries where income taxes are lower than in the United States, the ability to defer the payment of US tax by retaining income in the subsidiary companies provides a tax advantage for companies operating through overseas subsidiaries that is not available to companies operating solely in the United States' (Congress of the United States, 1961).

At the public hearings, the PAC chair, RQ26-GEP, in questioning the HMRC respondent, RW35-GET, indicated that the blame should rest with the US MNEs operating in the UK: 'I am not sure we would say you are on top of them; that is the problem. If you look at all of them—don't only take one, but look at all of them in there—and look at their turnover and profits, as reported quite often in the States, on their UK business, their tax in relation to either the turnover or the profits reported in the stock exchange commission in the United States does not bear any relationship whatever to the corporation tax they pay here.' The PAC chair continued:

You look at these big businesses doing big business in the UK and your corporation tax take varies from zero, 2 percent, 3 percent or 4 percent. It's all down in the nothings... Without taking any individual case, you can look across the whole range of them and you cannot then tell us that that reflects a fair corporation tax credit to the UK Treasury from the business they transact here and the profits they make, as shown in their American accounts.

In questioning that was directed at the US MNE, the PAC chair, RQ35-GEP, reiterated: ‘All three of you are American-based companies, which is also of particular interest. Can I start with Starbucks? My understanding is that you filed, in Companies House, losses for most of the years that you have been running coffee houses in the UK... But can you name me one company—one multinational company, one US-based company—that has a 31 percent market share by turnover and has been making losses for 15 years?’ The PAC respondent, RP16-GEP, addressing the representative of Amazon.com: ‘I love the service you provide when you write to me and say, “Having bought this biography of John Major, you may also be interested in ‘Fifty Shades of Grey’”. But like the Chair, I am interested in why you pay so little tax—particularly corporation tax—in this country. If you paid more, we could pay some kind of benefit to all the booksellers you have put out of business.’

Reasons given for naming and blaming US MNEs included: adopting secretive and deceptive organizational practices; engaging in unfair competition in host locations; and applying laws in ways unintended by the host legislature. PAC member, RP11-GEP, explained the deception argument: ‘And everybody just thought we were buying from Amazon...fair enough... You can get your books downloaded to Kindle and all the rest of it, but people think that they're buying from somewhere local. If I'm in Scotland, and if I buy from Amazon, I think it's coming from Dunfermline, which is just up the road. I'm sure other people think that.’ PAC member, RP16-GEP, explained the unfair competition argument: ‘And this is compounded by the takeover of British firms by American firms, which brings them into a new tax relationship whereby they can side-track profits through the British firm into another jurisdiction.’ FRC respondent, RP05-GXA,

explained how foreign-owned MNEs were manipulating the laws cross-jurisdictionally: ‘I think what has happened in the cases like Amazon and Google, is they’ve been able to structure within the law quite properly—such that their economic activity appears in a different place to that arrangement. And so that leads to this lack of trust that accounting doesn’t work, and tax doesn’t work, and probably it should be fixed.’

Business models ahead of the rules

Throughout history, there have always been new ways to monetize commercial opportunities. Presently, it is the speed and ubiquity of digital innovation that pervades all forms of organizing and organization which is most noticeable (Castells, 2010; Zott, Amit & Massa, 2011). The expression ‘business model’ (Ghaziani & Ventresca, 2005) entered our vocabulary in the mid-1970s, but only took off from the early 1990s as digital innovation became more extensively used and thereafter commercialized on a global scale.

Many of the respondents remarked on the manner in which these new business models (Chetty, Martin & Martin, 2014; Jones & Coviello, 2005) began to outpace established rules, norms and conventions. PAC member, RP11-GEP, noted:

But we hadn’t caught up with that sort of model, and I think that sometimes this is where, not just politicians, but even prestigious and really very skilled organizations, like the National Audit Office, are always having to almost try to play catch up. I mean, it was astonishing that it took so long for that model to be exposed in the way that it was.

Not only is the technology now widely applied, but it has also diffused globally at a rapid pace in comparison to prior innovation eras (Autio, Sapienza & Almeida, 2000; Casillas & Acedo, 2013). RP11-GEP continued: ‘It used to be by a wave your hands and things like that. Now it's a button pressed, and you can either have a surge in the markets worldwide or come to a complete collapse.’

ICAEW respondent, RP12-SXA, explained how these new business models challenged assumptions held on location-specific advantages: ‘So I think there was a bit of the fact that e-commerce is running ahead of the rules that expected that you had to have a bit of plant here and you couldn't move it, and also you'd want to contract under English law wouldn't you?’ For international convention on attributing economic activity to source nation-states, RP14-GEP explained: ‘What has really caused the definition to start creaking a little bit, is the difficulty of applying this in the context of the digital economy, where you have a situation where a lot of the functions that are not considered to create a PE, so things like advertising, market research, can be done electronically, and you can gather very significant quantities of data, and conduct a very high level and a very sophisticated level of activity without the need to create a taxable presence, and that's just a result of the development of technology.’

Collectively challenging intra-field taken-for-granted views

Within the international taxation domain, policymakers, regulators, external advisors and in-house corporate tax officers have developed conventions and cognitive maps to determine when MNEs, in the course of their internationalization endeavours, have established a presence in a particular host nation-state. Also within the corporate reporting domain, policymakers, regulators, external advisors and in-house accounting officers have also

developed conventions and cognitive maps to determine how MNEs, should report on their internationalized operations, distinguishing between the independent requirements of host and home locations.

My fieldwork provides evidence of the collective efforts made by multiple stakeholders to challenge the taken-for-granted orthodoxy in the international tax domain. TARC member, RP06-SXT, commented: ‘Going back to the work we're doing now, I think that is really being drawn back by things like the reputation, the fairness, and the press debates. And it's interesting from an academic point of view, is that it's not the hard legal aspects: the law hasn't changed necessarily, it's that the interpretation has.’ PAC member, RP16-GEP, explained how the committee sought to open deliberative process:

‘We couldn't actually do anything apart from expose what was going on. Which needed more pressure. That's why we organized the conference a couple of months back in the City, which was sponsored by one of the accountancy houses to promote the issue [chuckles]. In fact, it was really a fight back by the vested interest but at least the platform was there for concern. So I think we have opened a can of worms, and it's up to us now to fish out more worms and deal with them.’

TARC respondents gave examples of how stakeholders were mobilized to challenge established conventions. RP06-SXT observed: ‘what it does do is it energizes other people. You talk to the students and they know about it... They have read something in, hopefully, the Sunday papers that are not the broadsheets, the more reflective pieces. They want to talk to you about it...my research

colleague...her comment is, “The bloke down at the pub knows about transfer pricing,” [laughter] and she's absolutely right.’ RP08-SXT explained how host policymakers also encouraged stakeholders to reflect on the sociopolitical implications of these new business models: ‘But, if I tell you that Amazon have this huge warehouse, all the books are in the warehouse, and they are in receipt of your order, not directly but indirectly in receipt of your order, human beings pop it in a packet and send it off to you. Don't you think that that should be taxed? Or don't you think that that's unfair? Or don't you think that, in some way, that should be captured?’ Isn't there an element of prompting going on?’

Another example of stakeholders challenging international taxation conventions is provided by the remark of the OECD head of treaties, RP21-IET: ‘Look, I think the central issue is, “Where is the economic activity that's generating the profits occurring?” Often that will be the place that is seen to be the headquarters, but it may not be. But appropriate recognition has to occur of where the activity that is generating the profits is actually occurring. I think that is the central focus... Unfortunately, the existing rules don't always deliver that outcome, and that's why we're here.’

Referring to the challenges of the corporate reporting conventions, the PAC chair, RQ29-GEP, rhetorically expressed to the Starbucks witness, RW45-OEC: ‘As I understand it, there were 46 separate conference calls. Let me to take you to 2008. You filed losses in the UK company's accounts of £26 million, yet Schultz told analysts that the UK business was so successful that he planned to take the lessons learned here and apply them to the USA... That sounds a bit odd—on the one hand you were claiming losses in the accounts you were filing

in Companies House, but on the other you were promoting profits and promoting the individual responsible for the UK business.’

The MNE representatives attending the PAC hearings acknowledged the failure of their organizations to communicate cogent reasons for their peculiar patterns of organizing (Drori, Meyer & Hwang, 2015; Meyer & Bromley, 2013) across host locations. The Starbucks representative, RW45-OEC, remarked: ‘I appreciate that. That is very unfortunate and we feel terrible about it. We honestly feel as though we have not intended to mislead anybody. We are trying to be very transparent. I appreciate that the media attention has made it look that way, so we need to do a better job of finding a way to communicate.’

Power of large corporations

Host locations perceive MNEs’ power as a threat to their sovereignty in as far as they restrain their decision-making powers (Agmon, 2003; Nebus & Rufin, 2010), as well as a threat to the survival of small businesses in the host environment. In questioning the HMRC, PAC member, RP16-GEP, rhetorically remarked:

But if the government is saying to big corporations, “Come here, we’ll give you a happy tax regime and possibly dinner with Dave Hartnett,” they are also saying to you, “Go easy on the big boys,” and, ipso facto, “Be tougher with the ones who can’t leave and have to pay their taxes here.” That is the reality, surely. You are handling the big corporations more gently, more delicately, more kindly and more generously than the small and medium-sized enterprises—British companies that cannot shift their affairs through a tax haven.

The head of tax policy at the OECD, RP20-IET, explained the concern that nation-states have about MNEs' power over oligopolistic markets: 'I think the notion of the multinational corporation has over time attracted some attention from many in the public because of concerns about the power of some of these organizations... If I think about when I used to wear my hat as the Minister of the Competition Policy and Consumer Affairs, there was always a lot of distrust about those markets—particularly the big consumer markets—where there were often a handful of dominant operators.' And in the contested power space between host nation-states and MNEs, respondent RP20-IET explained that nation-states' sovereign powers are limited by boundaries, whereas the MNE internationalizing process is not so constrained: 'So, even if a corporate group has a presence within a jurisdiction there are limits to what you can do to those parts of the corporation that don't have a direct presence. And, that is the case, not just in tax policy, but in all areas of [public] policy. This is one of the fundamental difficulties that nation-states have in regulating multinational entities... essentially limited by the boundaries of their jurisdiction.'

Competency of host regulators

Besides the jurisdictional constraints on nation-states, there is inevitably stakeholder concern about whether host regulators (Morrell & Tuck, 2014) are adequately resourced (Mueller et al., 2015; Whittle et al., 2014) to cope with the power of MNEs. TARC member, RP06-SXT, expressed the general perception of the challenges faced by host tax regulators in recruiting and retaining staff: 'So I think they have got a whole bundle of problems: that it's not a particularly well paid job, it's not a particularly well respected job. And I think some people would

look upon the training as a very useful way of getting into professional firms.’ As far as the recruitment and training of competent staff is concerned, RW35-GET indicated: ‘I think we are smart enough...we not only recruit the best but train them well... We keep many people for the whole of their career...and what I will say is that they are often made offers by firms, which they resist. I think that some people are still very motivated by the public service ethos.’

There is also the issue of balancing transparency and the burden of additional mandatory disclosure obligations. RP07-SXT explained: ‘The tax rules and everything are just so complex everywhere, and it's almost impossible to distil them into anything that would be meaningful to a non-expert, rightly or wrongly. So any attempt to force disclosure of things is only ever going to be a superficial thing, because you can never get into enough detail.’

In order to maintain cohesion in mobilizing stakeholder engagement collectively, host regulators strive to re-focus the discourse on the behaviour of the foreign-headquartered MNEs. The HMRC executive director, RW35-GET, commented: ‘That is one of the reasons why we have pushed the debate with big business on having tax in the boardroom. Tax is not something you can just push off to your finance people to do in a corner; the main board needs to think about where a company is positioning itself. As part of that debate, we have very clear discussions with companies about where we see them on our risk profile.’

Reappraising Accounting and Tax Conventions for Fairness

The second-order theme of reappraising accounting and tax conventions for fairness comprises five first-order codes. These first-order codes that identify the critical elements in challenging the intra-field taken-for-granted orthodoxy are:

corporate accounts act as a basis to reconcile local tax exposure; locating economic activity; convention threshold for recognizing taxable presence; strategically avoiding host location taxable nexus; and the risk–reward relationship.

Corporate accounts act as a basis to reconcile local tax exposure

Corporate accounts that are prepared by foreign-owned subsidiaries provide an accepted starting point for regulatory authorities to reconcile those accounts with the tax adjustments prepared for host environment regulators (Freedman, 2008). The Conceptual Framework for Financial Reporting recognizes that besides stockholders, other stakeholders may also seek to rely on these reports. In a qualified manner, the framework states: ‘Other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups.’ (IASB, 2010, item OB10). Executive director of FRC’s Codes and Standards, RP01-GEA, placed in context what the minimum corporate disclosure requirements are at the individual entity level: ‘What we did do when we were developing that regime was look quite hard at those areas where we would still require that there was disclosure in full detail of the individual entities position, and not rely on the fact that the aggregate had been disclosed. And of course, a lot of that was driven around things like sufficient information for HMRC’s purposes, because they have a requirement to be able to tie everything back to a report on accounts.’

The TARC respondent, RP07-SXT, affirmed the reliance that the host regulatory authorities place on host individual entity accounts:

The practical answer is, where else would you start? To go on, as long as you have an understanding of how the items appear and why the items appear in the balance sheet and the profit and loss, you can unravel as necessary and recreate as necessary.

Addressing the host location adjustments required to move to reportable taxable profit, HMT director, RP14-GEP, noted: ‘We do use the accounts as a reference point for looking up wider company activities and levels of profit, and things like that. From the perspective of actually administering the tax system, the key documentation is the tax return.’

The ICAEW respondent, RP12-SXA, indicated that individual entity accounts at host subsidiary or subunit level are not only required for local tax reconciliation purposes but also for assessing the level of available distributable reserves. RP12-SXA explained: ‘In other words, to make a distribution from an individual entity account, which is where distributions are paid, you must have a statutory set of true and fair set of accounts to determine “the profit”.’ For the purposes of compiling “true and fair” individual entity accounts, RP12-SXA affirmed the stockholder primacy perspective that guides corporate disclosure: ‘So the standard setters have narrowed the view as to what information is most appropriate because they can't serve multiple masters, and that means that when the tax authorities come along and look at the individual entity accounts, they accept the basic premise of accounting standards but then they adjust things... And as long as they understand what the starting point is, they're happy to then apply whatever rules they need to do that.’

Locating where economic activity occurs

According to international tax convention, the host nation-state should have taxing power over economic activity that is located within the state or has sufficient nexus to the state (Dharmapala, 2014; Evers, Miller & Spengel, 2014; Graetz, 2016). The OECD, through the BEPS project, emphasized this nexus principal (OECD, 2013, 2015f). At the PAC hearings, the Google's respondent, RW47-OEC, explained that their organization's European nexus was located in Ireland: 'When we came to Europe—we will have to check on the exact timing of the opening of operations in different markets—we set up Dublin as our European headquarters pretty rapidly. We set that up because we wanted to be able to contract with customers across the whole of Europe, not just in the UK. Today, Dublin has 3,000 people, five buildings and two data centres. It is our largest operation in Europe. Any advertiser in the UK, Germany, France or any European country contracts with Google in Ireland, because that is where they have the rights to sell Google advertising.' Similarly, Amazon's director for public policy, RW46-OEC, indicated that their organization's European nexus was located in Luxembourg: 'To give the Committee a sense, we have in excess of 500 people working there. In fact, we are still recruiting very heavily and we expect to add another 100 people to our headquarters in Luxembourg.'

In giving evidence for Google, RW47-OEC emphasized the need to locate where the value-creating activities were occurring: 'The first is that 90 percent of the spend by British companies with Google is on an auction basis, okay? The price is set by the auction in the moment that you do your search...there is no ability to negotiate on price or terms in that respect. Secondly, the people in the UK don't have the rights to sell; they only have the ability to promote, because

the rights are owned by Google Ireland... Thirdly, as I said earlier, 99 percent of the UK companies that spend money with Google spend it without seeing or talking to anybody who is in Google UK Ltd, because they do it online.’

The auditor-general for the National Audit Office, RQ31-GEP, questioned whether Google’s prestige client transactions had an economic nexus with the UK as distinct from the online auction sales: ‘You have been talking about this vast number of sales that are done directly with Ireland. Can we characterize the nature of the sales that are not handled there, or which have UK intervention—if I can call it that to keep you comfortable about the language? These in fact are the larger and more complex buyers of advertising, and your people are involved in helping them to develop media plans, in talking to advertising agencies about what the appropriate media plans are, and they are getting involved in devising the whole strategic approach to promoting the product. That is correct, isn’t it?’ Instead of replying to the question on domestic initiated sales, RW47-OEC responded: ‘I think this all hinges on selling, and selling has a range of activities within it, which is why I am being precise in my language about the activities.’

Attributing the location of where value is created can be complex, not only for online e-commerce businesses, but also for traditional businesses. It turns on the practices of worth that are determined by the MNE. FRC respondent, RP05-GXA, gave the following example:

Take Lonmin which is a different example. So Lonmin, it has no clients in South Africa because platinum is sold to Mitsubishi in Japan, Johnson Matthey in the UK, BASF in Germany... So you get the argument from some people that says, “Why is Lonmin in London? Because there's no business in

London.” Well, that depends whether you're thinking about producing the metal or selling the metal. Again, if you go back to 27,000 employees, there are 10 involved in selling it, and the other 26,990-odd digging it up and processing it and so on. So it's quite a good argument, that it's really a South African company. Now, if you're a shareholder in Lonmin, you may say, “Well, I understand all of that, but I'd still rather it was a UK company, because it's easier for us to access the capital markets based in London.”

Convention threshold for recognizing taxable presence

The initial stages of internationalizing (Andersen, 1993; Johanson & Vahlne, 1977) by way of exporting or using distributors do not require a foreign-owned MNE to establish a physical presence. However, in the latter stages of internationalizing, setting up sales subsidiaries or production facilities in host locations will create a taxable presence. Since the initiative of the League of Nations in 1928 (Graetz, 2016), the convention threshold for recognizing taxable presence is based on having a physical presence in the host location or a sufficient nexus to the economic activity that is carried on in the host location. This convention threshold, although having being challenged from time to time, has continued to be the determinative test in granting taxing rights to host locations (Dijkman, De Buck & Brouwers, 2011; OECD, 2010).

The deputy director for HMT, RP14-GEP, explained the problem with the nexus principle under the convention of the permanent establishment rules: ‘What has really caused the definition to start creaking a little bit is the difficulty of applying this in the context of the digital economy, where you have a situation where a lot of the functions [that] are not considered to create a PE [permanent establishment]. So things like advertising, market research can be done

electronically, and you can gather very significant quantities of data, and conduct a very high level and a very sophisticated level of activity without the need to create a taxable presence; and that's just a result of the development of technology. The question, then, is how do you actually ensure that that activity is taken into account in the definition of permanent establishment, and that's something that's currently being debated within the OECD.'

Besides the problem with outdated exceptions or exempted activities to the physical presence threshold rules, digital transacting is creating a perceived inequity in profit allocation that is not otherwise possible in the physical presence context. In explaining the practice view on these threshold rules, RW50-SET explained to the PAC members:

The question of whether the transaction is taxable essentially depends upon whether that non-resident company has a permanent establishment in the UK. As we discussed at the last hearing on this, the law is very clear: when trade is conducted through a website that is based outside the UK, and that website is owned by a company that can take advantage of a tax treaty with the UK, essentially there is no permanent establishment.

The problem with the convention threshold, as noted by the OECD head of treaties, RW21-GET, is that: 'There [are] too many exceptions that allow people to have nexus in a country without having to allocate profits arising from the permanent establishment threshold.' In attempting to make sense of the physical presence nexus, HMRC respondent, RP22-GET, observed: 'I don't think it was ever a subconscious decision to do that. It was just the way the world was.'

The logic of the convention threshold, in essence, was to promote international trade and to avoid or minimize the possibilities of double taxation—that is to say, it was intended to mediate the taxing rights over cross-border sales thereby avoiding double taxation. However, what has transpired from the PAC hearings and the BEPS report is that convention rules have not only mediated the avoidance of double taxation, but have also have enabled the avoidance of double non-taxation by MNEs inclined to engage in base erosion.

Strategically avoiding host location taxable nexus

It is not uncommon for MNEs to include tax haven or quasi-tax haven locations within their consolidated group (Maffini, 2009) to coordinate their treasury or technology resources (Karkinsky & Riedel, 2009). Furthermore, MNEs will elect to internalize overseas markets over non-equity alliance or subcontracting arrangements where the benefits outweigh the costs (Buckley, 1988). Advances in information and communication technologies have supported a more timely process in integrating the resultant dispersed group activities (Gooris & Peeters, 2015).

What emerged from the PAC hearings (PAC-UK, 2012, 2013) and the work of the OECD (OECD, 2013, 2015c) is that MNEs engaging in base erosion practices are more willing to include opaque structures within their corporate group in order to maximize their arbitrage opportunities and to use accounting and taxation conventions in order to benefit from the avoidance of double non-taxation than MNEs that do not pursue such aggressive positions. Amazon's director of public policy, RW45-OEC, gave evidence that: 'Our revenues across Europe for 2011 for Amazon EU Sarl were €9.1 billion. Our profit after tax was €20 million.' In reply, PAC member, RQ39-GEP, raised the inquiry: 'What I am

interested in is how you are stripping out the profits in Luxembourg, because that is the impression. If it is €9.1 billion going to €20 million that suggests that you are stripping out the profit in Luxembourg. Who owns the holding company?' When Amazon's director of public policy indicated that he did not know the parent's host location, RQ39-GEP responded: 'It is incredible that you wouldn't know who owns the holding company. It is just not credible.'

PAC member, RQ39-GEP, in seeking to penetrate the opaqueness of Google's overseas structures asked:

But then there is the more interesting question about what happens to the money from Ireland. As I understand it, that is going to Bermuda, and the question in my mind is why is that not being captured from a US tax perspective? The phrase that was suggested to me is that there is a way, in terms of US filings, that one can get around this, which is referred to as "checking the box", hence my question.

Google's representative, RW47-OEC, avoided answering the question, responding: 'I am not familiar with the phrase you mention.' But without further evidence forthcoming, PAC member, RP16-GEP, conjectured: 'Now, the interesting question is what that does for the shareholders...it does not benefit them—they cannot get their hands on it because 30 percent tax would have to be paid for it to be repatriated to America, to the shareholders. It sits there in a cash mountain. It makes no contribution to all the research and development—the new technologies that you have been telling us about—that is carried on in California; it just sits there.'

The risk–return reward relationship

The concept of profit can be considered from the multiple perspectives of its becoming and its being (Lukka, 1990). From a traditional accounting viewpoint, profit is a socially-constructed net surplus or residue earnings determined by deducting expenditure and amortizations from gross revenues derived (Ball, Kothari & Robin, 2000; Hines, 1988). From a contemporary accounting perspective, profit incorporates the transformational features of financialization (Muller, 2014) that impact residue earnings through layering changes that have been legitimized by regulators and contemporary accounting practice (Alon & Dwyer, 2016; Bengtsson, 2011).

From an economic perspective, the distributable components of profit comprise both functional and non-functional reward components. The functional reward components comprise a return on labour and rent from equity capital employed; and, in markets with incomplete information, the non-functional reward component is the residual return for managing risk and uncertainty (Knight, 1921; Weston, 1954). From an organizational perspective, firms are able to appropriate or capture value (Bowman & Ambrosini, 2000; Pitelis, 2009) through commercializing existing inventions, enclosing reward potential from future inventions (Ahuja, Lampert & Novelli, 2013) or through benefiting from exogenous changes (Weston, 1954).

In this research project, respondents sought a deeper understanding of the profit concept, the practices of valuation and orders of worth (Beckert & Aspers, 2011; Kornberger, 2017). The PAC member, RW28-GEP, enquired of Starbucks: ‘My last question, then. Are you saying that essentially the value created is created in Switzerland or the Netherlands, and not the UK; so when I buy a cup

of coffee in the UK the value for the purposes of tax and tax collection is created in Switzerland or the Netherlands, and not when I buy the coffee? That is what, essentially, you are saying.’

On the organizational aspects of managing risk, respondent RP04-SEP remarked: ‘Another thing that companies do, that from an economic point of view is bizarre, is to try to allocate risk across companies. They allocate risk—I’m not really sure how this fits in to contract law—but they allocate risk as a way to basically move tax payments. So you could say that I’m the subsidiary, I fully own this other subsidiary, but this subsidiary takes on the risk for some project; the risk of the financing or the risk of intellectual property, and therefore, they earn the profit.’ And in the context of the annual report respondent RP10-GEP explained: ‘So what you actually want out of an annual report from our point of view, is to understand where the risks from activities are actually seriously taking place, to actually make sure the profit is following those risks from activities. So that’s what I would like to see in an annual report.’

The OECD head of treaties, RP021-IET, referred to the challenge of distributive fairness in management exercising discretion over organizational risks: ‘I think allocation of risk has been identified as one of the key—like allocation of intangibles—one of the key issues we need to address...profitability of a company comes from assets, risks, and functions. But functions are very tangible. You can see the people. Assets are tangible. You can see the buildings. But risks are not that tangible. They are very intangible. So understanding risk and how risk plays a role in this whole factual substance story is key part of our work.’

Conclusion

In this chapter, I explained how the austerity cuts announcement in late 2010 in the UK became that sudden intervening or focusing event that placed the base erosion problem on the host public policy agenda. Prior to this intervention, the base erosion phenomenon and its potential harm to the host economy had not been visible to the public, media and SMOs. In analyzing the data, I showed how host policymakers opened the public deliberative discourse on the problem. Host policymakers made the problem visible by collectively engaging with the public, SMOs, IGOs, host government agencies and self-regulatory associations. Not only did host policymakers made the problem apparent but they also changed the vocabulary used to describe the problem in order to make it more readily understood by the broader stakeholder class. The new vocabulary related to the differences between MNE citizenship behaviour at home and abroad, the multiple stakeholder perspectives of the problem, fairness and reciprocity over procedural opportunistic compliance and a questioning of jargon and concepts surrounding base erosion.

In order to obtain legitimacy in the framing of the base erosion problem, host policymakers mobilized stakeholders by gaining collective consensus on following five aspects: (i) blaming the foreign-owned MNEs; (ii) identifying new business models as being ahead of rules and conventions; (iii) the need to collectively challenge intra-field taken-for-granted views; (iv) the multilateral power of MNEs in arbitraging multiple governance systems; and (v) defending the competency of host regulators to cope with MNEs' multilateral power.

Finally, in order to reappraise and challenge the accounting and taxation conventions and practices of MNEs, host policymakers identified the critical

elements for evaluating fairness, comprising: using corporate accounts as a basis to reconcile local tax exposure; locating where economic activity occurs; examining the convention threshold for recognizing taxable presence; exposing strategic avoidance of host location taxable presence; and revisiting the risk–return reward relationship.

In the next chapter, I will discuss my analysis and findings on how host policymakers shifted the public deliberative process towards making evaluative sociopolitical legitimacy judgments.

Chapter 8 – Moving Toward Sociopolitical Judgements on Base Erosion: Analysis and Findings

Introduction

In this chapter, I will outline my findings on how host policymakers addressed the challenge of shifting entrenched perspectives within the disciplinary domains of corporate reporting policy and international taxation policy. I will show how, by using a public deliberative process they exposed the unfairness of MNE base erosion practices. That is to say, notwithstanding the symbolic and procedural conformity of MNEs within each of the disciplinary domains, the distributive unfairness that was revealed by host policymakers enabled change to policy alternatives that exhibited sociopolitical legitimacy.

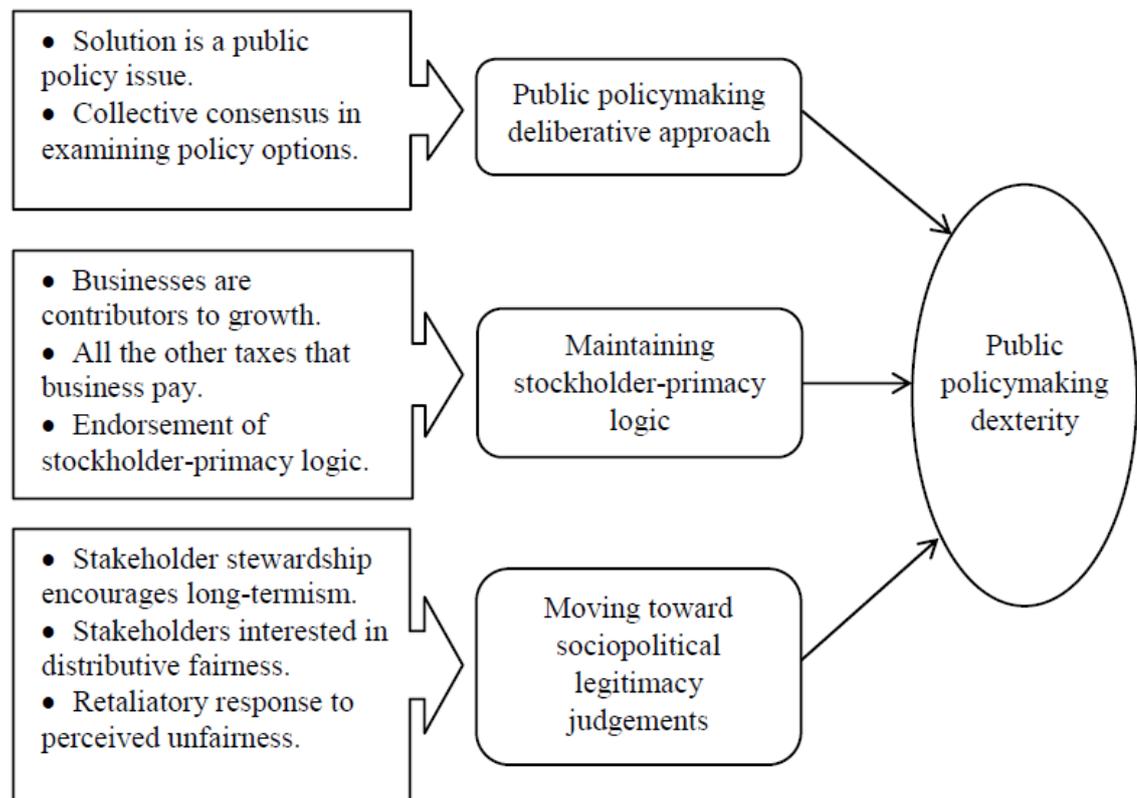
I will show the dexterity with which host policymakers, whilst acknowledging the underlying stockholder-primacy logic in corporate reporting policy, exposed the distributive unfairness of taxable presence conventions in international tax policy. As stakeholders, regulators have an expectation of fairness in the distribution of MNEs' host location economic activities. Where MNEs' internationalizing practices are perceived by stakeholders to be inequitable, this will lead to a retaliatory response that, in turn, stimulates intermediary intervention. My data analysis (see Figures 8.1 and 8.2) will show how it became necessary to mediate a multi-party commitment for dealing with disruptive international-state competition.

Public Policymaking Deliberative Approach

The second-order theme of *public policymaking deliberative approach* comprises two first-order codes. These first-order codes are: solution is a public policy issue and collective consensus in examining policy options.

Solution is a public policy issue

Most respondents indicated that host public policy and regulations needed amendment in order to mitigate the harmful effects of the base erosion phenomenon. The chair of FRC's Accounting Council, RP05-GXA, acknowledged that corporate reporting was not necessarily giving a fair reflection of where MNEs' actual economic activities were occurring. Respondent RP05-GXA observed: 'the public policy issue...is a common sense test...there is a lot of economic activity not now reflected in the accounts or around that domain name.' Respondent RP05-GXA explained that the problem for host policymakers attempting to design policy change based on formulary apportionment of MNEs' value-creation across host locations is that: 'you can attribute some value to the sales process, and some to the production process, and you could do all of that. But the trouble, I think is...you land up with a model, and models are okay except that no model works in the tails.'

Figure 8.1 – Dataflow of public policymaking dexterity

Note: Figure 8.1 is based on an extract of the first-order codes that illustrates public policy dexterity in shifting the deliberative discourse.

Respondents recognized that there is a public policy tension between the compiling of annual reports, which is based on the stockholder-primacy logic, and the demand for accounting reports, which meet the informational requirements of a broader stakeholder class. The FRC respondent, RP03-GXA, commented: ‘You now run into...public policy issues though about whether financial reports address situations where special-purpose user can't actually get that information. And single-country reporting is a good example of that... So,

single-country reporting, in theory, the host country, say in Africa, can get all the information it wants to about the operations, the profits, and the tax paid in that country...Now, the major countries like the US, the EU...are bringing in single-country reporting requirements.'

Chief strategy officer for IIRC, RP25-MSEA, indicated: 'Well, I think the politicians are out of sync with often the reality of how business is done. But the businesses are seemingly out of sync with public opinion and that's also dangerous for them. I think there is work to do on both sides... I think having a more honest dialogue with the public and with regulators and government...about the choices that businesses actually face every day about where they locate, about how they make these decisions about tax policy, and actually have a more informed discussion about them.'

Collective consensus in examining policy options

In framing policy solutions, host policymakers sought collective consensus on alternative policy option changes. Many of the alternative policy options, although briefly considered, did not feature as a realistic policy alternative. Examples included: the European Union applying a consolidated fiscal regime and formulaically distributing collected revenues across states in the economic region; abolishing corporate taxation in its entirety and substituting other fiscal measures; changing the basis of taxation from the nexus of a tax presence to the nexus of a customer-located destination, or other radical policy mechanisms. That is, although such radical policy mechanisms were briefly considered, they were summarily dismissed in order to limit the choice of possible policy alternatives available (Kingdon, 2011).

In the context of the radical option to abolish corporation tax, a senior IFS economist, RP04-SEP, commented: ‘Another one is to just scrap corporate tax altogether, forget trying to tax profits, and have some kind of destination-based VAT type of tax...basically tax people on consumption.’ RP04-SEP continued, ‘there's actually evidence that corporate tax isn't actually born by shareholders. It's borne by work as in the form of lower wages, or it's borne by the people who buy the products.’ Contemporary research supports the respondent’s view that the burden of corporate tax is borne by multiple stakeholders in varying proportions (Auerbach, 2005). Another radical alternative policy option considered was the formulary apportionment approach (Avi-Yonah, Clausing & Durst, 2008). TARC respondent, RP07-SXT, however indicated: ‘But just going down that path a little bit, my view is that formulary apportionment is wrongheaded because you're then replacing one sets of arm's length rules with another set of rules, which are open to manipulation and all the rest of it.’

Regarding the policy option of granting further discretionary powers to regulatory authorities, TARC respondent, RP06-SXT, commented that it was necessary to maintain a balance of fairness between the rights of the taxpayer and the regulator, noting that: ‘country-by-country reporting is just going to be another stick to beat us with because it will be another assessment, which it might be cheaper just to pay [it], than to go through the process of defending our position. So I would say that is the other side of the fairness argument that if you give too much power to regulators, then there is an element of “it's not worth the arguments, it's not worth the aggravation.”’ Likewise, merely imposing punitive sanctions as a signalling response to industry incumbents can, in the longer term,

cause more harm than good, as indicated by Braithwaite (2013) using the demise of Arthur Andersen as an example.

The primary focus of host policymakers was in developing a policy response to the social construction of value creation and value capture by MNEs engaging in FDI across host locations. TARC member, RP07-SXT, observed that:

Economic activity is a construct...that at present might be or is derived from activity within the world that is relevant more than 15 years ago. If you want to change the construct of economic activity, such that it—economic activity in the UK—includes for example, the activity that is generated by the warehouse of Amazon in Swansea then that's fine, let government change it.

Where MNEs enter host markets under an accelerated mode of internationalization (Autio, Sapienza & Almeida, 2000; Chetty, Martin & Martin, 2014; Fan & Phan, 2007), there tends to be a greater fragmentation of economic activities than for the traditional mode of internationalizing (Andersen, 1993; Johanson & Vahlne, 2009)—such as the provision of internalized warehousing, internalized delivery services, captive marketing or promotion services, or leasing administration.

In practice, arm's length valuation rules do not work effectively to counteract the effect of increased fragmentation of group activities across host locations. OECD head of treaties, RP21-IET, commented: 'So what does the arm's length principle say? It says that parts of the same enterprise that are having transactions or having some form of interaction amongst each other, those transactions should be priced as if they are third parties. And there seems to be a contradiction in

terms when kind of looking at global firms. The way we see it is that what we say is, you know, you should take account of the reality of this firm as a whole, in kind of looking at what the separate parts do.’ Regarding a holistic group perspective for attributing MNE value creation across host locations, HMT senior advisor, RP22-GET, observed: ‘If it’s value-creation, well, what does that mean? That’s sort of awkward questions that you’re sort of raising on transfer pricing and how do you divvy them up in the world? I think this physicality issue kind of drops away, except to the extent that it might make those answers a little more obvious.’

Besides examining policy options on value creation by MNEs across host locations, there was also a deliberation on the international conventions in place to avoid imposition of double taxation on international trade. However, whereas public policy provides MNEs with relief from double taxation, it had not previously addressed the circumstance of MNEs arbitraging multiple jurisdictional governance systems thereby enabling MNEs to avoid liability completely—referred to as instances of double non-taxation. Respondent RP20-IET explained: ‘it has been one of the key facilitators of global economic growth...To support all of these things, the avoidance of double taxation has been a focus of the approaches that countries have put in place over the years. But, of course, the threat of no taxation, or less than appropriate taxation, and the way in which the tools and mechanisms that have been used to resolve these issues in the past have sometimes been exploited in more recent times by companies to avoid paying tax has meant the new approaches being required.’

In order to support policy changes dealing with the attribution of value creation, host policymakers sought collective consensus on preventing inter-state

harmful competitive practices. Respondent RP10-GET noted: ‘A mechanism needs to be put into place to actually kill that race to the bottom.’ Intervening in the inter-state harmful competition debate (Killian, 2006) requires a careful balancing of the sovereign right of nation-states to set their own policy agenda with negative setting from other nation-states that destabilizes international relations. HMT deputy director, RP14-GEP, commented:

Almost no country, I think, would say that a corporate tax rate below ten percent was acceptable. But above that, the general view has been it's quite hard to set hard and fast rules without interfering in country sovereignty... So there comes a point whereby by cutting the corporate tax rate, you just encourage so much tax-motivated incorporation, as we call it, tax arbitrage, would be another way of describing it, that you're eroding other tax bases as well as just the corporate tax base.

In order to obtain collective consensus on minimum standards in domestic policy, OECD respondent, RP20-IET, commented: ‘Countries have come together and have been prepared to forego some sovereignty in some areas in order to allow for regional decision-making to be taken. That's legitimate and shouldn't be questioned, and if countries want to go down that path then it's their sovereign right to do that. But if you look at where we are today in the current global environment, it doesn't look like it's an immediate, or likely, or probable prospect that the international community will come together under some form of global government.’

The policy options considered for addressing harmful inter-state competition was in developing transparency and information-sharing mechanisms.

Respondent RP14-GEP observed: ‘What I think you're ultimately trying to do through BEPS and through some of the other initiatives about transparency and information-sharing—and I would say this is the priority for the next decade—it's to stop the really bad practices and narrow the parameters within which people can misbehave.’ Re-stating the need for initiatives for mitigating inter-state harmful competition, respondent RP22-GET commented: ‘We don't want to be in the same place[s] in a couple of years—a few years’ time—so that whole attitude, our whole learning process of having to understand that we do need to adapt the cooperation between tax authorities in order to keep in line with the way economies develop. That would be a good outcome.’

As a means of host policymakers garnering collective consensus for inter-state collaboration, the OECD, as IGO mediator, focused on targeting previously untaxed MNE income thereby seeking to avoid mere zero-sum game compromises. Respondent RP20-IET explained: ‘at the moment there is tax revenue that is not being collected by any government in the world. So there's economic activity that's generating income where [a] tax [liability], according to most people's conception of the ordinary principles of income tax, a liability should be arising but no one's collecting any revenue. By fixing some of these problems there will be revenue collected that is currently escaping the reach of tax administrations all around the world... That means it's not just a contest between existing governments fighting over the current tax take.’ Respondent RP21-IET explained the policy mechanism: ‘So what we are doing is trying to develop linking rules between these domestic tax systems that prevent these gaps from turning into Bermuda Triangles of profits being allocated there.’

Maintaining Stockholder-Primacy Logic

The second-order theme of *maintaining stockholder-primacy logic* comprises three first-order codes. These first-order codes are: businesses are contributors to growth, all other taxes that businesses pay, and the endorsement of the stockholder-primacy logic.

Businesses are contributors to growth

Businesses are contributors to growth in the economy. Thus, it is not surprising that host locations encourage FDI. Addressing Starbucks' representative RW45-OEC, PAC interrogant, RQ39-GEP, indicated: 'in your submission to the Committee, at paragraph 1, you say that you plan to open 300 new stores up and down the country. To which RW45-OEC, replied: 'Yes...Across the UK today, we have about 15,000 employees...we have just announced that we are actually hiring an extra 10,000 seasonal employees to help us with Christmas.' Moving onto the interview with Google's representative, RW47-OEC, PAC interrogant RQ41-GEP, observed: 'Google does a lot of work to help and incubate new technology businesses, and that is really partly where we are driving.' RW47-OEC replied: 'You mentioned Campus: we invested in a building in the tech city area of London—a seven-storey building full of start-ups... The Committee may not be aware of this, but the UK is one of the leading markets in the world in terms of e-commerce... One of the big growth opportunities for the UK is the Internet economy...'

In the interview with information intermediary RP18-SEN, who is a an analyst for the digital sector, the respondent expressed the important contribution that is made to host economies by firms engaged in accelerated modes of

internationalizing (Chetty et al., 2014; Fan & Phan, 2007). Respondent RP18-SEN commented:

my view is, in Amazon in particular, if every company in the world invested the way Amazon did, then the world will be in a much more rapid growth environment than we are today, because on an aggregate level, Amazon doesn't make any profit. They reinvest everything, and I think that is quite a positive story really, because what's the problem with the economy? It's the fact that corporates aren't investing, and they are sitting on a big stock pile, really.

In my interview with the Strategy Officer for IIRC, RP25-SEA, he remarked: 'Putting that to one side [that companies should pay their fair share of taxes], supposing the company decided that it could organize its affairs in a way that meant that it didn't have to pay any taxes in the UK and didn't do, it is nevertheless building value in other ways. It could be contributing to the economy, it could be contributing to society, it is building the human-capital base, or whatever. And what integrated reporting would enable that organization to do is demonstrate the full range of value that the organization was creating.'

In deliberating on the bigger picture of MNEs' contribution to the growth of host economies, FRC respondent, RP02-GXA, indicated: 'And what's wrong with that...it's all about this broader policy—macro and fiscal considerations as to what we're looking at here.' As regards the suggested public policy practice of measuring the multi-faceted contribution that is made by foreign-owned MNEs to host locations, HMT director, RP14-GEP, observed: 'You would like to be able to do that, but in practice it's virtually impossible to do. Maybe that is because

taxes are the ultimate complex system. So many different things are interrelated...you struggle to establish a correlation, because the amount of tax paid in other areas depends on so many different factors and individuals, and businesses can make a whole different range of choices, that you couldn't develop a model that was sophisticated enough to capture all of this.'

All other taxes that businesses pay

Another way of expressing the contribution that foreign-owned MNEs make is to highlight all the other taxes that business pay in host locations. This, in a sense, is a proxy for their contribution to growth in host economies. Starbucks representative, RW45-OEC, explained: 'Now, we paid \$25 million to \$30 million in other taxes that Starbucks pays in this market every year.' Amazon's respondent RW46-OEC, indicated: 'The other thing I would also highlight is that we have paid in excess of £100 million in payroll taxes in the last five years. We have paid tens of millions in business rates in the past five years.'

The FRC respondent, RP02-GXA, noted: 'Quite often the government, on a public policy basis, were quite happy to say, "I'm happy not to recover 40p on the pound on income, because I'm going to get employment in deprived areas, I'm going to get National Insurance contributions from them, I'm going to get employment and other add-ons in the community"... When I actually add up the total revenue I'm getting 52. So why am I not making this deal.' The ICAEW respondent, RP12-SXA, added:

everybody's focused on corporate tax without actually thinking about all the other taxes that businesses pay... So for those companies that employ a lot of staff where they pay payroll taxes, but also companies that are subject to

other the tax regimes, like the North Sea Oil extractors and things like that, who pay a lot of petroleum taxes, but also who pay duty in other ways as well. So there's not very much visibility around those, and there's not a lot of clarity around what companies do.

Endorsement of the stockholder-primacy logic

Because of the part played by businesses, both local and foreign, in promoting national economic growth, host locations fully endorse the stockholder-primacy logic that is made explicit through corporate reporting policy and practice (Aguilera & Jackson, 2003; Veldman & Willmott, 2016). The executive director of the UK's FRC Codes and Standards, RP01-GEA, explained:

I think we need to get back to what's the purpose of the reporting—and for whom is the reporting being done. We feel that the primary audience for these reports is the investor; it's the provider of capital... If you start with that mindset, what's the relevant information to the investor, that drives you along looking at strategy, business model... it's about the agency between auditors and investors.

RP03-GEA, the chair of the UK's FRC's Accounting Council, re-stated the generally accepted view (Barth, 2008) held in the accounting domain: 'The financial reports are largely aimed at investors, because they're regarded as being people who have to rely on general-purpose financial reports because they can't get their own information. They're not aimed, particularly, at special-purpose users who can get their own information. For example, tax authorities can normally get all the information they want out of companies within their domain.'

In defending the intra-field legitimacy of the stockholder-primacy logic, FRC respondent, RP01-GEA, observed: ‘Well, I guess it's entrenched because we do live in a capitalist society and that means that there have to be providers of risk capital. Therefore, because it's that risk, people have wanted transparency and trustworthy information before they're prepared to put their capital at risk. I think it's a perfectly understandable ideology.’ RP02-GXA, a member of the UK's FRC's Accounting Council, stated: ‘I am an accountant. To me accountability means...accountability to shareholders about what I have done with the money they have invested and how I have used the assets that had been entrusted to me. That's what accountability means to me.’ Emphasizing how stockholder-primacy logic is applied in practice, FRC respondent, RP03-GEA observed: ‘So the basis for accounts per IFRS [International Financial Reporting Standards] is—is it decision-useful to the investors and lenders? If it's decision-useful, it's a good thing... So it's nothing to do with economic value, and all that sort of nonsense from an economic value viewpoint.’

In the context of the stockholder-primacy logic, the Investment Management Association (IMA) respondent, RP15-SEN, explained the classical agency problem for corporations with dispersed management (Bratton, 2001; Coffee, 2001) and the role of blockholders (Aguilera, Desender, Bednar & Lee, 2015; Ruiz-Mallorqui & Santana-Martin, 2011), observing that: ‘Going back to 2001, we had Myners' Review of Institutional Investment in the UK...[he] recommend to government that it should legislate in relation to institutional investors engagement with companies. Because he didn't feel that they were holding the management to account.’ In defending the role of the IMA and their members, respondent RP15-SEN noted: ‘There have been a number of studies as to whether

or not that engagement generates returns. And I think the evidence is somewhat mixed. Essentially, it's the actions of management that will generate returns—and how it runs the companies. It's not the institutional investors, who are one step removed.'

Moving Toward Sociopolitical Legitimacy Judgements

The second-order theme of *moving toward sociopolitical legitimacy judgements* comprises three-first-order codes. These first-order codes are: stakeholder stewardship encourages long-termism; stakeholders interested in distributive fairness; and retaliatory response to perceived unfairness.

Stakeholder stewardship encourages long-termism

If policymakers inculcate the stockholder-primacy logic within the corporate reporting domain, this does not preclude the voluntary adoption of a broader stakeholder engagement by MNEs or by host policymakers in other domains of public policy. The UK's Stewardship Code (Financial Reporting Council, 2012) indicates that stewardship is a shared responsibility, resting primarily with the board, but also with investors, particularly the institutional investor class (Holderness & Sheehan, 1988; La Porta, Lopez-de-Silanes & Shleifer, 1999; Zeitoun & Pamini, 2015). FRC respondent, RP01-GEA, explained: 'The stewardship code...is designed to encourage a long-term view of investment and have an engagement process.' The IMA respondent, RP15-SEN, explained the background to the adoption of the stewardship code: 'We prepared this code...we continued to just sort of benchmark the activities of signatories in practice. And then we had the FCA in December 2010, ready to regulate a requirement—That it's a conduct of business rule, that authorized asset managers—either have a

statement as to how they adhere to the stewardship code, or explain their alternative business model.’

In the context of MNEs voluntarily adopting a stakeholder orientation, information intermediary, RP13-SXN, explained why this orientation is important: ‘I think, [it] is the general public at large, that would include: regulators and people who are interested in environmental aspects; people who are interested in the employment aspects; [and] people who are, again, interested in those corporate strategy, corporate citizenship, aspects of things. Actually, I think that the employees and stakeholders—direct stakeholders of the company themselves—are an important audience.’ Respondent RP13-SXN explained that an MNE’s commitment to a broader stakeholder engagement provided a positive signal to of its sensitivity to its environment and longer-term survival:

I don't think that this is do-gooder or tree hugger, or sort of the hippy-dippy stuff at all. I think it's a level of transparency and things that give you huge insights into...the seriousness and effectiveness with which a management addresses these sorts of issues in their strategic report and in their ESG [environmental, social and governance] narratives and everything; sheds a lot of light on the way they're likely to operate the rest of the business.

Stakeholders interest in distributive fairness

The self-interests of multiple stakeholders are bounded by norms of fairness (Bosse, Phillips & Harrison, 2009; Harrison, Bosse & Phillips, 2010; Parmar et al., 2010). Stakeholders question the fairness of outcomes when perceived differences exist in comparable circumstances (Adams, 1963). In opening the

public hearings, the PAC chair, RQ26-GEP, rhetorically exclaimed to the HMRC representative: ‘So you think it’s fair that all these companies can take so much of their profits out and put them into jurisdictions where they pay no tax by using transfer pricing?’ Also, PAC interrogant, RQ40-GEP, questioned the motives of Starbucks: ‘you are manipulating your tax affairs in order to support very aggressive anti-competitive behaviour...outbidding Coffee Republic for commercial sites. The figures speak for themselves: Coffee Republic now has a mere handful of stores compared with Starbucks, which is growing. That leaves me in a very uncomfortable position, both as a consumer and as a taxpayer. We in Britain are very concerned about fair play.’

Reverting to Google, PAC interrogant, RQ26-GEP, remarked: ‘I use Google, and all of us round the table use Google. They contribute to your profits but see no proper, fair contribution from you to corporation tax. That is the thing that bugs us all.’ Then, attempting to trace Google’s flow of funds, PAC interrogant, RQ29-GEP, posed this question to its EU director of sales and operations: ‘Let’s think about the interests of those shareholders. I am interested in what happens to the money that ends up in Bermuda, and how the shareholders can get any benefit from that.’ Continuing with this line of enquiry, PAC respondent, RP16-GEP: remarked: ‘It...goes on to the Netherlands, and then it goes to Bermuda...cannot get their hands on it because 30% tax would have to be paid for it to be repatriated to America, to the shareholders. It sits there in a cash mountain...but what contribution does it actually make?’ Subsequent to the PAC hearings, Google wrote a follow-up statement to the PAC on this aspect, explaining: ‘During the hearing, several Members suggested that shareholders only benefit if Google pays dividends back to shareholders. This is not the case.

Google Inc has not paid dividends to shareholders at any point in the past and we have no current intention to do so. The funds held can be used to expand Google Inc's business operations outside of the US, which should in turn benefit Google's shareholders.'

The PAC hearings concluded that:

The hearings we held showed that international companies are able to exploit national and international tax structures to minimize corporation tax on the economic activity they conduct in the UK. The outcome is that they do not pay their fair share... If companies do not pay their fair share of tax, other taxpayers have to pay more.' (PAC-UK, 2012 p.3).

On the subject of comparative inequity, the PAC hearings concluded that: 'We are concerned that multinationals have an unfair competitive advantage over British businesses which have no choice but to pay their corporation tax... Our intention in inviting these companies was to provide an illustration of what we perceive to be a wider problem...not to single out Amazon, Google and Starbucks as the only companies engaging in these practices.'

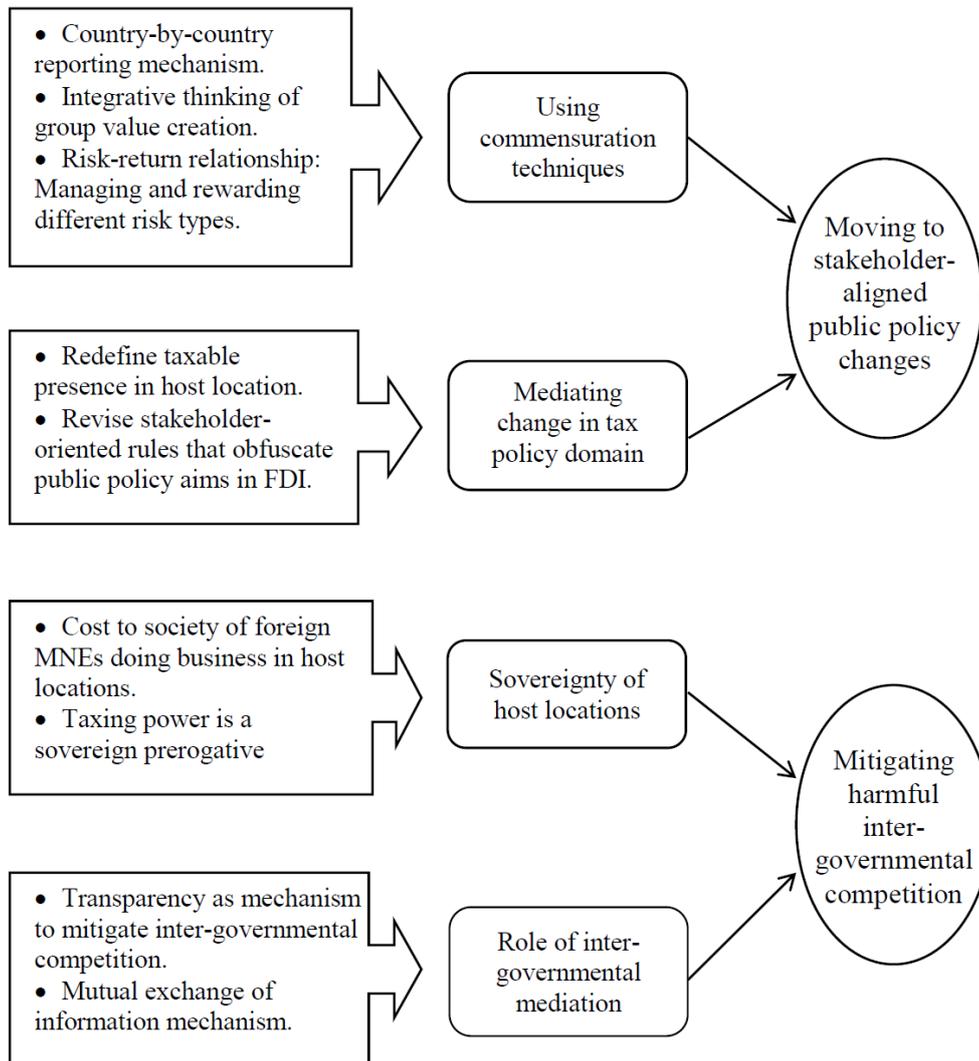
Retaliatory responses to perceived inequity

As a result of the public deliberative process of making the problem apparent, stakeholders began to urge host nation-states and IGOs, like the OECD and the EU, to respond to the lack of fairness in trade practices that had seen local firms struggling to compete with foreign-owned MNEs. Retaliation to the perceived inequity appeared in many forms: in making the VAT rates on e-services including e-books higher than those for printed books (Osuna, 2016); in changing

the basis for charging VAT rates applicable to EU customers from the source country to the destination country (Amand, 2016) thereby remedying selection bias in favour of low VAT-rate EU countries; in the UK, by imposing a diverted profits tax or a ‘Google-tax’ as an anti-base erosion measure (Santos, 2016; Zubeldia, 2016); and through retaliation from the European Commission against preferential tax practice rulings granted by member states to foreign-owned MNEs that constitute unlawful state aid (Houlder, 2016; Vleggeert, 2016).

Many of the respondents indicated that retaliatory responses would likely take multiple and varied forms. Respondent RP15-SEN commented: ‘they [foreign-owned MNEs] are effectively gaming things to suit themselves. And I think it could come back and bite them.’ At the PAC hearings, PAC interrogant RQ42-GEP, posed this question to Amazon’s representative, RW46-OEC: ‘How did you feel about the EU ruling that said you had to increase it [VAT rate chargeable on e-books]?’ RW46-OEC responded: ‘I do not think that we are challenging the ruling; Amazon is not a party to these proceedings. What I would say is that we firmly believe that a book is a book, regardless.’ In this context, HMT’s deputy director, RP14-GEP, observed: ‘It’s not as if they [Amazon] have a brass plate there. The primary reason that they chose to set up in Luxembourg was because Luxembourg levied a low rate of VAT...[but] when we move to a place-of-consumption basis, [so] where the sale takes place will become irrelevant; whereas it’s not irrelevant now.... From the 1st January 2015, the new rules [is] around the place of consumption apply—so Amazon will be required to levy 20% of VAT on products sold in the UK and remit that to the Exchequer. So that solves one problem.’

PAC respondent, RP11-GEP, explained: ‘So I suppose it's how you use all the tools in the box, and not all the tools are statutory.’ Information intermediary respondent, RES18-SEN, provided an example of the indirect retaliatory measures: ‘the biggest issue at the minute for Google, or you know one of the big regulatory issues, is it's role in Europe, and the case for it to be split up, and all these kind of things.’ TARC respondent, RP07-SXT, commented: ‘I think the public pressure and the debates and things have changed the approach of both tax professionals and the companies themselves... So even without any regulatory change, the corporate behavior in relation to tax and the shifting of profits will change anyway because of this public pressure.’

Figure 8.2 – Dataflow of moving toward sociopolitical legitimacy judgements

Note: Figure 8.2 is based on an extract of the first-order codes that show how: (i) host policymakers move to stakeholder-aligned policy changes, and (ii) mitigate harmful inter-governmental competition.

Using Commensuration Techniques

My second-order theme of *using commensuration techniques* comprises three first-order codes. These first-order codes are: the country-by-country reporting mechanism; integrative thinking on group value creation; and the risk–return

relationship mechanism—attributing the residue reward to non-functional component (see Figure 8.2 and Table 8.3).

My fieldwork indicated that host policymakers used commensuration in the public deliberative process to counterbalance the conflict between a stockholder-primacy logic underlying corporate reporting versus a stakeholder-aligned orientation underlying host tax policy.

Country-by-country reporting mechanism

The first of the commensuration techniques (Espeland & Sauder, 2007; Jeacle & Carter, 2011) deliberated on was to link measurement of host performance, by way of net profit for both corporate reporting and host taxable purposes, to the economic activity indicators that prevailed in the host location. The country-by-country reporting mechanism was considered a suitable means to establish a common metric.

It is widely accepted that net profit for corporate reporting purposes is socially constructed differently from taxable net profit for host taxing purposes (Freedman, 2008; Graetz, 2016). Notwithstanding, the differences in computing net profit for corporate reporting and host taxing purposes, both outcomes should have a realistic and pragmatic correlation to host economic activity. Country-by-country reporting of key financial and economic indicators has been advocated for policymaking purposes (Espeland & Stevens, 2008) to uncover unjustifiable correlations with MNE host economic indicators. From a corporate reporting perspective, the IFRS undertook a post-implementation review of the Operating Segments Standard (PIR IFRS 8, 2013). It concluded that: ‘Some think that geographical segmentation should be a separate, additional requirement. Others think that existing geographical disclosures may not be useful if they do not

distinguish between regions in a way that is useful to investors... Feedback received did not identify a clear or consistent problem that we need to address and, consequently, we do not think this area warrants any further action at this time.’ FRC respondent, RP01-GEA, remarked: ‘it's not necessarily relevant information to the investor’.

Whilst the corporate accounting policy domain was indifferent to geographical segmentation, the corporate tax policy domain considered it important. HMT’s respondent, RP17-GET, commented:

the main area that we focused on in the BEPS project, which is looking at the kind of disclosure-transparency area, is Action 13 on the country-by-country reporting piece, which is deliberately designed to...give a snapshot of a global business, so a quick and easily understandable [tool]...it doesn't necessarily give too much detail. On the face of it, it will show you how much profit is made in a country, how much revenue is reported in a country, how much tax is being paid in a country...there's some things about tangible assets and there's some things about number of employees. They are the economic activity indicators that have been agreed for this.

The OECD’s report on Action 13 (OECD, 2015d p.9) stated: ‘The country-by-country report requires multinational enterprises (MNEs) to report annually and for each tax jurisdiction in which they do business, the amount of revenue, profit before income tax and income tax paid and accrued. It also requires MNEs to report their total employment, capital, retained earnings and tangible assets in each tax jurisdiction. Finally, it requires MNEs to identify each entity within the group doing business in a particular tax jurisdiction and to provide an indication

of the business activities each entity engages in.’

The result of the deliberative process is that the commensuration mechanism of country-by-country reporting gained sociopolitical legitimacy, unlike geographical segmentation, which lacked consensus of investor relevance (IFRS 8, 2007; PIR IFRS 8, 2013). This is a clear indication of how the deliberative process, while recognizing the stockholder-primacy logic in corporate reporting policy, was able to accommodate a stakeholder-aligned orientation for host taxing policy. In the case of the country-by-country reporting mechanism, the common unit of comparative measurement for both accounting and taxable profit now become the key-performance-indicators (KPIs) related to the economic activity.

Table 8.3 – Mechanisms of commensuration

<i>Mechanisms</i>	<i>Different concepts</i>	<i>Common unit of measurement or characteristic</i>	<i>Pragmatic comparison of:</i>
Country-by-country reporting	‘Net income’ for corporate reporting purposes as distinct from ‘net income’ taxable for host location purposes.	Key performance indicators for host location economic activity.	Financial and economic performance in host location to ‘net income’ attributed for tax purposes.
Integrated thinking	Contract context of value creation and	Valorization process mediated	Valuation practices in value

	recording of value capture as distinct from their business model inter-connectedness.	by group inter-connectedness and interdependence.	capture under contract independence to inter-connectedness within group business model.
Risk-return analysis	Rewarding risk in non-specific order as distinct from rewarding separately functional and non-functional risk components.	Entrepreneurial risk as a distinctive measure of residual risk.	Order of worth in value creation under assumption of functional and non-functional risk components.

Note: Table 8.3 is constructed from first-order data tagged to the following codes: (i) country-by-country reporting mechanism, (ii) integrative thinking about MNE value creation; and (iii) risk-return relationships. It shows how commensuration techniques are operationalized.

Integrative thinking on group value-creation

The second of the commensuration techniques suggested in the deliberative process was to use an integrative thinking mindset in order to grasp the entirety of a firm's value-creation capabilities. A firm's value-creation capabilities cannot realistically and pragmatically be appraised in a restricted contractual context of

fragmented activities or fragmented proprietary interests. Thus, the common unit of measurement or valuation practice that has been useful in valorizing fragmented activities is to apply an integrative thinking approach. Integrative thinking moderates the process of valorization from a restricted contractual context to an interconnected and interdependent association of resources and valuation frameworks.

At the PAC hearings, RQ26-GEP, the PAC chair, rhetorically remarked to HMRC that: ‘But do you look, for example, with the company we are not allowed to mention, at what they have been telling their shareholders about the profit rate in the UK?’ In another instance, Amazon’s representative, RW46-OEC, acknowledged that although the sale may be concluded in Luxembourg, it is their warehouses in the UK that print the invoices accompanying the orders despatched to customers. In the case of Google, the Comptroller and Auditor-General, RQ31-GEP, remarked on the relationship between valuation practices and group resources: ‘That is not Californian advertising, is it? It is a slightly misleading argument, although I understand it. Of course, part of it is generated by the technology—that is the medium—but it is also generated by advertising and sales, which are specific to territory. So a significant part of the economic activity is specific to the territory; not all of it is global, that would not be fair, would it?’

Value creation and value capture within an MNE group is not produced independently by its fragmented business units, but instead arises from interconnected and interdependent factors (International Integrated Reporting Council, 2013; Pitelis, 2009), such as its strategy and business model, resources, technology and innovativeness, capabilities in addressing risk and opportunities

and responsiveness to stakeholders' legitimate needs and interests. FRC respondent, RP01-GEA, noted: 'What the IIRC is basically saying is that there's more to business than just financial capital. So, they're basically saying there's a whole range of other capitals that you should be reporting on... What they're basically encouraging companies to do is to think in an integrated way.' FRC respondent, RP02-GXA, added: 'It's about business behaviours and the business model and that value creation—how I run business day-to-day and how the management works, operates, exercises that accountability, runs its governance structures—and then reflects that in its report.'

In the context of valuation practices applicable to MNE related-party transactions, OECD representative, RP21-IET, commented:

For example, if the facts of the case show that, in fact, there is some form of collaborative relationship between the two parts of the same entity, you should also price the transaction as being on a collaborative basis. You shouldn't try to say, "Well, you should be kind of competing with each other".

Again, referring to the interconnectedness and interdependency that one identifiable activity, like warehousing logistics, provides in meeting online consumer expectations, RP21-IET noted: 'Yes. I think maybe the logistics in that situation provides value to the whole enterprise, and more value than just a marginal return.' The HMRC senior advisor, RP22-GET, added: 'With the digital economy as well, there's so much more around it. There's that whole multi-sided business model. It's far more fluid and there are far more, far deeper questions to

be answered around the question of value and the question of what the contribution is and what it is that you're actually sharing.'

The risk–return relationship: managing and rewarding different risk types

The third commensuration technique identified in my fieldwork was the risk–return relationship mechanism. Until the occurrence of the austerity-focusing event (Birkland, 1998; Callinicos, 2012; Kingdon, 2011), the basis for managing risk and rewarding entrepreneurial effort as distinct from capital was not subject to scrutiny. However, the process of public deliberation introduced the notion that the valuation practices should distinguish between reward for managing functional risk (providing capital and labour) as distinct from the reward for managing the non-functional risk component of entrepreneurship (Knight, 1921; Lukka, 1990; Weston, 1954). The UK Governance Code (Financial Reporting Council, 2014 p.5) states: 'The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.'

In managing and scrutinizing risk types within the MNE group, IFS senior economic advisor, RP04-SEP, commented: 'Another thing that companies do that from an economics point of view is bizarre, is to try to allocate risk across companies. They allocate risk—I'm not really sure how this fits in to contract law—but they allocate risk as a way to basically move tax payments... But as an economist, if this company is fully owned by this company, there is no sense in which the risk is different. The same company has the risk.' OECD head of treaties, RP21-IET, explained what constitutes routine risk and how routine risk should be rewarded: 'So what we are now saying is that in those situations, where

you see an accentuating of the element of risk that you have, that we will use special measures...in minimum functional entities that have a lot of capital allocated to them...in low tax jurisdictions. We will also develop special measures in one way, shape or form, that will say, “Well, in these and these situations, the profits that are allocated to this minimum, functional, low-taxed entity will be reallocated again.’

In distinguishing routine risk and entrepreneurial risk, HMT’s deputy director, RP17-GEP, explained: ‘looking more at the economic structures and rationale for business decisions rather than the legalistic sort of contract, following the contract definitions, I think taking more of an economist's eye on some of these aspects will—or may well—actually lead you to a kind of more logical or rational sort of conclusion.’ OECD respondent, RP21-IET, added:

So what we are now saying is that when you look at risk, you should first identify with specificity what kind of risks a company has taken on... The premium returns come from them being able to manage their risks better than others. But what we then also say is that companies don't just take on risks, they do something with it. They perform activities in order to make sure that they are the ones that can mitigate risks optimally compared to other competitors.

In summary, for risk-reward assessment purposes the common unit of measurement became the discernment of alternative risk-types. As the public deliberative process developed, risk-types were no longer perceived as homogenous, but instead were capable of being categorized by order of worth. For routine functional risk, the view was that it should be rewarded in nominal

terms, while the remainder share of profit should be attributable to management of the entrepreneurial non-functional risk component.

Mediating Change in the Tax Policy Domain

The second-order theme of *mediating change in the tax policy domain* comprises two first-order codes: redefining host taxable presence and revising rules and conventions that obfuscate public policy aims. In changing emphasis from stockholder-primacy logic to a stakeholder-aligned policy domain, host policymakers used techniques of commensuration to mediate change in corporate taxation policy.

Redefining host taxable presence

The restricted meaning of host taxable presence was made apparent in the PAC hearings when a PAC witness, RW50-SET, remarked: ‘let me try, on a theoretical basis, to help you with the examination that you are having here... Essentially, the situation that we are looking at here is an Irish resident company and the question of whether it is trading in the UK. The test that is formulated by the Irish-UK treaty says that essentially the Irish company is subject to UK tax on its profits if it is trading in the UK through a permanent establishment [PE]...if employees of the UK company have the authority to conclude contracts on behalf of the Irish company and they habitually exercise that authority.’ RW50-SET continued: ‘The point that you are grappling with right now is that line between liaison, supporting and making sure clients are happy, and actually getting so close to the point of sale.’ With the advent of an accelerated mode of internationalizing, the PAC witness was implying that the conventions that define

taxable presence have failed to effectively align MNE value creation with host location economic activity.

PAC interrogant, RQ41-GEP, posed the question: ‘Do you think that the OECD definition of what a branch is should be updated for the Internet world, first of all?’ In response, Google’s representative, RW47-OEC, replied: ‘I recognize the challenge of a very fast-developing environment with the Internet’; and Amazon’s representative, RW46-OEC, similarly concluded: ‘I agree with [RW47-OEC] here: it is a very fast-moving world. I understand in fact that the OECD guidelines are currently being consulted upon.’ OECD respondent, RP21-IET, explained the proposed changes to the double tax treaty convention on host taxable presence: ‘If you look at activities, business activities that should be seen as a whole or that are a coherent whole, they can no longer be fragmented. So, if part of the operations of the multinational is already taking place in the country...you cannot avoid having a PE [permanent establishment] via one of the exceptions.’ RP21-IET continued: ‘If you tweak the [taxable presence] threshold, for example, on warehouses, you delete the exemption. Then you will have a taxable presence in a country earlier on.’

Revising rules and conventions that obfuscate public policy aims

Where corporate behaviour in host locations operates at the limits of policy conventions, such as in creating stateless income, then fairness dictates that rules and conventions, which obfuscate public policy aims, should be remedied through an evaluative sociopolitical legitimacy process. OECD head of tax policy, RP20-IET, explained: ‘Well look, I think that there are clearly many examples under the existing rules where interactions between the tax laws of various countries have allowed for structures and arrangements to be put in place, where there is

patently no or little connection between places where taxable profits are being reported, and where the actual economic activity—the value creation—is going on. There are plenty of examples where you could look at how flaws in the system, as it currently stands, have given rise to those problems.’

In the context of UK policy adopting a patent box incentive regime to promote innovation, IFS senior economic advisor, RP04-SEP, commented: ‘But I’m not sure you’d have a patent box to sort of achieve that aim. The reason for that is, is that the patent box targets the income that you get from an innovation and not the underlying innovation itself. Because those things are separated in time, attracting one doesn’t necessarily mean you’ll attract the other.’ That is, as an innovation policy, the patent box is not necessarily delivering the intended outcomes, but as a blunt policy instrument, it has attracted mobile patent income to the UK. However, as RP04-SEP concludes: ‘It does make the UK more competitive, but now there are 14 European governments that have a patent box... Of course, if everyone has one, then that competitive advantage you thought you were creating goes away again.’

Adopting appropriate levels of transparency becomes critical as a counterbalancing measure to entrepreneurial innovation (Mahmood & Rufin, 2005; Patriotta & Hirsch, 2015) and opportunism (Farjoun & Starbuck, 2007; Nebus & Rufin, 2010) by MNEs. Host policymakers encourage entrepreneurial innovation but, in turn, require adequate levels of transparency as a means of regulating socially acceptable corporate behaviour (Suchman, 1995; Suddaby & Greenwood, 2005). HMRC witness, RW35-GET, in responding to questions on promoter’s disclosure obligations indicated:

I am sorry to say this again, but one of the challenges for us is definitional.

Tax planning is a good thing that we encourage people to do, and egregious tax avoidance is something that we know we do not want. The gap between the two is the area where disclosure is important.

The final BEPS reports indicate how the gap in disclosure is being addressed (OECD, 2015a p.86): ‘the work on BEPS will increase transparency between taxpayers and tax administrations and among tax administrations themselves. Risk assessment processes at the level of the competent tax administration will be enhanced by measures such as the mandatory disclosure of aggressive tax planning arrangements...and other forthcoming outputs of the BEPS Project on the tax planning and structuring decisions of multinational enterprise (MNE) groups.’

Sovereignty of Host Locations

The aggregate theme of mitigating harmful inter-state competition comprises two second-order themes: the sovereignty of host locations and inter-governmental mediation. The second-order theme of sovereignty of host locations comprises the two first-order codes: cost to society of foreign MNEs doing business in host locations and taxing power is a sovereign prerogative.

Cost to society of foreign MNEs doing business in host locations

Foreign direct inward investment not only brings benefits to the host economy, it also increases national costs through the need for subnational support systems (Monaghan, Gunnigle & Lavelle, 2014), administrative oversight architecture and, where called for, the exercise of sanction mechanisms. Written evidence

provided to the PAC by HMRC observed that: ‘The number of companies managed by the Large Business Service has increased and it currently has 783 customers, of which 371 have non-UK parents.’ The statistic indicates that just under half of the large business case load that is administered by HMRC is with foreign-owned MNEs carrying on business in the UK. That is, foreign-owned MNEs carrying on business in host locations comprise a significant part of the host economy.

Concerns relate to not only the increased administrative oversight needed, but also to the fact that greater diligence over corporate citizenship of MNEs is observed in home-headquartered locations than can be found in host locations (Dischinger & Riedel, 2010). For those MNEs that are more inclined to engage in base erosion in host locations, TARC respondent, RP07-SXT remarked:

The extent to which they are able to shift the incidence [to taxation across host locations] will be subject to different constraints depending on the industry or product market and elasticity of demand and all these sort of things. So it's a huge, messy, complex thing. I think that's been one of the problems with the public debate, is this assumption that somehow you can hurt companies or make them pay this tax as if they're coming out of the company's pockets somehow, and it's not. It's just dissipated across society.

The HMRC respondent, RP22-GET, explained the motivation behind the introduction of the so-called Google tax, which seeks to guide or influence MNE behaviour: ‘Our basic strategy is to encourage people to comply. There's always the sort of idea that in a really effective taxing administration, tax law shouldn't have compliance yield because [laughter] you would have compliant

companies...that's a far-away dream [laughter]. Things like diverted profits tax, which again is full of anti-avoidance legislation, the idea behind all of that is to encourage people not to go there.'

Taxing power is a sovereign prerogative

The sovereign power of host nation-states is constrained by increased globalization (Matten & Crane, 2005; Scherer & Palazzo, 2011) and the concomitant growth in MNE's bargaining power (Agmon, 2003; Nebus & Rufin, 2010). However, nation-states oppose any interference with their constitutional powers over taxation. The HMRC witness, RW35-GET, in defending the host regulator's position remarked: 'No, I do not think we are handling big business gently. I can absolutely refute any suggestion that I have been told to go easy on big business. I have been given £917 million investment to increase yield, and a significant proportion of that comes from big businesses.' The OECD head of tax policy, RP20-IET, explained the hierarchical order of sovereignty over economic practicality as: 'I think that there is a reality that we all have to deal with, and that is that nation-states are, have been and continue to be sovereign. National sovereignty is one of the fundamental elements of the geo-politico-economic landscape within which we all operate...'

Recognizing the hybrid structure arrangements that are organized by MNEs across host locations (Kahlenberg & Kopec, 2016; OECD, 2015i) to create unintended non-taxation for significant components of MNE activities, the OECD head of tax treaties, RP21-IET, explained how these gaps were being sensitively addressed from a sovereignty perspective: 'the coherence bit...that's new because we have never dealt with linking up domestic tax systems before. It's also not to be confused with harmonization. We're not harmonizing. We're just linking the

parts that need to be linked.’ In essence, in order to respond to the arbitraging of governance systems by MNEs across host locations, the OECD, as inter-governmental mediator, has had to coherently link differences across host locations. The coherent linking of domestic systems has been made possible through recognizing the legitimacy of sovereignty of host locations in challenging stateless income that should accrue for their benefit.

On the issue of a possible unilateral response to the base erosion problem, respondent RP16-GEP commented: ‘That’s our ultimate weapon. We could, but...[Government] will want to work by international agreements as far as possible. I don’t know how far international agreement is possible, [under] a system of assessing profits by jurisdiction.’ Pursuing unilateral action, however, is likely to be challenged on the grounds of the limitations of those sovereign powers over transnational trade. On the question of seeking to impose taxation beyond the border of the nation-state, the OECD representative, RP20-IET, commented: ‘Now, of course, any country can seek to legislate extra-territorially, but double taxation has always been something that we’ve sought to minimize, or to avoid where possible. Because if you support global trade as I do—as the OECD always has—because it has been one of the key facilitators of global economic growth.’

Inter-Governmental Mediation

The second-order theme of inter-governmental mediation comprises two first-order codes: transparency as a mitigation tool and mutual exchange of information mechanism.

Transparency as a mitigation tool

Inter-governmental organizations (Schemeil, 2013), like the OECD and the EU, act as the mediators between nation-states by developing an open collaborative relationship that is sensitive to any encroachment over sovereignty powers. Adopting an open collaborative approach in inter-governmental relations builds trust (Bigley & Pearce, 1998; Braithwaite, 2013; Kim, Dirks & Cooper, 2009) and mitigates more extreme levels of inter-state competition. At the PAC hearings, the HMRC witness, RW35-GET, observed: ‘we do work very closely with colleagues. You have mentioned the US, but this is not an approach which is done in isolation...[we] continue to work with other countries to ensure that we do stay on top.’

Information intermediary respondent, RP19-SEN, remarked: ‘I think in any of these situations, co-ordination is absolutely crucial. I think that's probably a view that would be shared by a lot of people.’ The deputy director of HMT, RP14-GET, explained: ‘from the perspective of an individual tax authority, you get the best outcome if everybody collaborates in an effective way, because you gather and exchange information and then it enables tax authorities to make sure that people responsible for gathering and paying tax are doing so... Problems may arise if individual tax authorities with jurisdictions start trying to game the system to get a better outcome for themselves.’

In the event that a breakdown occurs in open collaboration or transparency between competing nation-states, countermeasures may be applied, as suggested by RP14-GET:

Then, the risk from their perspective is that they find people taking countermeasures. We'll say, "Fine but we'll just abrogate our tax treaty with you." And actually, if you're a country that wants to be competitive and wants to attract investment and be an economic actor, if you're cut out from the tax treaty network, you just can't do that... increasingly you risk blacklisting yourself.

That is to say, individual nation-states are able to retaliate by either reducing or removing bilateral double-taxation concessions. However, before the point of breakdown in open collaboration is reached, there is the opportunity for hard negotiation: in agreeing on the mutually-acceptable boundaries of inter-state competition (OECD, 2015c); and, specifically, on the mutually-acceptable mechanisms for transparency (OECD, 2015g).

Mutual exchange of information mechanism

Bilateral tax treaties have always incorporated a mutual exchange of information provision to assist nation-states in resolving disputes on double taxation. Under a significant initiative mediated by the OECD, there should in future be an automatic exchange of information mechanism (OECD, 2015e). The HMRC respondent, RP17-GET noted:

That's being sort of agreed at the G20 and OECD level, but there's further discussion going on at the moment, and on into 2015 on exactly how the information should be reported and how it will be disseminated between tax authorities.' Respondent RP17-GET continued: 'So there are different routes that are being explored at the moment. One is for the parent company to report the information to the parent jurisdiction and then the parent tax

authority to exchange through some form of treaty route, with all the relevant [crosstalk] treaty jurisdictions.

The mechanism for implementing the automatic mutual exchange of information across multiple nation-states is for participants to commit to the terms and conditions of a multilateral treaty (OECD, 2015e). The HMT respondent, RP17-GEP, explained: ‘So the idea being some sort of multi-national instrument which countries can sign up to in order to access this information. The principle behind it is that the information would only go to tax authorities.’ The OECD respondent, RP20-IET, remarked: ‘It will overcome the asymmetry of information that currently exists. That's something that sovereign nations need to reach agreement on, in terms of how the logistics of sharing that information will occur.’ It is the home headquarters of the MNE (Chandler, 1991; Foss, 1997; Goold, Campbell & Alexander, 1994) that will assume a significant role in furnishing such additional information in order to support the multilateral initiative. OECD respondent, RP21-IET, explained: ‘what we will be setting up is a government-to-government automatic exchange of information mechanism where the information...at the ultimate parent level...will be disseminated...to the local jurisdictions’.

Conclusion

As articulated by Birkland (2016), public policy is about addressing solutions to social problems. The findings from my fieldwork indicate the dexterity of host policymakers in using the public deliberative approach in coping with the competing public policy objectives firmly embedded within corporate reporting

policy and host taxation policy domains. Host public policymakers acknowledged the difficulty in challenging stockholder-primacy logic underpinning corporate reporting policy and the taken-for-granted orthodoxy of economic growth initiatives. Instead, host policymakers used the public deliberative approach to challenge the stakeholder-oriented concerns of distributed fairness evident in the host corporate tax policy domain.

Kingdon's public policy framework (Kingdon, 2011), guided by the earlier research of Cohen, March & Olsen (1972), indicates that agenda-setting is about recognizing the parallel streams of social problems, policy alternatives and politics that move temporally independently of each other. These independent parallel streams will, at times, converge as a result of a transforming or focusing event (Birkland, 1998), as identified in my fieldwork. Based on my data analysis and findings outlined in this and the preceding chapter, I show that host policymakers shifted the public deliberative discourse from cognitive legitimacy judgements to sociopolitical legitimacy judgements within the corporate tax policy domain by exploiting stakeholder interest in distributive fairness and by retaliating to perceived unfairness in MNE base erosion practices across host locations. Such retaliatory responses took many forms affecting, both directly and indirectly, the foreign-owned MNEs operations.

I have identified two key stages in the process of public policy change. Firstly, host policymakers used commensuration techniques to shift acceptance towards sociopolitical policy change based on collective stakeholder consensus. My fieldwork identified three forms of commensuration techniques applied, namely: (i) comparing economic activity indicators to reconfigure MNE intermediate and subunit corporate financial performance on a country-by-country geographical

basis; (ii) comparing fragmented MNE value-creation and value-capture activities to an integrative thinking on valuation practices exercised across borders; and (iii) comparing the order of reward to the MNE management of risk-types, distinguishing between routine functional reward and residual entrepreneurial non-functional reward. Secondly, in order to mitigate harmful inter-governmental competition that was being exploited by MNEs, it became necessary for IGOs, such as the OECD and the EU, to commit to a level of collaboration that was based on transparency and on mutual exchange of information principles.

In the next chapter, I will discuss my contribution to extant literature by providing a thick description of the MNE valuation practices in base erosion, taking a resource-based view of the firm, and by augmenting the theory of social judgements, through showing the conditions that constrain and the mechanisms that enable the bridging of cognitive and sociopolitical legitimacy judgements.

Chapter 9 – Discussion and Contribution

Introduction

In this chapter, I will bring together my analysis and research findings discussed in chapters 6, 7 and 8 and will discuss how they address the gaps in the literature. We have seen that extant literature fails to explain how host policymakers make sense of the base erosion phenomenon that affects host advanced economies, such as the United Kingdom. Such an insight is useful to illuminate the phenomenological outcome of a stockholder-primacy logic governance system that justifies inquiry about the plurality of perspectives on value creation. I will fill this gap by explaining how host policymakers, during the course of holding the PAC public hearings in 2012 and 2013, framed this phenomenon.

I will build on the extant literature for MNE value-creation frameworks as illustrated in Table 3.1 about the key concepts of value in strategy, internationalization and performance, headquarters and parenting, internal firm markets, subsidiary and intermediate units and subnational networks from a firm or aggregative perspective—in order to build theory about the public stakeholders' perspective on MNE value-creation and appropriation across host locations. The public stakeholder perspective will explicate how host policymakers define MNE base erosion as the relative degree of alignment in the constituent elements of use value-creation using the mechanisms of exchange value that are incrementally captured in the course of MNEs internationalizing.

My referential context to how host policymakers define the phenomenon is guided by the second-order constructs in the theoretical representation of my data

(Gioia, Corley & Hamilton, 2012; Herepath, 2014; Shepherd & Sutcliffe, 2011).

I will also distinguish the broader concept of base erosion from earlier seminal perspectives on the organizing views of transfer pricing, and provide an organizing view of host location MNE base erosion practices.

In the context of the response of host policymakers to the base erosion problem, I will augment the theory of social judgements (Bitektine, 2011; Golant & Sillince, 2007; Harmon, Green & Goodnight, 2015) by explaining the boundary conditions and showing how cognitive and sociopolitical legitimacy judgments may be bridged. Whereas extant theory tells us that inter-field rhetoric is associated with institutional change, it fails to explain how cognitive and sociopolitical legitimacy judgments may be bridged. I will fill this gap by showing how engaging with particular forms of commensuration techniques in a public deliberative setting will bridge judgement types inter-field. I will also explain the implications for practice of this contribution, and why it is so important to host policymakers—namely, in order to maintain their legitimacy against challenges presented by MNEs.

The Emergent Problem of MNE Base Erosion

Addressing the gap in the literature

In Chapter 1, I discussed the gap in the extant literature on MNE value-creation frameworks—namely, that there has been little research on value creation from a public stakeholder level of analysis, other than the trade-off between bankruptcy legislative policy and entrepreneurship risk (Lee et al., 2007). The gap in the literature is in understanding how host policymakers make sense of value-creation and value-capture processes that MNEs engage in beyond the home

headquarters—that is, across overseas host locations. In Chapter 3, I summarized in Figure 3.1 how the key concepts about value capture and appropriation have developed, primarily explicating a firm perspective, but also to a lesser extent, an aggregate and individual perspective.

Understanding the host policymakers' perspective is important as it provides a theoretical lens into how they balance the competing tensions of economic growth and societal welfare. The MNE firms that gave evidence before the UK House of Commons in 2012 (PAC-UK, 2012) and in 2013 (PAC-UK, 2013) included both foreign-headquartered MNEs engaged in traditional forms of internationalizing (Starbucks Corporation, 2013) as well as international new ventures (Amazon.com, 2013; Google Inc, 2013). Host policymakers recognize that value is created through the process of firms internationalizing (Contractor, 2007; Contractor, Sumit & Chin-Chun, 2003; Glaum & Oesterle, 2007), through the decision opportunity choices (Cohen, 1972; Swieringa & Waterhouse, 1982) that are made by MNEs' top management on their transfer pricing and profit shifting strategies, and the firms' dynamic capabilities in flexibly and responsively organizing their processes, position and pathways (Helfat & Winter, 2011; Teece, 2014; Teece, Pisano & Shuen, 1997).

Over the years, host policymakers have viewed the problem of base erosion and profit shifting (Congress of the United States, 1961) in different contexts. In this instance host policyholders framed their understanding of the emergent phenomenon consequent upon the austerity measures (Pimlot & Giles, 2010) announced in the UK (Boudes & Laroche, 2009; Callinicos, 2012) as a policy concern to redress alignment of the MNE value-creation and capture processes across host locations. I use my research findings and build on the value creation

framework (Bowman & Ambrosini, 2000; Lepak et al., 2007) in the strategy literature (Barney, 1991; Bercerra, 2008) to explicate the constituent elements making up use value and the mechanisms that captures exchange value in this process. I fill the gap in the literature by depicting the host policymakers' perspective on how divergence in MNE alignment of their value creation and value capture occurs. In doing so, I advance the plurality of perspectives on value creation frameworks under the resource-based view.

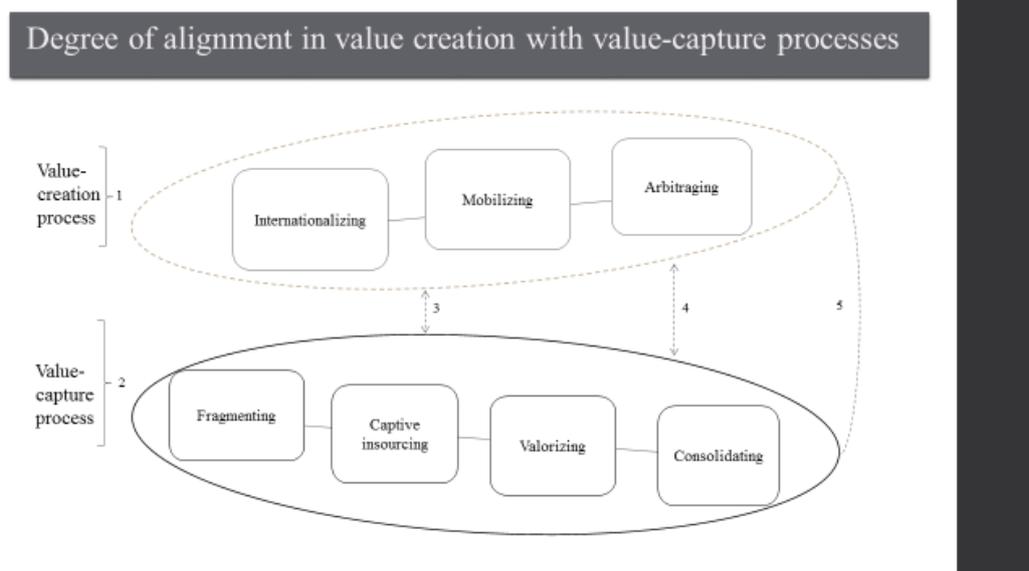
Building on the value-creation framework

In strategy literature, value is often assumed and not explained. Kornberger (2017 p.2), inspired by John Dewey's pragmatic philosophy, indicates that "if strategy is concerned with value-creation; and if value is the correlate of valuation practices; then it follows that strategy has to be understood in relation to valuation practices." In distinguishing MNEs internalized and externalized economic activities, Bowman & Ambrosini explain value by reference to the classical economists reference to use value and exchange value. In the context of the consumer, 'Use value refers to the specific qualities of the product perceived by customers in relation to their needs' (Bowman & Ambrosini, 2000 p.2) whereas 'Exchange value refers to price...the monetary amount realized when the exchange of goods takes place' (Bowman & Ambrosini, 2000 p.3).

Use value is co-created (Garcia-Castro & Aguilera, 2015; Gronroos, 2008) by a firm acquiring use value in goods, services and things and creating new use value by working on them (Bowman & Ambrosini, 2000), using the firm's existing resource capabilities. A particular application of value-in-use practice occurs when firms assess the fair carrying value of their intangible assets, such as goodwill (Huikku, Mouritsen & Silvola, 2017). In this thesis, when referring to

use value or value-in-use, I refer to the firm's component of use value co-creation as illustrated by Bowman & Ambrosini (2000 p.12).

Figure 9.1 – Host policymakers' view on value alignment framework



Notes to Figure 9.1

Lines:

(a) the *dotted lines* around the three constituent elements in value creation emphasize that not all value-created by the MNE is necessarily captured by the group; (b) the *solid lines* around the four mechanisms for value capture indicate the MNE's attributable share of value captured within the group; (c) the *oblique lines* connecting the constituent elements of value creation and connecting the mechanisms of value capture indicate, firstly, the interconnectedness of the constituent elements and the mechanisms; and secondly, that base erosion in host locations is about the degree of divergence between the MNE group's value-creation and value-capture processes.

Integers:

(1) Illustrating the composition of the value-creation process; (2) Illustrating the

composition of the value-capture process; (3) Indicating that where divergence in value creation and value capture is perceived small, there is considered a lower incidence of base erosion; (4) Indicating that where divergence in value creation and value capture is perceived large, there is considered a higher incidence of base erosion; and (5) At the extreme limits of divergence, MNEs resist challenges from external actors by deploying rhetorical strategies attempting to maintain coherence across these processes.

Constituent elements in value creation

Based on my findings, I build on the value creation framework, to show how host policymakers identify the processes of internationalizing, mobilizing, and arbitraging by MNEs across host locations as constituent elements for MNEs to create use value (see Figure 9.1). For Andersen (1993 p.210) internationalization involves firms exporting or more generally engaging in economic activity ‘across country markets’. In revisiting the Uppsala model, Johanson & Vahlne (2009 p.1423) remark that ‘Internationalization is seen as the outcome of firm actions to strengthen network positions by what is traditionally referred to as improving or protecting their position in the market.’ For Contractor (2007 p.458), internationalization is more than gaining foreign knowledge ‘I refer here to something else – the accumulated and better organizational ability, over time, to reproduce in foreign locations...at a lower cost and time.’

Synthesizing the literature with my data, I use the policymakers’ view of *internationalizing* as being the organizational ability of the MNE, as conditioned by time, pace and space, to engage in economic activity between its home location and overseas counterparties, for example, its foreign subsidiaries, its customers, and other salient stakeholder classes. In my research, I identify use value as being

created through MNE intergroup transfers of goods, services or things, whereas exchange value as being realized through the supply of goods, services or things to its customers and other salient stakeholders (Bowman & Ambrosini, 2000; MacDonald & Ryall, 2004). Internationalization does not merely commence with the realization of exchange value in the export of goods and services to its overseas customers. From a host policymakers' perspective, the process of internationalization commences at a much earlier stage. It incorporates all the intergroup economic activity undertaken by the firm in positioning the organization to create as much use value as possible from the supply of goods, services and things to its customers and for consumption by its overseas markets.

The home headquarters of the MNE group plays an important role in making those choice opportunity decisions, such as synchronizing group strategy (Goold, Campbell & Alexander, 1994), managing organizational processes (Chandler, 1991), directing knowledge-flow (Foss, 1997), and in dispersing the locus of their activity and investment (Nel & Ambos, 2013). This leads to the second element of mobilizing firm resources at intermediate group levels (Chakravarty, Hsieh, Schotter & Beamish, 2017; Hoenen, Nell & Ambos, 2014). In Chapter 6 on findings, I coined the term 'mobilizing' to indicate the policymakers' view on the degree of relative ease with which a particular class or category of firm's resources may be relocated from one nation-state to another. Graetz (2016) describes the process of mobilizing in the following manner, 'Combining labour and capital mobility with cross-border trade...allows the location where R&D is performed and the location where income is earned to change in response to the nature and level of government support...[and] when innovation occurs within

the MNE, it is quite possible for the firm to shift the location of the income from the innovation.’

Intangible and fungible asset classes are inherently more *mobile* allowing for opportunity decision choices to be made, for example, on where either internationally or regionally to locate ownership of patents (Evers, Miller & Spengel, 2014; Karkinsky & Riedel, 2009), to locate R&D activities and cross sharing reimbursement agreements (Arginelli, 2015; Vann, 2010), to locate labour (Tregaskis, Edwards, Edwards, Ferner & Marginson, 2010) and modular labour-sharing arrangements (Bailey, Leonardi & Barley, 2012; Hirst & Humphreys, 2015); where to locate group treasury and financial services activities (Polak, Robertson & Lind, 2011) for members of the MNE group; and where to position intermediate regional mandate centres (Chakravarty et al., 2017; Hoenen et al., 2014). Value is created, as indicated by Teece (2014) and Pitelis & Teece (2010) through the dynamic capabilities of the multinational firm in positioning and re-positioning their resources, both tangibles and intangibles, across nation-state boundaries in response to the exigencies of fast-changing environments.

The third value-creating element that host policymakers identified in my fieldwork is the organizational ability of MNEs to exploit *arbitrage* opportunities across borders. From a finance perspective, Shleifer & Vishney (1997 p.35) observe that arbitrage is ‘defined as “the simultaneous purchase and sale of the same, or essentially similar, security in two different markets for advantageously different prices” (Sharpe and Alexander (1990))’. However, from an international strategy perspective, Ghemawat (2008 p.198) states that ‘the differences between countries can be a source of rather than a constraint on value creation’. In this

context, arbitrage from country differences can take many forms, including: knowledge, labour, capital and regional as well as tax arbitrage forms (Arregle, Miller, Hitt & Beamish, 2013; Ghemawat, 2008).

There are two organizing means of implementing tax arbitrage – the positioning or repositioning of firms’ resources and the other is transfer pricing. Colbert & Spicer (1995 p.424) state ‘Spicer (1988) draws on transaction cost economics to develop a position theory of the transfer pricing process in which the strategic and transactional characteristics of specific transfers are related to...the organizational processes used to manage transfers within firms.’ Combining the literature with the data, I adopt a policymakers’ strategic view of arbitrage. That is, from a policy perspective, it may be concluded that arbitraging involves MNEs exercising choice opportunities arising from nation-state differences to rationally organize the process of transfers within firms across borders. Whereas my research identified these three processes of value creation as a second-order interpretation of the policymakers’ perspective, it is possible that MNE management implicitly or explicitly apply these three principles when formulating their value-creation and tax minimization strategies. However, but for the literature on the organizing views on transfer pricing, extant literature has not theorized about value-creation framework in this nuanced manner.

Constituent mechanisms for value capture

The discussion to date has concentrated on how policymakers view processes inside the firm that create use value (Bowman & Ambrosini, 2000; Gronroos, 2008). I will now turn attention to how policymakers view activities of the firm in realizing exchange value (see Figure 9.1). Firstly, the initiating mechanism identified in my fieldwork is that of *fragmenting* the MNE’s overseas routines

and activities into separate host subunits with clearly defined proprietary boundaries. In this thesis, I use the term ‘fragmenting’ to explain the choice opportunities that MNEs have in flexibly reconfiguring their internal tasks and activities across national boundaries in order to redirect appropriation or value capture to their preferred locations.

For example, in the evidence given by Starbucks at the PAC-UK (2012 Q234) hearings, the MNE acknowledged that its UK host operations paid royalties into a separate group company located in the Netherlands to provide its UK coffee shops with marketing know-how that it developed centrally through ‘research and development, product development, category management, store design’ undertaken in Amsterdam. In the evidence given by Amazon it was its Luxembourg subunit (PAC-UK, 2012 Q337) that was engaged in selling books to UK customers, and that paid the UK host operations for the fragmented logistics facilities or so-called ‘fulfilment centres’ it operated in the UK. In the case of Google, it was its Irish subunit (PAC-UK, 2012 Q466) that was engaged in providing advertising services to UK customers, that paid the UK operations for the fragmented marketing and intelligence services it operated in the UK.

Bowman & Ambrosini (2000 p.5) explain that value is captured ‘when the newly created use value is sold’. At the point of value capture, profit is determined as the difference between the exchange value realized and the sum of use value created up to that stage in the supply chain. Pitelis (2009) observes that you need the ‘Value capture strategies, as well as the vehicles ...[to] allow firms to appropriate as much value as possible.’ The mechanism of fragmenting across national boundaries therefore enables strategic determination of the level of value capture attributable to each vehicle or foreign subsidiary in the firm’s downstream

progression to market. In the case of Amazon, it was its booksellers in Luxembourg and its fulfilment centres in the UK, for Google it was its advertising media providers in Ireland and its promotion and intelligence gatherers in the UK, and for Starbucks it was its marketing know-how providers in the Netherlands and its coffee shops in the UK. As group fragmentation is an intervening mechanism that provides a vehicle for incremental value capture (Garcia-Castro & Aguilera, 2015), the firm will only be subject to market elasticity constraints on ultimate value appropriation when all the firm's internally created use value is realized under market transactions.

Secondly, *captive insourcing* is another vehicle that host policymakers identified as an intervening mechanism for internalizing value capture. Captive insourcing is a specific form of fragmenting. Whereas fragmenting can occur anywhere downstream in the organizational structure, captive insourcing is a specific vehicle that internalizes the provision of goods (Leiblein, 2002), services (Gooris & Peeters, 2015) or things (Chen, 2005) that are exclusively intergroup to other group entities. This would include Google's promotion and intelligence gathering vehicle in the UK, Amazon's fulfilment support centres in the UK, or, more generally, centralized group treasury services, centralized group insurance and risk coordination or other shared services (Gospel & Sako, 2010). In the context of transaction costs, Chen (2005 p.234) notes that: 'Where licensing contracts become too costly to negotiate and enforce, then, as suggested by internalization theory, MNEs can internalize the exploitation of technology by investing directly.' Alternatively, the fragmenting of global business processes can provide proprietary information protection (Gooris & Peeters, 2015). Whilst Mayer & Salomon (2006 pp. 942-943) observe that: 'Although contracting

hazards...play[s] a key role in governance...they are not the only factors... Firm transaction characteristics held constant, firms will outsource transactions when technological capabilities are weak and govern transactions when technological capabilities are strong.’ From a host policymakers’ perspective, I construe the term captive insourcing as referring to decisions made by the firm to internalize transactions not only because of contractual hazards and technological capabilities, but also to direct value capture to specific entities within the fragmented design of the MNE corporate group (Nebus, 2016; Qian & Delios, 2008).

Thirdly, host policymakers identified the process of *valorization* as a mechanism of measuring worth whereby MNEs exercise a decision opportunity to internalize a progressive level of value capture. Aspers & Beckert (2011 p.4-5) observe that ‘Value has several interrelated dimensions...such as moral value, aesthetic value and economic value...leading to different ways of evaluating social events, people, organizations or objects.’ As a mechanism of value capture, Pitelis (2009) explains that ‘value created is only realized as value captured – [when] ontologically...[it] manifests itself as value captured’. Thus for host policymakers the term valorizing may be interpreted as a process whereby firms flexibly establish exchange values within global transfer pricing constraints that are guided by organizational choice decisions, institutional values and the regulatory dictate of home and host locations. Home and host rules on transfer pricing (Cools, Emmanuel & Jorissen, 2008; Lohse & Riedel, 2013) place a degree of restraint on MNEs choice opportunities in progressively internalizing value capture across borders, but they do not address the more substantive issue of attributing profits fairly intra-group across borders (Avi-Yonah, Clausing &

Durst, 2008). Valorization, however, only provides a one-dimensional view on internalizing value capture.

The fourth mechanism of value capture identified by host policymakers was that of *consolidating* – bringing together the fragmented parts of the multinational firm operationalizes and gives coherent identity to the firm as a whole (Espeland & Hirsch, 1990; Miller & Power, 2013). Clarke & Dean (1993 p.247) observe that: ‘Nowhere is accounting more intrusive of the law than in respect of accounting for related companies. Examining the development of consolidation accounting reveals that mercantile practice, reinforced by the legislative, the courts and regulatory agencies, has been too greatly influenced by the language of and practice of accounting.’ From a critical sociopolitical viewpoint, Maroun & Van Zijl (2016 pp.224 & 236) comment that: ‘IFRS10 and IFRS12 are introduced in the interest of corporate transparency and accountability...[as] a direct response to global financial crisis...and the application of these requirements in highly complex social settings [is] characterized by a “logic of resistance”.’ From the host policymakers’ perspective, the term ‘consolidating’ may be interpreted not only as an act of combining the identifiable fragmented parts of the firm, but also the role of the MNE home headquarters in communicating to its stockholders and salient stakeholders how it has captured value across its permeated vertical architecture (Chandler, 1991; Goold et al., 1994; Jacobides & Billinger, 2006).

Contribution to theory and practice – value-creation frameworks

My contribution to theory (Corley & Gioia, 2011; Davis, 1971) is, by building on the value-creation and value-capture framework (Bowman & Ambrosini, 2000; Gronroos, 2008; Lepak et al., 2007), as embedded in the resource the

resource-based view (Becerra, 2008; Sirmon, Hitt & Ireland, 2007), to show how UK host policymakers explicated the emergent base erosion: firstly, by identifying the constitutive elements of an MNEs' value-creation process across host markets as comprising internationalizing, mobilizing and arbitraging; and secondly, by showing the operative mechanisms of an MNEs' value-capture process as comprising fragmenting, captive insourcing, valorizing and consolidating.

I label my contribution as an advance toward a theory of pluralistic cross-national value creation—that explains a pluralist actor perspective about organizations constructing orders of worth across host locations. My fieldwork also illustrates how at the limits of divergence of the value-creating and value-capture framework, MNEs deployed rhetorical strategies to maintain external cohesion between these processes. Examples of the rhetorical strategies employed by MNEs, included: defending legitimacy of action by diligently adopting process controls in exercise of procedural fairness (Cropanzana, Bowen & Gilliland, 2007; McFarlin & Sweeney, 1992), and by challenging the interpretative scope and motives of host regulators (James, 2010; Riaz, Buchanan & Ruebottom, 2016). Host locations used this value-creation perspective to frame the emergent problem of MNE base erosion, determining the avenues for policy response initially proposed by the OECD (OECD, 2014c, 2015f), and subsequently by the UK host regulatory authorities (Santos, 2016).

In addition, whereas Swieringa & Waterhouse (1982) in their seminal paper used four organizational models providing a behavioural (Cyert & March, 1992), a decision choice (Cohen, 1972), an enacted (Weick, 1979) and a hierarchical (Williamson, 1975) organizing perspective, my contribution augments these

organizational views by linking transfer pricing to the broader concept of base erosion through MNEs internationalizing (Johanson & Vahlne, 2009; Welch et al., 2016), explicating that it is not only about the process of valorizing but is also about the processes involved in relative alignment of the value-creation and value-capture framework (Bowman & Ambrosini, 2000; Gronroos, 2008; Lepak et al., 2007) through MNEs operating across borders.

This broader conceptualized process involves positioning or re-positioning of resources and using dynamic capabilities in making strategic choice decisions in internationalizing their business models (Teece, 2014). For example, taking Swieringa & Waterhouse's (1982) application of the decision choice or 'garbage can' model, as an organizing view, whereas the process is continual, seizing opportunities to match solutions to problems that are affected by the variability in the firm's environment, there are perspectives to problems that go beyond the scope of the firm's decision-making boundaries. The base erosion phenomenon is not only a firm's organizing view on its inter-group valorization problem, it is also society's response to the broader fairness in the decision choices made by firms in host locations (Bosse, Phillips & Harrison, 2009; Parmar et al., 2010).

My contribution to practice (Bartunek & Rynes, 2010) is to show that redressing the policy concern regarding the varying degrees of alignment of value creation and value capture across host markets, requires the development of policy responses and administrative tools that act on the constitutive elements of use value-creation and mechanisms of exchange value-capture re-establishing and maintaining such alignment for both traditional and accelerated forms of internationalizing. MNEs have demonstrated their capabilities in adapting and co-opting (Luyckx & Janssens, 2016) policy principles of aligning host location

economic activity with the value-creation framework. Host policymakers in turn are required to respond appropriately in order to maintain their own legitimacy (Scott, 1994) and restore principles of distributive fairness in revising stakeholder-oriented host public policy (Harmon et al., 2015; Harrison, Bosse & Phillips, 2010).

The Host Policymakers' Response

Addressing the gap in the literature

In Chapters 1 and 4, I observed that a 'shift in use from intra-field rhetoric to inter-field rhetoric relates to an increase in the effectiveness of delegitimation efforts and a decrease in institutional stability' (Harmon et al., 2015 p.87). However, there is little research on the sociopolitical conditions for and the means of challenging inter-field taken-for-granted orthodoxy to redress the perceived harm caused by the MNE base erosion phenomenon. Recognizing this gap in the literature is important as it shifts the theoretical inquiry about social judgements from the passive categorization to the active modality involved in disrupting stable fields responsive to evaluative deliberative democracy.

In Chapters 7 and 8, I outlined the findings on how UK host policymakers developed policy responses to the base erosion problem. I show how particular commensuration techniques (see Table 8.3 – Mechanisms of commensuration) were used as a means of shifting the public deliberative discourse towards stakeholder-oriented policies that are more responsive to evaluative analysis (refer to Figure 9.2 – Model for bridging cognitive and sociopolitical legitimacy judgements).

I show how particular commensuration techniques were used as a means of shifting the public deliberative discourse towards stakeholder-oriented policies that are more responsive to evaluative analysis. Policy change has evolved in host locations post 2015 to improve fairness in economic activity alignment (HMRC, 2015; OECD, 2015f), but has yet to deal more effectively with the complex hybrid mismatch arbitrage arrangements across host borders (Kahlenberg & Kopec, 2016). A continued emphasis in applying such commensuration techniques will assist host location policymakers in monitoring and maintaining visibility over the performativity in corrective measures implemented (Farazmand, 2009; Olsen, 2005).

Cognitive legitimacy maintaining intra-field stability

A fundamental assumption underlying corporate disclosure policy preferences (Zhang & Andrew, 2014) is the taken-for-granted beliefs and cultural values associated with the stockholder primacy paradigm (Veldman & Willmott, 2016). A stockholder primacy logic is evident in corporate governance practices (Thornton, Ocasio & Lounsbury, 2013; Westphal & Zajac, 2013) and in host location behavioural codes of conduct (Lazonick & O'Sullivan, 2000; Veldman & Willmott, 2016). Providing decision-relevant information to stockholders (Beyer, Cohen, Lys & Walther, 2010; Pelger, 2016; Young, 2006) is considered paramount, as distinct from indulging a broader stakeholder audience (Mitchell, Weaver, Agle, Bailey & Carlson, 2016). Any changes to corporate disclosure policy that fail to meet the test of providing decision-relevant information to stockholders are likely to be resisted by intra-field actors.

Attempting to challenge corporate reporting disclosure of related-party cross-border transactions, from host location through MNE group entities to the MNE

home-headquarters reporting can be complex and futile (Hakansson & Lind, 2004; Killian, 2010). Attempting to trace related-party transactions is complex because there may be multiple reasons for insourcing particular activities within group entities. Furthermore, it may be futile to attempt to trace related-party transactions because international accounting convention requires that related-party transactions be eliminated on group consolidation (IAS 24, 2009). Whilst related-party disclosure is required in the consolidated and the separate accounts of the parent and its subunits, the purpose of such disclosure is to alert the user to its impact on reported earnings and commitments assumed in those separate accounts, and is not necessarily intended to assist with tracing.

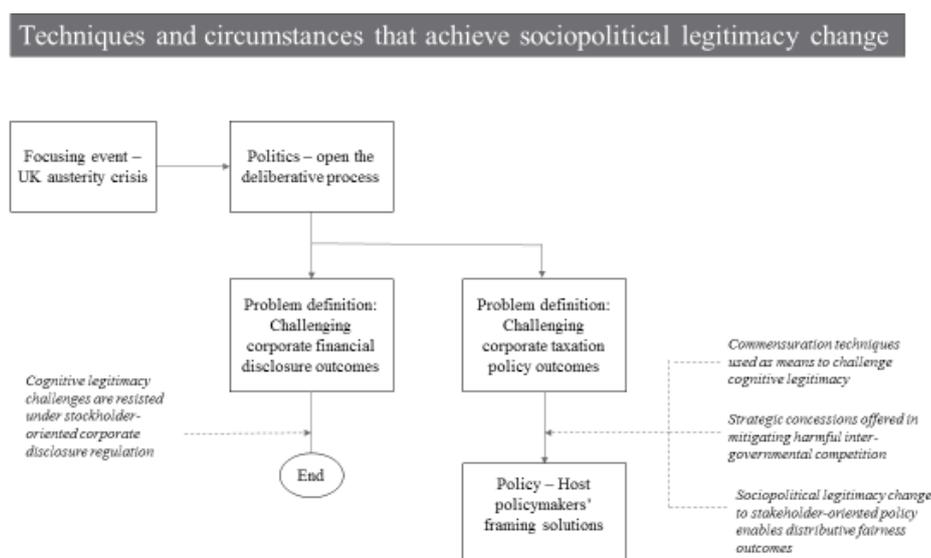
Although host government agencies may query whether corporate disclosures made by foreign-headquartered MNEs are representative, there is less willingness to challenge the broader taken-for-granted assumptions inscribed into international accounting conventions. The stockholder primacy logic, or stockholder wealth maximization, supports the broader initiative on economic advancement in host locations. Any attempt by a nation-state to challenge those fundamental assumptions may impact its own legitimacy (Meyer, Boli & Thomas, 1994). My contribution shows that challenges to neoliberal ideology in liberal market economies appear in many guises—in this instance, the threshold test of the necessity to provide decision-relevant information to stockholders becomes the reified field defence.

Circumstances responsive to change

Whereas stockholder-oriented corporate disclosure policy is resistant to change that fails to meet the stockholder relevance assumption, host corporate tax policy is more responsive to change. It is more responsive because corporate tax

policy is stakeholder oriented. I develop a model to describe the required conditions or circumstances responsive to change and explicate the means for bridging cognitive and sociopolitical legitimacy (see model in Figure 9.2).

Figure 9.2 – Model bridging cognitive and sociopolitical legitimacy judgements



Note: Figure 9.2 shows the interrelationship of the concepts relevant to operationalizing sociopolitical legitimacy change.

The organizing process to tax planning infers a stakeholder perspective (Hanlon & Heitzman, 2010). Tax planning involves not only taking into account all costs and all taxes, both explicit and implicit (Mills, Erickson & Maydew, 1998; Scholes et al., 2016), it also recognizes the salient interests of all parties connected with an MNE transaction, activity or restructuring arrangement (Mulligan & Oats, 2016; Shackelford & Shevlin, 2001). The more contentious issue is how the salient interests of all parties may be accommodated (Doyle,

Hughes & Summers, 2013; Ylonen & Laine, 2015), or should be accommodated (Dowling, 2014; Friedman, 2007; Lanis & Richardson, 2015).

Liability to host taxation is ordinarily understood by MNEs as being based on a strict literal interpretation (Boden, Killian, Mulligan & Oats, 2010; Freedman, 2008; Norton, 2012) of domestic law as varied by the bilateral double tax treaties. James (2010) and Norton (2012) indicate that in recent decades nation-states have shifted emphasis to a purposive interpretative approach as a means of challenging aggressive tax planning (Freedman, Loomer & Vella, 2009) or tax avoidance practices (Shackleford & Shevlin, 2001). Cognitive legitimacy is evident in intra-field actors seeking to maintain stability in host location corporate taxation policy. Pertinently, private intra-field actors demand an equitable balancing a state's taxation powers with corporate taxpayers' rights, if confidence and certainty is to be maintained in host corporate tax policy (James, 2010). Public intra-field actors, such as corporate tax regulators and the judiciary, administer this equity assumption to protect broader stakeholder rights through competing perspectives of legitimacy (Doyle et al., 2013; Norton, 2012). It is these stakeholder-oriented assumptions underlying host corporate tax policy that condition circumstances that are responsive to change, which stockholder-oriented corporate tax disclosure policy does not.

Extending Bitektine's theory of social judgements

From a sociopolitical legitimacy perspective, where the public policy field is stakeholder oriented, as in corporate tax policy, stakeholders are not merely concerned with procedural fairness (Lind, Kanfer & Earley, 1990; McFarlin & Sweeney, 1992), but also are concerned with distributive fairness (Harrison et al., 2010). That is, stakeholders are not merely concerned with process legitimacy

(Phillips, Freeman & Wicks, 2003), but are also concerned with how managerial discretion (Finkelstein & Hambrick, 1990; Shen & Cho, 2005) is exercised in meeting the need for distributive fairness (Blair & Stout, 1999; Harrison et al., 2010).

In circumstances where stakeholders perceive a failure in distributive fairness coupled with both low interactional and low procedural fairness, there is a high likelihood that affected stakeholders will retaliate (Skarlicki & Folger, 1997). Host regulators, as stakeholders in MNE host location activities, despite welcoming the benefits of foreign direct investment, will seek to punish those blamed for both unfair processes and unfair outcomes, where perceived (Skarlicki & Folger, 1997). Where the unfair outcomes are sufficiently egregious, then irrespective of the costs or likelihood of future recoveries, host regulators may seek to impose harsh treatment (Fehr & Gächter, 2000) on those MNEs pursuing aggressive corporate tax strategies. I extend Bitektine's theory of social judgements by showing that the evaluative stakeholder orientation embodies values of fairness, equity and reciprocity, whilst perceived injustice will provoke retaliatory responses—with the propensity to punish injustice being greater than the propensity to reward fair reciprocal behaviour (Fehr & Gächter, 2000).

Commensuration techniques acting as the bridge

My research identified the means used by the UK host policymakers to bridge cognitive and sociopolitical judgements affecting the corporate tax policy field—namely, the effective use of commensuration techniques (Espeland & Sauder, 2007; Jeacle & Carter, 2011) in three identifiable instances.

The first instance involved linking host MNE performance as reported for book and tax purposes to economic indicators prevailing in the host location. The

second instance involved applying an integrated thinking mindset to grasp the entirety of a firm's value-creation capabilities. The third instance involved linking the nature of risk assumption by the MNE and its host subunits to the entrepreneurial reward that should attach to non-functional risk as distinct from routine reward for the provision of capital and labour—that is to say, functional risk is rewarded on the basis of the cost of capital and labour, whilst non-functional risk is rewarded on the basis of the whole of the residue (Hafkenschied, 2017; Knight, 1921; Lukka, 1990; Weston, 1954).

These forms of commensuration techniques were repeatedly used throughout the open, public deliberative process to the point where the movement towards the threshold that judgement on the phenomenon inter-field had sufficiently shifted from the cognitive to the sociopolitical legitimacy judgement modality. The change process thereafter gained legitimacy and cooptation (Bauer, Koedijk & Otten, 2005; Luyckx & Janssens, 2016) from MNEs as a commensurate response to the base erosion phenomenon.

In the first instance, the UK host policymakers, in collaboration with the OECD, used country-by-country key performance indicators as an effective means of linking reported book and tax profits to host economic activity indicia. It is generally accepted that net profit for corporate reporting purposes is socially constructed differently from taxable net profit for host taxing purposes (Freedman, 2008; Graetz, 2016). Notwithstanding the differences between computing net profit for corporate reporting and host taxing purposes, both outcomes should have a realistic and pragmatic correlation to host economic activity (Suzuki, 2003). Country-by-country reporting of key financial and economic indicators has been advocated for policymaking purposes (Espeland &

Stevens, 2008) in order to uncover disparate correlations with MNE host economic indicators.

Whereas attempts to introduce a more nuanced disclosure of geographical segmentation for IFRS purposes failed (PIR IFRS 8, 2013), it succeeded in the alternative form of country-by-country reporting for corporate tax policy reform under the OECD proposals (OECD, 2015d). An example from my empirical data of host policymakers' pursuit in tracing the MNE's economic activity include Amazon's RW46-OEC evidence at the PAC Hearings that 'Unfortunately, we have never broken out revenue figures on a country or website basis... We operate a pan-European business. Those are the only figures we have ever broken out' and the PAC Chair RQ26-GEP challenging Amazon's account: 'What we are getting at in these conversations is that your entire economic activity is here in the UK. I even pay in pounds—it never comes off my bank account in euros. Your entire activity is here' (PAC-UK, 2012).

In the second instance, host policymakers adopted an integrative thinking mindset to a firm's international business model in order to make comparable the constitutive elements of a firm's cross-border value-creation processes with their mechanisms of value capture. A firm's value-creation and value-capture capabilities cannot realistically and pragmatically be appraised in the restricted contractual context of fragmented activities or fragmented proprietary interests. Instead, a common unit of measurement or device that may be useful in valorizing fragmented activities may be obtained through integrative mindset visualizing and by verbalizing the interconnected and interdependent factors.

This common unit moderates the valorization process from a restricted contractual context to an interconnected and interdependent association

(International Integrated Reporting Council, 2013; Pitelis, 2009) of a firm's processes, position and paths (Teece, 2014; Teece et al., 1997). An example from my empirical data on adopting an integrative mindset is FRC's respondent RP01-GEA's comment: 'What they [IIRC] are basically encouraging companies to do us to think in an integrated way. Not just to report about the financial, but to report about all those other matters to the extent that they are relevant to investors... Now, actually... the UK Framework has already taken that integrative thinking... There was a piece of legislation in the Autumn of last year called the Strategic Report... that basically says that as well'.

Integrative thinking has remained a challenge under IFRS assumptions on corporate reporting policy (Beattie & Smith, 2013; Nielsen & Roslender, 2015). Integrative thinking has had to re-orientate its focus to providing information that is decision-relevant to its users (De Villiers, Rinaldi & Unerman, 2014; Van Bommel, 2014; Young, 2006) in order to maintain legitimacy in corporate reporting policy. On the other hand, the common unit of integrative mindset has been embraced in corporate policy discourse on MNE valorization processes, particularly as regards its implications to related-party transactions.

For inter-group transactions, the value-creation and value-capture framework provides insights on the interdependency of a firm's processes, position and paths taken (Teece, 2014). Bowman & Ambrosini (2000) explain that 'It is an accounting convenience to assume that the prices of inputs are aggregated in some way and passed onto customers.' Instead, 'value creation depends on the relative amount of value that is subjectively realized by the target user (or buyer) who is the focus of the value creation – whether individual, organization or society' (Lepak et al., 2007 p.182). Integrative thinking on the value-creation framework

introduces a sociopolitical legitimate discourse on how exchange value-capture should be attributed across its interdependent processes that created and re-created its inter-group use value.

In the third instance, host policymakers used the functionality of risk-return paradigms as a means of making comparable returns on alternative positions of risk assumption. The public deliberation process introduced the notion of distinguishing routine reward for assuming functional risk (providing capital and labour) from the more significant residual reward for assuming non-functional risk that is attributable to entrepreneurial ventures (Knight, 1921; Lukka, 1990; Weston, 1954). As an example from my empirical data, OECD head of treaties, RP21-IET, defined routine risk as: ‘So what we are now saying is that in those situations, where you see an accentuating element of the risk that you have, that we will use special measures...in minimum functional entities that have a lot of capital allocated to them...in low tax jurisdictions. We will also develop special measures...the profits that are allocated to this minimum, functional, low-taxed entity will be reallocated again.’

Thus, instead of valorizing the reward for risk assumption on a neutral arm’s length basis, host policymakers used commensuration to rhetorically adjudicate risk valorizing within an MNE cross-border context according to risk categories, such that functional risk should be rewarded simply on the basis of the cost of labour or capital employed, whereas non-functional risk involving the assumption of entrepreneurial risks should be rewarded on the basis of the whole of residual profit component (Hafkenscheid, 2017; Knight, 1921; Weston, 1954), applying the principles of distributive fairness.

Finally, in order to secure sociopolitically mediated change to host location public policies, the UK had to negotiate concessions with its OECD trading partners to mitigate harmful inter nation-state competition (Dowling, 2014; Killian, 2006). Whereas taxing rights are a sovereign prerogative, in a competitive world it does become necessary for host nation-states to negotiate and agree on those corporate tax policies that may be considered as socially unfair or harmful. Collaboration and transparency between nation-states is a necessity in order to engender trust and reduce information asymmetry between regulators and MNEs. As a mediated concessionary mechanism, the OECD negotiated Action Plan 5 (OECD, 2015c), requiring that preferential regimes reflect substantial economic activity and that member states commit to an exchange of information to support an ongoing commitment to cross-border transparency.

Contribution to theory and practice – moving sociopolitical legitimacy judgements for change

My contribution to the theory of social judgements is to explicate the means for bridging cognitive and sociopolitical legitimacy judgements—occurring in two distinct phases. The literature does passively refer to the signaling of the start of a delegitimation process, when intra-field rhetoric shifts towards inter-field rhetoric (Harmon et al., 2015). The novelty and utility of my contribution (Bartunek, Rynes & Ireland, 2006; Corley & Gioia, 2011) is that, in an active context, it explicates these two distinct phases as: (i) the constitutive embeddedness of cognitive legitimacy judgements prevalent intra-field rhetoric, and (ii) the means for shifting such intra-field rhetoric towards inter-field rhetoric that engages sociopolitical analytical evaluation.

Firstly, it requires that intra-field taken-for-granted beliefs are identified and recognized, together with the assumptions that underlie those cognitive positions. In the context of the emergent base erosion problem that was framed by host policymakers as the relative degree of alignment between the value-creation and value-capture processes implemented by MNEs across host locations, the immediate public policy fields affected were corporate reporting policy and corporate taxation policy. As the assumptions underlying corporate reporting in the host location are based on stockholder wealth orientation and information that meets decision-usefulness test for stockholders, they are resilient to any form of regulatory change proposals that fail to conform to those assumptions. On the other hand, the assumptions underlying corporate tax policy are based on stakeholder-oriented principles and thus corporate tax policy is more responsive to policy intervention that seeks to redress perceived failures in distributive fairness amongst salient stakeholders, including host location policymakers and regulators.

Secondly, having identified which public policy field is responsive to change to redress the social problem as defined, I contribute to the theory by explaining the means by which sociopolitical legitimacy judgements are enacted. Three specific instances of commensuration techniques were used in the open deliberative process that together enabled the bridging of cognitive and sociopolitical legitimacy judgements affecting corporate tax policy. Benchmarking country-by-country economic KPIs against host location book and tax profits enables stakeholders to assess and compare the distributive fairness in attributing MNE profits referable to host location economic activities. Applying an integrative thinking mindset to a firm's international business model enables

stakeholders to visualize and compare the interconnectedness of the firm's constituent elements of use value-creation to its mechanisms of exchange value capture. And distinguishing between the alternative risk return paradigms enables stakeholders to evaluate and compare the appropriateness of valorizing returns for assuming functional and non-functional risk-types.

My contribution to practice (Bartunek & Rynes, 2010) is in making host policymakers and regulators aware of the interrelationship between the open public deliberative process and the assumptions that underlie particular public policy fields. Intra-field social actors will resist public policy changes that may threaten a policy field's taken-for-granted beliefs. Institutional change is more likely to succeed as a result of challenges emanating from inter-field rhetoric, particularly in the context where the discourse is about distributive fairness affecting salient stakeholders. In these circumstances, using commensuration techniques in a recursive manner enables the bridging of cognitive and sociopolitical legitimacy judgements.

Conclusion

In Chapters 1 and 3, I identified the gap in the value-creation frameworks literature—that is to say, in understanding how host policymakers make sense of value-creation and value-capture processes that MNEs engage in beyond the home headquarters. Based on my analysis and findings in Chapter 6 and the discussion in this chapter, my contribution to theory involved:

(i) advancing the value-creation frameworks literature to incorporate a public stakeholders' perspective;

(ii) identifying the constituent elements of MNEs' value-creation process and operative mechanisms of the value-capture process across host markets; and

(iii) providing a model of the interconnected concepts that illustrates how at the limits of divergence of creation/appropriation, MNEs deployed rhetorical strategies to maintain field stability.

My contribution to practice about value-creation frameworks was in explaining that the framing of policy and administrative tools has to address both firm value creation and appropriation processes jointly in order to develop an effective public policy response.

In Chapters 1 and 4, I identified the gap the social judgements literature—that is to say, that there is little research on the sociopolitical conditions for and the means of challenging inter-field taken-for-granted orthodoxy to redress the perceived harm caused by the MNE base erosion phenomenon. Based on my analysis and findings in Chapters 7 and 8 and discussion in this chapter, my contribution to theory involved:

(i) identifying the intra-field taken-for-granted beliefs held within the corporate reporting and international taxation policy domains;

(ii) recognizing that stakeholder-oriented policy is more responsive to evaluative sociopolitical legitimacy challenge than stockholder-primacy logic policy;

(iii) providing a model that traces the convergence of problems, policies and politics for host locations challenging base erosion; and

(iv) explicating how commensuration techniques are be deployed to destabilize and facilitate sociopolitical change.

My contribution to practice for advancing sociopolitical legitimacy challenges was in highlighting the need for host policymakers to reflect on assumptions that subsist within particular public policy domains. Also of practical relevance to MNEs and top management was in highlighting the need for organizations to address not only of procedural justice considerations, but also the complementary effects of distributive and interactional justice measures.

In the next chapter, I will, firstly, provide a summary of the thesis, secondly, indicate the contextual limitations to my contribution and, thirdly, identify future research opportunities, that link to the limitations identified— such as: examining alternative dimensions of host location perspective; undertaking quantitative modeling of variability in value-alignment across diverse host locations; performing a discursive analysis on intra-field cognitive belief of the ubiquity in information technology applications across new and traditional business models; and examining bridging mechanisms in other public policy domains. The identification of these future research directions, in turn, constitutes a further contribution.

Chapter 10 – Conclusion and Future Research Directions

Introduction

This final chapter has three objectives: firstly, to provide a summary of thesis and its theoretical contribution, secondly, to indicate its limitations and possible future research directions, and thirdly, explain its utility and implications for practice.

Summary of Thesis and its Theoretical Contribution

The research question and knowledge gap

In Chapter 1, I posed the research question, ‘How do host policymakers make sense of the MNE base erosion phenomenon?’ I indicated why this research question was important—namely, because MNE base erosion tax avoidance strategies lead to a loss in corporate tax revenues, unfair competition between domestic enterprises and MNEs, and a challenge to the legitimacy and power of host nation-states.

I also identified the gap in extant knowledge: firstly, that there is no critical qualitative analysis examining why MNE base erosion practices are associated with contract-like corporate governance logics; secondly, that there is little research on value creation from a public stakeholder level of analysis, other than the trade-off between bankruptcy legislative policy and entrepreneurship risk (Lee et al., 2007); and thirdly, that there is little research on the sociopolitical conditions for and the means of challenging inter-field taken-for-granted orthodoxy to redress the perceived harm caused by the MNE base erosion phenomenon.

Informed by the literature

In Chapter 2, I observed that from the 1980s onwards, for liberal market economies such as the UK and the USA (Hall & Gingerich, 2009; Lubatkin et al., 2005) stockholder-primacy logics replaced the earlier managerial logics (Aguilera & Jackson, 2010; Thornton, Ocasio, & Lounsbury, 2013). I also explained why such dyadic contract-like corporate governance logics fail to detect or mitigate MNE base erosion practices. In Chapter 3, I discussed how base erosion is implicitly bound up in the process of internationalization and value creation. I showed that literature has predominantly focused on a firm level of analysis of value creation and appropriation framework and, to a lesser extent, on an aggregate and an individual level of analysis—but little from a public stakeholder level of analysis.

In Chapter 4, I discussed how intra-field members, through defensive rhetoric (Bitektine, 2011) on the taken-for-granted orthodoxy—expressed through cognitive legitimacy judgements—maintain field stability in corporate reporting and international taxation domains. I commented on how policymakers use public deliberation (Lee & Romano, 2013) as a political process to mobilize social judgements across interconnected public policy domains. I explained that the literature theorizes about field destabilization occurring from a shift in intra-field rhetoric to inter-field rhetoric—but, does not articulate the mechanisms or features involved in attending to such shift.

Methodology and analysis of the findings

In Chapter 5, I outlined my data set and explained my inductive qualitative methodology—essentially based on the Shepherd and Sutcliffe (2011) top-down inductive framework. In Chapter 6 on the analysis of the findings, I explicated

the host policymakers' perspective on MNE value-creation frameworks—that identifies the constitutive elements in the value-creation process, the mechanisms in the value capture process and the guiding principles that MNEs implement in managing their base erosion practices. Following thereon, in Chapters 7 and 8, I explicated how host policymakers challenged the distributive fairness and sociopolitical legitimacy of MNE base erosion practices.

Contribution

In Chapter 9, I make a contribution to theory by advancing the value-creation frameworks literature by: (i) by developing, from the data, a public stakeholders' perspective; (ii) identifying the constituent elements of MNEs' value-creation process and operative mechanisms of the value-capture process across host markets; and (iii) providing a model of the interconnected concepts that illustrates how at the limits of divergence of creation/appropriation, MNEs deployed rhetorical strategies to maintain field stability. I make a contribution to practice by indicating that policymakers and regulators need to develop policy responses and administrative tools that act on both value creation and capture/appropriation.

In addition, I make a contribution to theory by augmenting the social judgement literature by: (i) identifying the intra-field taken-for-granted beliefs held within the corporate reporting and international taxation policy domains; (ii) recognizing that stakeholder-oriented policy is more responsive to evaluative sociopolitical legitimacy challenge than stockholder-primacy logic policy; (iii) providing a model that traces the convergence of problems, policies and politics for host locations challenging base erosion; and (iv) explicating how commensuration techniques are deployed to destabilize and facilitate sociopolitical change. I make a contribution to practice by indicating that

policymakers and regulators need to be more reflective and reflexive on the assumptions that underlie particular policy fields.

In the next section, I discuss the limitations and future research directions: (i) the contextualized problematization of base erosion beyond advanced economies embedded a regional political-economic unit; (ii) the association of related-party corporate disclosure conventions and internalization theory; (iii) methodologically, a discursive analysis of talk and text on coping with aggressive questioning; (iv) the intra-field rhetorical defence for non-discriminatory treatment of e-commerce business-type models; and, (v) an historically-informed analysis (Luyckx & Janssens, 2016; Ocasio, Mauskapf, & Steele, 2016) of the international taxation logics shifting from a one-directional logic of avoidance of double taxation in international trade to a multi-directional logic of prevention of non-taxation based in multilateral collaboration.

Limitations and Future Research Directions

Context

The choice of empirical research setting (Johns, 2000, 2006) places limitations on the research findings and contribution. My contribution to the value-creation framework in internationalizing and in extending the theory of social judgements is based on an advanced economy (Chan, Makino & Isobe, 2010; Grant, 1991; Makino, Isobe & Chan, 2004) host policymakers' response to the MNE base erosion problem as situated in the corporate reporting and corporate tax policy fields. Not only is the host policymaker located in an advanced economy, it is also presently part of a regional politico-economic unit, the European Union, that allows for the free movement of people, goods and things between its member

nation-states. Depending on the outcome of the Brexit negotiations (Cumming & Zahra, 2016; Jensen & Snaith, 2016), the association between the UK and the EU will in time devolve into a different economic and regional interdependent relationship.

Future research may wish to consider the alternative dimensions of host location perspective: for example, one which is based on an advanced economy that is not embedded in a regional politico-economic unit (Richardson, Taylor & Lanis, 2013), or on an emerging developing economy that is independent (Gokalp, Lee & Peng, 2017) or affiliated with a regional economic unit (Crivelli, De Mooij & Keen, 2016; Jones & Temouri, 2016), or a South-South shift in economic engagement (Horner, 2016; Luyckx & Janssens, 2016). Another alternative dimension of host location perspective is to explicate the different motives for MNEs establishing intermediate units within the group (Chakravarty, Hsieh, Schotter & Beamish, 2017; Hoenen, Nell & Ambos, 2014). Furthermore, although both traditional staged internationalization and international new ventures are addressed in the empirical setting of the UK PAC public hearings, it would be a valuable exercise to undertake quantitative modelling of the degrees of variability in alignment of MNEs' value-creation and value-capture processes relative to a firm's inclination to engage in base erosion practices.

Internalization theory

Internalization theory has been used to explain the strategy of firms in: making decisions on whether to outsource or internalize their production or process activities (Chen, 2005; Leiblein, 2002; Williamson, 1999); addressing contractual hazards by encourage internalization of economic activity within MNE group (Buckley & Casson, 2009; Coase, 1937; Mayer & Salomon, 2006); alternatively,

keeping contractual hazards constant, associating increased internalization with stronger firm technological capabilities (Hoetker, 2005; Mayer & Salomon, 2006); distinguishing the modes of entry into new overseas markets (Agarwal, 1992; Hennart, 1986); creating internal treasury and capital market funding facilities for entities within the MNE group (Rugman, 2006c) and coordinating regional management mandates for MNEs across host locations (Chakravarty et al., 2017).

Notwithstanding the significant contribution of internalization theory to explaining modalities of governance, contracting, coordination, and optimizing decision-choices, there is very little research on the nature, scope and motives guiding related-party corporate disclosures, as mandated under IAS 24 (2009). As has been shown in this thesis, the phenomenon of base erosion is integrally associated with economic and coordination activities performed within MNE groups. Yet academic literature has given little attention to the central role that is commanded by related-party corporate activity. Those limited instances relate to literature on corporate failures arising from the manipulation in related-party activities (Baker & Hayes, 2004; Benston & Hartgraves, 2002; Moerman & van der Laan, 2015) and from the advantages in network coordination capabilities (Hakansson & Lind, 2004). Further research is necessary to question why such a central concept of internalization has received little attention in the corporate disclosure and organizational accountability literature.

Methodology

In my thesis, I have used the technique of bidirectional contextualized reasoning (Holyoak & Simon, 1999; Mantere & Ketokivi, 2013) and a top-down inductive approach (Shepherd & Sutcliffe, 2011) in order to undertake an

expansive enquiry into how host location policymakers make sense of the base erosion phenomenon, based on the extensive data set. The bidirectional reasoning has enabled: on the one hand, the linking of second-order themes with the relevant bodies of literature and the development of a so-called sensory representation of such data (Shepherd & Sutcliffe, 2011)—identifying aspects of similarity, incompleteness, oppositions and tensions; whilst on the other hand, linking of the aggregate themes to a conceptual representation of thematic relationships—enabling abductive reasoning (Paavola, 2004; Richardson & Kramer, 2006) to give contextualized meaning to the relationships, conditions and explanations of the phenomenon under research (Ketokivi & Mantere, 2010).

There are limitations to the bidirectional inductive methodology that I have used in this research. In moving from first-order codes to second-order themes I face the problem of the double hermeneutic—as the lead researcher, I interpret the participants’ interpretations and ‘trace processes that are themselves the traces of others sensemaking’ (Hatch & Yanow, 2008 p.37). There are, however, at least two legitimate defences to this implication. Firstly, provided the researcher explains the prescriptive rules of reasoning and applies them consistently throughout the exercise, methodological rigour is preserved (Ketokivi & Mantere, 2010).

Secondly, the scholarly community that judges theoretical contributions only acknowledges novelty and utility of contributions that fill a gap in extant literature (Bansal & Corley, 2012; Corley & Gioia, 2011; Locke & Golden-Biddle, 1997). In this research, it is the empirical data and the phenomenon-driven research question that has directed the choice of literature and maintained focus on the gaps (Corley & Schinoff, 2017; Shepherd & Sutcliffe, 2011). That is to say, the

second defence concerns the academic community that gives legitimacy to acceptable hermeneutic practices in the social construction of theory about incompleteness, inadequacy or incommensurability of extant literature (Alvesson & Sandberg, 2011; Locke & Golden-Biddle, 1997).

There is also the future research opportunity, with this extensive data set, to use a discursive analytical lens—as a qualitative research method—to delve deeper into the related set of talk and texts. Language, texts and actions construct organizational reality (Phillips & Oswick, 2012), identity (Alvesson & Willmott, 2002; Sveningsson & Alvesson, 2003), power (Molotch & Boden, 1985; Mumby & Stohl, 1991), logics (Ocasio, Lowenstein & Nigam, 2015), resistance and change (Heracleous & Barrett, 2001), rather than simply reflecting on these key concepts. Not only do the various methods of discourse analysis inform us of socially constructed reality but also of organizational and institutional phenomena (Grant, Keenoy & Oswick, 2001) that is of interest to organizational scholars, for example, as in deinstitutionalizing the commercial use of the insecticide DDT (Maguire & Hardy, 2009) or in transforming and normalizing otherwise contested public policy over biotechnology and GM science (Motion & Leitch, 2009).

There are a number of opportunities that may be identified as suitable to apply discourse analysis in the base erosion phenomenon inquiry. It would be interesting to examine whether there has been a shift (Gawer & Phillips, 2013; Nigam & Ocasio, 2010; Ocasio et al., 2015) in international taxation logics from a singular logic for the avoidance of double taxation in the advancement of international trade to a multiple competing logics (Lounsbury, 2007; Reay & Hinings, 2009; Sauer mann & Stephan, 2013) for the avoidance of both double taxation and double non-taxation—thereby, not only promoting international

trade, but also encouraging inter-nation-state collaboration to reduce the leakage of host corporate taxation revenues arising from the so-called stateless income eventualities (Kleinbard, 2012, 2013; OECD, 2015c).

There is also the interesting question as to how respondent witnesses coped with the aggressive questioning sessions (Campbell, Follender & Shane, 1998; Heracleous & Klaering, 2014; Luyckx & Janssens, 2016) at the PAC-UK (2012) and PAC-UK (2013). A discursive analysis of the talk and text between respondent interrogees and the MNE respondent witnesses at the UK Public Hearings will give insight into the communicative competencies in responding (Campbell et al., 1998), and the strategies and the actions (Gao, Yu & Cannella, 2017) engaged by MNEs in handling hostile questions in times of crisis. Communicative competencies involve leaders having the capabilities of deploying different rhetorical styles to different situations (Heracleous & Klaering, 2014), whilst strategic responses that address the corrective action and the desirability of solutions to problem solving in times of crisis sends positive messages diffusing hostility, that blaming human agency has the opposite effect (Campbell et al., 1998).

Beyond the scope of the data set used in this thesis, is the interesting question how Silicon Valley and industry representatives for new e-commerce business models (Amit & Zott, 2001; Beattie & Smith, 2013; Zott, Amit & Massa, 2011) lobbied host policymakers and inter-governmental mediators that the new e-commerce business models were ubiquitous technological advances that have diffused into all types of business processes, practices and business forms and are not unique to new e-commerce business models alone. By applying rhetorical theory (Hartelius & Browning, 2008; Hofer & Green, 2016; Ocasio et al., 2015)

to these nonmarket strategies (Bonardi, Hillman & Keim, 2005; Funk & Hirschman, 2017) will provide a deeper insight into the rhetorical competencies of MNEs and their industry representative associations in shaping public policy. In the original OECD (2014a) report, it reviewed a number of options how public policy may address various new e-commerce models. However, following many submissions received from MNEs and their industry representative bodies (OECD, 2014b), all policy options that sought only to address the new e-commerce business models were entirely withdrawn (OECD, 2015a).

Policy fields

The question arises as to whether, and to what extent, it may be possible to replicate the shifting of the sociopolitical deliberative process in other public policy domains. In this thesis, I showed how host policymakers deployed particular techniques of commensuration in order to destabilize and facilitate sociopolitical change in an interconnected public policy domain—that is, to advance change to international taxation policies and practices.

Other public policy domains that could be considered for further research include the time frame for recognizing firm failures (Baum & Oliver, 1991; Farjoun & Starbuck, 2007). It would be useful to compare the cognitive legitimacy judgements that are made by insolvency practitioners, turnaround management consultants and top management of firms that have gone into voluntary administration or liquidation on the one hand, and the demand from the broader stakeholder class on the other, for policy responses that provide for more timely recognition of impending firm failures and corporate collapses under the prevailing corporate disclosure regulations for going concerns.

A similar question relates to the corporate responsibility of firms in providing and reporting on employee benefits and pension plans (Barringer & Milkovich, 1998; Graham, 2008). On the one hand, corporate disclosure policy is determined by the criterion of stockholder decision-relevant information, whilst, on the other hand, the broader stakeholder class demands socio-political legitimacy judgements that are more responsive to pension plan shortfalls and attempts of to place corporate assets beyond the reach of regulators. Transforming events, such as the spectacular failures of financial institutions considered ‘too big to fail’, or those firms that were allowed to fail, like Lehman Brothers, Enron and more recently BHS, call for policy responses that challenge the taken-for-granted views held intra-field (Boje, Rosile, Durrant & Luhman, 2004).

Implications for Practice

In considering implications for practice (Bartunek & Rynes, 2010), there are the matters of comprehensibility of policy response, the feasibility of policy implementation (Kingdon, 2011), the ideology of unstated cognitive orthodoxy (Veldman & Willmott, 2016) and the relational interaction of policy subsystems and policy entrepreneurs (Zald & Lounsbury, 2010). Framing the base erosion phenomenon as a theoretical construct of relative diverging alignment in a firm’s value-creation and value-capture processes across host locations indicates that host public policies, such as particular preferential regimes aimed at attracting foreign-HQ MNEs that merely target value-creation economic activity, bear the risk of failing to target the mechanisms of value capture or appropriation. Host policymakers and host regulators have to address both the constitutive elements of value creation as well as the mechanisms of value capture conjointly when

formulating public policy to attract the economic engagement of foreign-HQ MNEs. In this way, the projected impact of new host policies can be assessed and measured in terms of their effectiveness in preventing or minimizing the relative divergence in foreign-headquartered MNEs' value strategies across host locations.

Host public policy also needs to recognize, particularly where it is embedded in a liberal market ideology, that stockholder-primacy logic is primarily concerned with aggregated group value creation and value capture for the MNEs' home HQs, and not necessarily with granular attribution or distributive fairness across those foreign subunits and intermediate group units (Chakravarty et al., 2017; Hoenen et al., 2014). In this instance, the use of commensuration techniques (Espeland & Lom, 2015; Espeland & Stevens, 1998; Jeacle & Carter, 2011), as deployed in the public deliberative process in the UK, provides a powerful tool for making visible the relative degree of alignment in MNE value-based strategies across host locations that would otherwise be invisible to the broader stakeholder class.

More specifically, host policymakers and regulators should, in the course of developing legislation and administrative procedure manuals, make use of the commensuration techniques that evolved from the UK PAC hearings. These three commensuration techniques are: applying country-by-country economic KPI benchmarking; using a cognitive mindset that recognizes the integrative identity of values within an MNE group; and appreciating the ontological reification of profit that seeks to reward cost of the capital and labour as a purely functional component whilst rewarding the assumption of entrepreneurial risk/uncertainty as the residue or non-functional component of equitable profit distribution.

Finally, whereas the host location perspective has been driven primarily from a Northern hemisphere focus (Vahlne & Ivarsson, 2014), there is a growing indication of a shift in global trade patterns towards South-South trade (Horner, 2016) and interest by Southern hemisphere host policymakers and regulators.

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