Tax havens and international business: a conceptual framework of accountability-avoiding foreign direct investment

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Abstract

By taking an objective and scientific bibliometric analysis approach, this paper presents the first review of the extant knowledge base on *tax havens*. This analysis has guided us in developing an overarching theoretical framework that examines the determinants of the use of tax havens by multinational enterprises (MNEs). Based on our systematic review and theoretical framework, we were able to develop and introduce a new concept, called *accountability-avoiding FDI (foreign direct investment)*, which is distinct from the standard FDI motives identified in the international business (IB) literature. Our review also makes a contribution by explaining how various definitions, measurements, methodologies and categorizations of tax havens can lead to differing and mixed results. Given that the tax haven literature is of a cross-disciplinary nature, we specifically make a case for how the IB community can make a stronger contribution to our understanding of tax haven activity and its ramifications. We conclude the paper with suggestions for the future research that IB and management scholars could pursue in order to contribute unique insights to the area of MNE strategy and of the implications of tax haven investments for countries, various industries, and the MNEs themselves.

Keywords: Tax havens; Multinational enterprises; Foreign Direct Investment, Accountability-Avoiding-FDI; Bibliometric Analysis

INTRODUCTION

The aim of our study is to develop an overarching theoretical framework suited to conceptualize the determinants of the use of tax havens by multinational enterprises (MNEs). We do so by being the first to conduct a review of the extant knowledge base on the topic of *tax havens* by taking an objective and scientific approach known as a bibliometric analysis. Thereafter, we develop our theoretical framework, which builds on the argument that tax haven use is part of a broader international business (IB) phenomenon that we call *accountability-avoiding FDI* (foreign direct investment). This distinguishes it from the other FDI motives typically identified in the literature, such as the seeking of markets, resources, efficiency, and technology. MNEs have been linked to tax havens as an important part of their corporate strategies for many decades; yet, the IB literature has only recently attempted to explain this phenomenon (see Beugelsdijk et al., 2010; Christensen, 2011; Eden, 2001; Jones & Temouri, 2016; Jones, Temouri, & Cobham, 2018; Foss, Mudambi & Murtinu, 2019; Ting & Gray 2019). Therefore, IB scholarship can offer unique insights into the relationship between MNE strategy and tax haven FDI.

Over recent years, the use of tax havens by MNEs has received renewed media attention due to the extreme profit shifting activities of some of the world's largest corporations. Indeed, notable reports by investigative journalists have shone light on this secretive and pervasive activity. The leaking of the Panama Papers in April 2016 and of the Paradise Papers in November 2017 has increased the media's focus on financial secrecy and tax avoidance. Policy makers and the general public have repeatedly been taken aback by the complex ways in which MNEs are able to separate their internal flows of capital from the locations in which they actually conduct their business. Hence, given the widespread interest in this controversial topic among the general public, NGOs, public policy makers, and the business community, the

complex global nature of tax haven activity demands further quantitative, qualitative, and theoretical understanding.

The literature on the role played by tax havens in the global economy is multi-disciplinary in nature. The economics and accounting literatures have focused significant attention on estimating the overall degree of profit shifting from high-tax to low-tax jurisdictions and on identifying some the various factors that drive MNE tax avoidance (e.g., Clausing, 2003; Desai & Dharmapala 2006; Goh et al., 2016; Graham & Tucker, 2006; Higgins, Omer, & Phillips, 2015; Huizinga & Laeven, 2006; Jaafar & Thornton, 2015; Klassen, Lisowsky, & Mescall, 2017; Lisowsky, 2010; Lisowsky, Robinson, & Schmidt 2013; Rego, 2003). This paper synthesizes much of this work and positions it in a framework that can be used by scholars for future research aimed at investigating the determinants of tax haven use. By understanding such determinants, policy makers can identify which types of firms engage in this type of activity and design policies aimed at mitigating this phenomenon, a better understanding of which could also enable researchers, policy makers, and NGOs to quantify its impact on society.

It is important for scholars to contribute to this important research area because, if the IB literature is to remain relevant, it needs to focus on areas that affect society at large. Given the fact that MNEs play such a critical role in regard to the use of tax havens, this research area, alongside other important grand challenges, is certainly relevant for the IB discipline. IB scholars—with their in-depth knowledge on how MNEs operate and how they shape or are shaped by the cross-border economic environment—have much to contribute to the debate on MNEs and tax havens. Hence, one other aim of our study is to help place the MNE's use of tax havens at the forefront of the discipline.

It is important to highlight that our approach and objective in reviewing the tax haven literature is significantly different from those of previous review papers. Whereas Dharmapala

(2014) and other authors have made exclusively empirical contributions with a narrow focus on economics and tax journals, Cooper and Nguyen (2020) offer a more extensive review paper encompassing multidisciplinary literature strands and including the theoretical underpinnings of tax haven research. Our study differs in five distinct ways—each of which extends in more detail our understanding of how and why MNEs undertake tax haven FDI—from Cooper and Nguyen's (2020) attempt to review the previous literature on tax planning from an IB perspective. First, it is specifically focused on FDI into tax havens, not on MNE tax planning in general. Hence, it specifically addresses Cooper and Nguyen's (2020) call to investigate the features of tax havens. Second, it devotes a much more detailed discussion to how tax havens can be defined, measured and categorized, thus going beyond brief definitions of key terms and placing significant emphasis on 'conduit' and 'sink' jurisdictions (Garcia-Bernando et al. (2017). Third, it involves a bibliometric analysis that showcases a thematic map of the extant knowledge base to date, which we argue to be superior to other types of qualitative content analyses due to its ability to reveal evolutionary trends and to guide future extensions of the research domain. Fourth, it yields a multi-level conceptual framework that categorizes how and why MNEs use tax havens and enables us to derive a new way of conceptualizing tax haven FDI. As, in contrast to older theories such as the neglected 'escape FDI' motive, our new concept places much greater focus on the tax haven destination, which we call '*accountability-avoiding FDI*'. Finally, our study systematically outlines future bibliometric analysis-based research avenues for research on the factors that drive tax haven use. We now present a discussion of how each of our study's distinctions translates into a contribution to the literature.

Before portraying how the use of tax havens gives rise to our novel conceptualization of *accountability-avoiding FDI*, the above discussion leads us to present the robust rationale that drove us to conduct a systematic bibliometric review aimed at scientifically analysing the extant knowledge base on tax havens. Such analysis helps us to consolidate and identify the

evolution of the field, the areas that had hitherto been developed, and the need for further development, conceptualization, and theorization. Dunning (1993) identified a form of FDI that he labelled *escape FDI*; however, this has received relatively scant attention in the literature. Yet, the investment flows into and out of tax havens - even if just in the form of 'round-tripping' - are clearly significant and should not be ignored. Indeed, the estimates made by Tørsløv, Wier, and Zucman (2018) suggest that close to 40% of MNE profits are shifted through tax havens each year. Hence, we build upon the *escape FDI* idea, but expanded it to the *accountability-avoiding FDI* construct.

In order to motivate this construct, our first contribution to the literature lies in discussing how tax havens can be defined, measured, and categorized given their complex nature and multi-dimensionality. This is important because IB scholars need to be made aware of the difficulties involved in deciding whether a location can be classified as a tax haven (e.g., Haberly & Wójcik, 2015a; Jones & Temouri, 2016). Unfortunately, tax havens are often defined ad hoc based on the decisions of early scholars, or on so-called '*blacklists*'—which are often politically biased—produced by international organizations such as the EU, the IMF, or the OECD. For example, the most recent EU list of non-cooperative jurisdictions omits many of the key ones that have been involved in recent leaks (Gallego, 2017). Hence, we introduce more scientific and robust approaches—such as the 'conduits and sinks' one—and discuss in greater detail the Tax Justice Network's Financial Secrecy Index (FSI) and Corporate Tax Haven Index (CTHI), which identify locations that can be used by MNEs for various tax reasons. The rationale for highlighting various tax haven definitions is that different research questions pertaining to the topic will require the satisfaction of an array of tax haven criteria. In this way, objectively verifiable measures of income shifting are likely to be of the greatest usefulness in achieving more rigorous and robustly comparable research. Furthermore, at

present, scholars may not be aware of the availability of these indices, the use of which could be applied to many other contexts.

The second contribution of our study lies in it being the first to provide a review and a thematic map of the extant knowledge base on *tax havens* by performing a bibliometric analysis and highlighting the thematic foci and concentrations of the relevant publications in the related cross-disciplinary literature. The thematic structure of such a knowledge domain is helpful in revealing the evolutionary trends of tax haven research to date and also in predicting its future directions.

Our third contribution is the derivation of a multi-level conceptual framework that categorizes how and why MNEs use tax havens in their global operations. Such a framework is useful for scholars because it enables an identification of the factors that can lead or motivate firms to undertake tax haven activity. This leads to the definition and in-depth discussion of our new *accountability-avoiding FDI* construct, which we argue delineates the specific motives for using tax havens as an extension of the more traditional motives of FDI identified in the literature.

Our final contribution lies in the identification of future lines of research that scholars could pursue. Wilkins (1997) noted that understanding the nature of MNE decision making and the rationales behind their internal tax policies, "*can help us design the right questions to deal with the specific issues at hand*" (p. 41). While MNE transfer pricing strategies have been discussed in the IB literature over several decades (see Rugman, 2006; Rugman & Eden, 1983), their tax haven specific aspects have received limited attention. Hence, we aim at stimulating new research capable of shedding light on three important areas: emerging market MNEs (EMNEs), corporate governance arrangements, and MNE-type-based outward FDI strategies. It is important to note that our list of suggestions is not exhaustive; rather, it provides some avenues of research that we believe could generate important insights.

The remainder of the paper is structured as follows. The next section outlines the different definitions, measurements, and categories of tax havens. This is followed by a description of the bibliographic analysis approach, mapping and bringing together the scattered field of study and presenting the results of our review of the cross-disciplinary tax haven literature. Based on this systematic review, the next section discusses our conceptual framework, which enables us to develop and introduce the new concept of accountability-avoiding FDI. The final section concludes by detailing future avenues of research.

DEFINING, MEASURING, AND CATEGORIZING TAX HAVENS

There is no commonly agreed definition of what constitutes a tax haven, nor is there any consensus on objectively verifiable criteria (Cobham, Jansky, & Meinzer, 2015). Various streams of literature have offered a range of definitions, which could theoretically include any jurisdiction (Gordon, 1981). While an early report published by the OECD in 1987 focuses on a country's reputation, a later one (OECD, 1998; see also Hampton, 1996) emphasizes very low (often zero) tax rates, a lack of effective information exchange between tax authorities, a general lack of transparency, and the absence of substantial economic activity. Therefore, one rationale for the existence of tax havens is the provision of relief from the tax rates applied at both the source and residence locations. In order to achieve this, either economic activity has to move jurisdiction or, alternatively, taxing rights have to be somehow manipulated.

Two seminal papers from the economics literature, published two decades apart, illustrate this issue. Hines and Rice (1994) and Johannesen and Zucman (2014) assessed how tax havens affect the US corporate tax base and the true net foreign asset positions of rich countries. Hines and Rice (1994, p. 175) noted that we lack a clear definition, and that "*this vague characterization makes the process of classifying tax haven countries somewhat*

arbitrary." They then went on to combine lists published by the Internal Revenue Service and other organizations, along with some ad hoc decisions around the scale of finance. Johannesen and Zucman (2014) applied a list that had been developed by the OECD over several years, and then adjusted in vague terms. Both papers draw clear conclusions about the impact and scale of tax havens; conclusions that are clearly not comparable in any meaningful way. Wójcik (2013) explicitly acknowledged that whether a jurisdiction is offshore "*cannot be answered with a simple yes or no….it is a matter of degree*" (p. 336; see also Palan, Murphy, & Chavagneux, 2009; Haberly & Wójcik, 2015a).

Beyond the economics and economic geography literatures, the IMF prefers the term *offshore financial centre* (OFC), with a mandate that is cantered more on issues related to international financial stability and regulatory oversight than on tax ones (Ylönen, 2017). However, the use of this term has also been inconsistent, with a tendency to exclude important centres such as the City of London (Palan, 1998). In a similar fashion, politically generated blacklists have tended to include only smaller jurisdictions. Even when such lists are apparently based on independently verifiable criteria, political pressures tend to trump any objectivity. The London G20 summit of 2009, for example, worked with the OECD to compile a list based on the number of Tax Information Exchange Agreements that each jurisdiction had signed. This was completed after the exclusion of several jurisdictions at the behest of the Chinese government, and at such a low threshold of information exchange that the list had been emptied within days of the summit. The EU criteria for 'blacklisting' non-cooperative jurisdictions stems from a more rigorous dataset than previous efforts, but here the key criteria were finessed as the member states realised who would potentially fall within their scope (i.e., the US – see Lips & Cobham, 2017).

Other research has sought to identify more specific definitions by discussing various subcategories. Eden and Kudrle (2005), for example, identified several groups of tax havens

characterized by its type of taxation (following Palan, 2002) and by its activity (following Avi-Yonah, 2000; Kudrle & Eden, 2003): (1) production havens that combine tax advantages with significant real business activities (e.g., Ireland); (2) headquarters havens (e.g., Singapore); (3) sham havens that often host little more than letterbox companies (many small tax haven islands); and (4) secrecy havens (most sham havens). There was no particular method for this classification.

Similarly, Palan et al. (2009) created a seven-fold typology of tax havens refined by the niche strategies in which each may have been engaged. Their typology includes: (1) incorporation locations suited to register entities for transactions recorded in other tax havens; (2) registration centres engaged in 'round-tripping' capital and other tax-driven investments; (3) secrecy locations; (4) specialist service providers, such as the insurance business in Guernsey and Bermuda; (5) market entry conduits that benefit from an extensive tax-treaty network, such as Mauritius and the Netherlands; (6) high net worth providers, such as Switzerland and London; and (7) tax raiders that combine lower tax rates with a high degree of security, such as Ireland. Again, there was no particular method for this classification.

The definitional questions discussed above are relevant to the identification of the key conduit countries for tax haven FDI. Understanding the roles played by different countries and jurisdictions in tax structures and regulatory frameworks enables the building of meaningful research settings relevant to the IB literature. Importantly, being a tax haven or an OFC is not an absolute categorisation, but rather a matter of degree. Different tax haven countries offer different bundles of laws, exemptions, and regulatory practices. Moreover, these bundles tend to change over time, and the growing international pressure against tax havens has accelerated the pace of some of these changes. These considerations give weight to the use of relative measures—rather than absolute lists—for the assessment of countries, an issue to which we turn next.

These distinctions have very serious ramifications and implications in regard to the use of tax havens to source FDI data and to the empirical measurement of MNE activity, which is the main focus of IB researchers. Indeed, some have argued and demonstrated that a significant proportion of the empirical work published in the leading IB journals does not properly account for the pervasiveness of tax havens and for their role in transiting capital (Sutherland and Anderson, 2015; Sutherland et al., 2019; and Beugelsdijk et al., 2010). These studies show that FDI directed at special purpose entities (such as investment holding companies) can seriously distort the findings of empirical studies that use FDI-related data. One problem with the use of aggregated official national-level FDI data, for example, is that FDI flows and stocks are typically only recorded on a bilateral basis. Thus, the first destination country, and not the ultimate - i.e., final - one is typically recorded. This generates serious geographical composition biases in the FDI data (Sutherland et al., 2019). To combat this problem, new OECD/IMF guidelines have advised countries to collect their data by both immediate and ultimate destination to account for so called 'capital in transit' (however, only around 19 countries actually do so to date). In addition, industrial composition biases are also present, as many tax haven-related FDI projects in special purpose entitites are classified as 'business services' (including 'investment holding companies'). The final uses and purposes of specific instances of FDI, however, may be something quite different (e.g., manufacturing). While many IB researchers are becoming much more familiar with the challenges linked to the use of official and aggregated FDI data for the measurement of MNE activity, they are still, however, often less careful in relation to the use of firm-level data (i.e., compiled from proprietary databases like Orbis). For example, many studies that use the number of an MNE's foreign subsidiaries (a count-dependent variable) often incorrectly include large numbers of tax haven-related subsidiaries (e.g., those located in the Netherlands, Hong Kong, Luxembourg, Switzerland, etc.). The issues presented by jurisdictions like Hong Kong, where the role of foreign

subsidiaries can often be unclear, create serious challenges for these studies that use firm-level data. IB scholars therefore need to become more aware of such issues. One step in this direction involves the identification of which tax haven jurisdictions are commonly used for capital in transit purposes.

Hence, there is a need for approaches suited to help guide researchers as to which locations can be characterized as world leading tax havens. We will discuss three approaches that go beyond the tax haven definitions discussed above and provide significant detail, based on thorough research, for country classifications. We first discuss the approaches of the Tax Justice Network, which are based on (1) The Financial Secrecy Index and (2) The Corporate Tax Haven Index; we then consider the third approach, which uses ownership information and network analysis to identify the degrees to which different jurisdictions could be characterized as (3) 'conduits' or 'sinks'. These three approaches have more scientific bases, than the ad-hoc ones discussed above. Indeed, the work by Garcia-Bernando et al. (2017) on conduits and sinks could have significant implications for future IB research.

The Financial Secrecy Index (FSI)

After 'tax haven' and 'OFC', the third main term used, and increasingly so, is '*secrecy* jurisdiction'.[1] Murphy (2008) argued that the emphasis on secrecy is crucial because it enables non-residents to take advantage of any loopholes provided by a host jurisdiction's legal framework with a high degree of certainty that their home country authorities will not discover or challenge them. According to Murphy (2008), a secrecy jurisdiction is thus defined by two key characteristics:

> (1) The implementation of "*regulation that they know is primarily of benefit and use to those not resident in their geographical domain.*" (p. 6).

[1] According to Peet and Dickson (1979), it featured in a report published by the U.S. House of Representatives in 1970.

> (2) "*The creation of a deliberate, and a legally backed, veil of secrecy that ensures that those from outside the jurisdiction making use of its regulation cannot be identified to be doing so.*" (p. 6).

Therefore, the secrecy jurisdiction concept relies, above all, on an assessment of what makes jurisdictions attractive. Secrecy jurisdictions have chosen to attract (the declaration of) foreign economic or financial activity by providing favourable terms to non-resident users. In effect, this relies on regulatory arbitrage (which potentially, but not necessarily, includes tax regulation). This behaviour needs to be concealed from the regulators of other jurisdictions to avoid the enactment of countermeasures. Hence, secrecy primarily facilitates changes in the form, but not the substance, of economic activity. For regulatory purposes, it appears to take place elsewhere. In extreme cases, structures are developed that make economic activities appear to take place nowhere (Murphy, 2008). For example, the U.S. Senate hearings into Apple illustrated that it had created corporate entities in Ireland, which had no jurisdiction for tax purposes. The most significant of them was Apple Operations International, which had reported a net income of US$30 billion from 2009 to 2012, but had not filed a corporate tax return anywhere (U.S. Senate Permanent Subcommittee on Investigations, 2013).

The ideal approach to the identification of secrecy jurisdictions could therefore contain two components: one reflecting a jurisdiction's objectively measurable performance against key indicators of secrecy (i.e., Murphy's second criterion), and one reflecting a jurisdiction's quantifiable importance in providing financial services to non-residents globally (i.e., their success according to Murphy's first criterion). This is the approach taken in the Tax Justice Network's FSI, which combines (i) a secrecy score based on 20 indicators that draw upon over 150 variables—including many assessed by international organizations—and (ii) a global scale

weight, which reflects the importance of each jurisdiction in the provision of financial services to non-residents (Tax Justice Network, 2020).

The FSI's 20 indicators include a range of items such as banking secrecy; the existence of public registers of companies, trusts, foundations, and other wealth ownership; the public availability of company accounts; corporate tax disclosure; the capacity of tax administration; compliance with the relevant international standards on information exchange and anti-money laundering; the existence and form of bilateral tax treaties; measures against tax avoidance and evasion; and engagement in international legal cooperation. Each indicator is given a value between 0 and 100, calculated as the sum of its constitutive variables. The global scale weight utilizes IMF data and is calculated by dividing the jurisdiction's exports of financial services by the overall global such exports.

The contents of the indicators and their underlying variables are subject to debate and have been expanded over time. Moreover, there is always room for further improvement in country-level coverage, which also depends on the resources available for the compilation of the index. These potential caveats notwithstanding, the index still represents a major advance from earlier ad-hoc classifications. The scale element ensures that highly secretive jurisdictions with near-zero apparent financial flows are not unduly prominent compared to somewhat more transparent major financial centres. The transparent method enables researchers to focus only on secrecy where that is the main concern, or to reflect each jurisdiction's contribution to the global problem, according to the research priorities. The use of scale weighting does not imply that all the financial services provided are somehow a global 'bad'; rather, the greater the share of global financial services to which a country is host, the greater the potential distorting effect associated with its secrecy. Table 1 illustrates this approach through the FSI ranking for 2020.

(Insert Table 1 here)

Table 1 includes some of the best-known tax havens. The Cayman Islands tops the ranking with a high secrecy score of 76 and a relatively high global financial scale weight of 4.58% for such a small country. The United States is in second place, with a lower secrecy score but a very high global scale weight. Moving down the list, we note the importance of Switzerland, Hong Kong, Singapore, and Luxemburg. Interestingly, the UK does not feature in the top 10. However, its ranking would be much higher if its crown dependencies, such as Guernsey and Jersey, were included. Other notable countries include the UAE, the British Virgin Islands, and the Bahamas.

The FSI provides a level of rigour in its focus on verifiable indicators of transparency, which enables a comparative analysis across jurisdictions and over time. It also establishes the idea of a spectrum of secrecy—as opposed to the binary perception of tax havens versus all other jurisdictions—and, by allowing for scale as well as secrecy, takes into account the potential damage each jurisdiction may facilitate—including the laundering of the proceeds of crime and grand corruption, the circumvention of market regulations (such as antitrust laws and restrictions on political conflicts of interest), along with individual and corporate tax abuses.

A different approach to the secrecy jurisdiction could involve considering the degree to which a country is able to attract the tax base of economic activity that takes place elsewhere. Work conducted using survey data on US MNEs (Cobham & Janský, 2015) and global balance sheet data (Cobham & Loretz, 2014) identifies a set of countries that own a disproportionately high share of the corporate tax base in relation to their hosting of traditional FDI. A comparison of the worst performers on the FSI, with jurisdictions that account for volumes of US MNE profits disproportionately in excess of the real activity they host, is instructive. Some—such as the Cayman Islands, Luxembourg, Singapore, and Switzerland—are identified by both approaches: they are broad-based secrecy jurisdictions that operate not only, but also as profit-

shifting hubs. Others, such as Ireland and the Netherlands, score better in terms of transparency but, nevertheless, rank among the largest profit-shifting hubs.

While the samples used in these studies are dominated by developed countries in regard to both home and host economies, future work could overcome these constraints. This would produce a more balanced global picture by including emerging country jurisdictions. In the meantime, the Tax Justice Network has begun to publish a second index, based on the intuition of the FSI but focused fully on MNE tax avoidance. Hence, the Corporate Tax Haven Index may be even more useful for IB researchers specifically focused on tax avoidance, whereas the FSI could be used by scholars interested in tax evasion or the broader political economy of tax havens.

The Corporate Tax Haven Index (CTHI)

The CTHI follows the logic of the FSI in combining a score for intensity with a global scale weight (Tax Justice Network, 2019). This index is based on 20 indicators, like the FSI's secrecy score, but is focused more directly on tax-related aspects, rather than on transparency. Currently, the CTHI collects information from 64 jurisdictions, in contrast with the FSI's broader scope of 132. The indicators are grouped in five categories, reflecting the attractiveness of a jurisdiction for profit shifting. They measure: the presence of loopholes and gaps that encourage profit shifting; the presence of anti-avoidance measures; transparency relating specifically to the tax treatment of MNEs; the aggressiveness of the jurisdiction's double tax treaty network; and, finally, a newly created measure of the lowest available corporate income tax rate.

The specific indicators measure issues such as the lowest available corporate income tax rate; capital gains taxes; rules for loss utilization; sectoral exemptions and fictional interest deductions; publicity of company accounts; the level of secrecy of tax cuts; limits on deductions for interest, royalties and service payments; controlled foreign company rules; and

tax withholding on dividends. The global scale weight is calculated using FDI data sourced from the IMF. This is combined with the haven score—obtained through a similar methodology to that used in the FSI—to generate a ranking based on the actual risk of profit shifting posed by the jurisdiction. Table 2 illustrates this approach through the CTHI ranking for 2019.

(Insert Table 2 here)

The top-ranking countries included in the CTHI mostly correspond to those included in the FSI. In this case, however, the United States hold a lower ranking. The British Virgin Islands are at the top, followed by Bermuda and the Cayman Islands. The Netherlands and Switzerland follow Jersey, Singapore, the Bahamas, and Hong Kong. It is interesting to note that the list includes both locations like the Cayman Islands and larger havens such as Singapore and the Netherlands. It is also notable that China is present in the ranking in 19th place.

The CTHI provides a more focused tool suited not only to explore the behaviours of jurisdictions, but also to understand the role they play in MNEs' FDI strategies. The use of verifiable criteria and the transparency of the method and data also mean that, like the FSI, the CHTI enables researchers to take alternative approaches and to test particular hypotheses around specific indicators of interest. Consequently, this index could be of significant interest to scholars in the future. The CHTI has only been available since 2019, but it will be subject to regular updates in the future, enabling researchers to utilize panel data methods.

Conduits and Sinks

Differentiating between the degrees jurisdictions can be considered 'conduits' and 'sinks' provides another potentially useful approach to addressing the ways in which secrecy jurisdictions such as Delaware and the Cayman Islands differ from corporate holding company centres such as the Netherlands and Ireland. Garcia-Bernando et al. (2017) provided an

important classification of various OFCs based on those countries' positions in the network of global corporate ownership. Utilizing corporate ownership data drawn from the Orbis database, they defined the ideal sink OFCs as those countries "*that attract and retain foreign capital*" (p. 2). According to an empirical analysis based on 98 million firms (nodes) with 71 million relations, typical sink OFCs are jurisdictions that are usually categorized as tax havens, such as the British Virgin Islands, the Cayman Islands, and Bermuda. The domestic economies of these jurisdictions are typically small in comparison with the investment flows they attract by offering low or zero corporate taxes.

In contrast to sink jurisdictions, Garcia-Bernando et al. (2017) defined the ideal conduit OFCs as "*countries that are widely perceived as attractive intermediate destinations in the routing of investments*" (p. 2). These jurisdictions typically offer "*low or zero taxes imposed on the transfer of capital to other countries, either via interest payments, royalties, dividends or profit repatriation*" (ibid.), in addition to a well-developed legal system and an extensive network of tax treaties. Conduit jurisdictions play a key role in global corporate ownership networks by allowing transfers of capital with little or no taxes. In contrast to sink jurisdictions, some conduit countries require companies to publish detailed subsidiary-level financial accounts. Garcia-Bernando et al. (2017) identified the Netherlands, the United Kingdom, and Switzerland as the most important conduit jurisdictions. The main conduit and sink jurisdictions thus identified are listed in Table 3. While the Orbis database has major gaps with regard to the financial statements of companies based in sink or secrecy jurisdictions (Finér & Ylönen, 2017), the empirical approach and the conceptual division advocated by Garcia-Bernando et al. (2017) remains highly relevant.

(Insert Table 3 here)

The sinks include all of the small island locations such as the British Virgin Islands, Mauritius, Malta, and Cyprus, whereas the conduits include the Netherlands, the UK and

Ireland. Even though this list was compiled with a robust methodology that relied on firm-level data, the two underlying categories can also be utilized as analytical ideal types, which would not be possible with the FSI and CTHI approaches. Hence, to some degree, it mirrors the 'dot' vs. 'big' tax haven distinction identified by Hines and Rice (1994). For this reason, we utilize this approach in our conceptual framework below, while keeping in mind that sinks and conduits are actually two ends of a continuum. Nevertheless, all three approaches are potentially useful for future scholarly work on tax havens that might look at corporate reputation in general management research.

Having defined, measured, and categorized key tax haven concepts, the next section will present our round-up of the scattered literature, portraying—through a systematic bibliometric analysis—the evolution and development of the field. This provides us with a strong justification to advance the field with our contribution of a futuristic conceptualization of accountability-avoiding FDI.

METHODOLOGY

We systematically reviewed the extant knowledge base using the objective and scientific literature review approach known as a bibliometric analysis (Bamel et al., 2020), which helped us to develop a thematic map of the extant knowledge base by highlighting the thematic focus and concentration of the relevant publications in the domain. The thematic structure of a knowledge domain reveals its evolutionary trends and also predicts its future extension (Ball, 2018).

To achieve our research objective, we retrieved the bibliometric metadata pertaining to the relevant knowledge base of our topic (tax havens), from the Scopus database. This metadata is copyrighted and is provided by Scopus and Web of science (WoS). We chose Scopus over WoS due to its wider coverage and scope.

We retrieved our dataset following the established protocol (PRISMA), whereby the preferred reporting items were included for systematic reviews and meta-analysis (Liberati et al., 2008). This process involved the following stages: identification, screening, eligibility, and inclusion. For stage one—identification—we used the keywords ‘tax havens’, ‘multinational enterprises’, ‘transfer pricing’, ‘tax avoidance’, ‘profit shifting’, ‘round-tripping’, ‘low-tax jurisdictions’, ‘offshore financial centres’, ‘secrecy jurisdictions’, and ‘corporate tax planning’, and searched the Scopus database for English articles only. For the second stage—screening—we excluded some of the identified research documents on the basis of their subject area (such as science, maths, engineering, agriculture, biology). For the third phase—eligibility—we filtered our search to include only research articles, review articles, book chapters, and books. This process finally yielded 647 research documents; we thus retrieved their bibliometric metadata and analysed then using the open source analytical Bibliometrix R package (Aria & Cuccurullo, 2017).

The two key results emerging from our analysis are presented below in the form of a Strategic and a Sankey diagram. A strategic diagram displays various themes that are characterized by measures such as centrality and density, whereas a Sankey diagram helps in understanding the evolution of a particular knowledge domain over time.

RESULTS

Strategic diagram

To understand the conceptual pattern of tax haven research, we constituted its knowledge structure (Aria & Cuccurullo, 2017). The knowledge structures of a research field—which is defined as how its concepts are interrelated (Jonassen & Wang, 1993)—helps in understanding its state and evolution. In constructing the strategic diagram, we analysed the top 500 keywords used by our sample authors in their articles using the Bibliometrix R software. As mentioned

above, a strategic diagram shows each theme as characterized by its two measures of centrality and density (Cobo et al., 2015). Centrality measures the degree of interaction between one network and others, in other words, the strength of its external ties to other themes. Comparatively, density measures the strength of the internal ties binding all keywords describing a research theme; it can be understood as a measure of the theme's development (Murgado-Armenteros et al., 2015). The conceptual structure function of the Bibliometrix R package enables researchers to perform multiple correspondence analysis (MCA), which, in turn, helps to draw a conceptual structure of the field. Similarly, K-means clustering helps to identify clusters of documents that express common concepts. Likewise, MCA is applied to a Document x Word matrix A, as an example. The words are plotted on a two-dimensional map. Thus the results are interpreted based on the relative positioning of the points and their distribution along the dimensions. Hence, the more similar words are in the distribution, the closer they are represented on the map (Cuccurullo, Aria, & Sarto, 2016). On the basis of the degree of centrality and density, a strategic diagram is divided in quadrants and represents four types of themes—i.e., a motor theme (upper right quadrant), a peripheral theme (upper left quadrant), an emerging or disappearing theme (lower left quadrant) and a transversal, general, or basic theme (lower right quadrant) (Callon et al., 1991; Cahlik, 2000; Cobo et al., 2011). Those in the upper-right quadrant are known as motor themes because they exhibit strong centrality and high density; as such, they are well developed and important for the structure of a research field. The themes in the upper-left quadrant are very specialized and possess a peripheral character; thus, they are considered to have marginal importance to the field, as they have well-developed internal ties but unimportant external ones. The themes in the lower-left quadrant may be emerging or disappearing because they are both weakly developed and marginal; accordingly, they have not been the subject of significant research interest. Finally,

the themes in the lower-right quadrant are important in the research field but are not well developed.

Figure 1 shows that the current research domain has three basic or general themes—tax avoidance, tax havens, and MNEs—which can be termed its foundation themes. These exhibit a high degree of internal tie strength and are well, yet not fully, developed, which means that scholars are still examining various issues pertaining to them.

In terms of motor themes—i.e., those with high centrality and density—our analysis revealed that the present research domain has two—i.e., institutional theory and FDI—which are central to it and are well developed. They were found to include issues such as corruption, FDI in emerging markets, international trade, and uncertainty. These issues are at the core of the knowledge structure of the domain.

Our peripheral themes—i.e., those with a high degree of density and a low degree of centrality—were found to include information technology, innovation, and Japanese MNEs and MNCs. The research topics in this quadrant involved knowledge and IT in health care, innovation, subsidiary, R&D, internationalization, and transaction costs. These topics and issues are not fully addressed and are at the periphery of the conceptual structure of our research domain.

Our knowledge structure was found to include two important emerging themes—i.e., those with low density and centrality. The first is represented by *OFCs*, which are linked to keywords such as ‘money laundering’, ‘offshore financial centres’, ‘Chinese MNEs’ and ‘location choice’. The second is *institutions*, and is comprised of ‘liability of foreignness’ and ‘sustainability’.

(Insert Figure 1 here)

Sankey diagram

Figure 2 portrays how a node moves across time periods (we divided the 1973-2020 research metadata into four eras by splitting them at the end of the years 2000, 2010, and 2019. The size of the nodes represents the quantity of research and the paths depict the movement of the research theme across these eras. The results portrayed from the Sankey diagram show that, from 1973 to 2000, *MNEs* and *FDI* were major themes. The theme *multinational enterprises* converged into its shorter form *MNEs* during the 2001-2010 and 2011-2019 eras. During the 2001-2010 era, the major themes were *cultural distance, globalization, tax avoidance, internalization, multinational companies, regional integration,* and *subsidiaries*. Comparatively, during the 2011-2019 era, the major nodes were *tax havens*, which emerged from the *multinational enterprises* research node; *tax avoidance* remained a major theme during this era. Although the number of research articles on this topic witnessed an increase in publications within this theme, *multinational enterprises* was another major and consistent theme during the 2011-2019 era, where the research topics included were *cultural distance, globalization,* and *MNE convergences*. More interestingly, the research shifted between the third and fourth eras (2011-2019 and 2020-present day). Our analysis also provided evidence hat this points/eras (years) also included topics such as *profit shifting, corporate governance, CSR, MNEs,* and *tax avoidance*, as the major nodes during this time period 2011-2019 to 2020 (current). Another important observation from Figure 2 is that the scope of this research field is expanding—i.e., from two major themes to many offshoots.

(Insert Figure 2 here)

We reiterate that the above findings from our systematic bibliometric analysis establish a valid and reliable lead to our novel conceptualization of accountability-avoiding FDI. In other words, the systematic bibliometric analysis helped us consolidate and identify the evolution of the field, the areas that have been developed and the need for further development, conceptualization and theorization, leading to the basis of our new concept—i.e.,

accountability-avoiding FDI. Thus, by way of conclusion, the knowledge structures and their evolution highlight the proliferation of thematic areas related to tax havens also from a research viewpoint. This underlines the importance of taking a more multifaceted approach to the analysis of the use of tax havens than just interpreting them as FDI stemming from home country tax or regulatory obligations. In order to better conceptualize such FDI flows, the following section introduces and discusses the concept of *accountability-avoiding FDI*.

ACCOUNTABILITY-AVOIDING FDI

In this section, we outline a new conceptualization of FDI, which we call *accountability-avoiding FDI*. As we have shown above, the use of tax havens is a pervasive part of being a MNE. The MNE capital flows both into and out of tax havens are so significant that ignoring them both empirically and theoretically would be a serious omission for IB scholars and lead to biased results. Hitherto, IB research has focused on traditional FDI motives over the last six decades and has ignored the tax haven motive, which has become of major interest in other social science disciplines.

This raises the question of how the use of tax havens by MNEs might be viewed from a theoretical IB perspective. To answer, we first need to emphasize that, according to UNCTAD (2007, p. 245), conventional FDI is defined as:

> *"An investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy in an enterprise resident in an economy other than that of the foreign direct investor."*

Given this definition, scholars have distinguished between four main motives (Meyer, 2015) of FDI by MNEs: (1) market-seeking FDI, aimed at supplying and creating new markets for their goods and services; (2) resource-seeking FDI, aimed at gaining access to inputs such

as raw materials, low-cost unskilled and skilled labour, technological assets, and physical infrastructure; (3) efficiency-seeking FDI, aimed at achieving greater economies of scale and scope in order to lower average costs; and (4) strategic asset-seeking or technology-seeking FDI (Dunning, 1993; Dunning & Narula, 1995), aimed at enhancing a firm's capabilities to ensure long-term competitiveness in the home and third country markets (Meyer, 2015).

Clearly, each motive indicates that FDI is aimed at adding value to the firm. However, as Beugelsdijk et al. (2010) pointed out, not all FDI is used to generate affiliate added value. Indeed, MNE use of tax havens is a clear example of this. Hence, we argue that tax haven FDI is a distinct form that involves capital and income flows from a home to a host location and, in many cases, generates no added value in the host location. For example, The Cayman Islands are widely reported to be home to more companies than people. Indeed, Barack Obama once expressed criticisms for the fact that a building in the Caymans housed 12,000 corporations. Such 'letterbox' corporations, which are overwhelmingly common in many tax havens, are linked to minimal or non-existent employment generation or production activities. This means that ignoring this type of FDI in research may very well introduce significant biases in the sense that tax haven use could get mixed up with measures of other motives. The traditional motives of FDI do not provide a strong enough basis for understanding tax haven arrangements. Indeed, it is important to note that Dunning (1993) also identified a number of other motives—besides the four core ones outlined above—that feature so prominently in the IB literature. Narula and Cuervo-Cazurra (2015, p. 4) provided useful discussion of these other motives; one of these, which is termed *Escape FDI*, is argued to be a form of FDI undertaken by MNEs in order to elude institutional voids or domestic taxation and environmental regulations. Yet, the term *Escape FDI* places too much emphasis on the home country voids and not enough on the destination of the FDI; in this context, on secrecy jurisdictions like the Cayman Islands.

However, as we argued above, research conducted in recent years has yielded a body of evidence on the multitude of factors that drive investments into and out of tax havens—related to secrecy, tax planning, risk management, and beyond (see, e.g., Chari & Acikgoz, 2016; Cooper & Nguyen, 2020). While *Escape FDI* captures many of the elements that have been traditionally discussed in the tax haven-related literature, it seems to have an unnecessarily restrictive scope that prevents it from covering the whole range of inter-related motives that drive tax haven investments. After all, tax havens are not only about escaping societal responsibilities, but also, for example, about firms' structuring their internal financial flows in ways suited to increase their control over issues such as transparency, financial regulations, management of risks, and beyond (Palan, Murphy & Chavagneux 2009; Christensen, Seabrooke & Wigan 2020). All of these decisions affect the level of accountability, depending on the applicable laws. The rise of corporate governance and corporate responsibility agendas (which was highlighted in the bibliometric analysis) also highlights the need to focus on the various ways in which tax haven use and accountability are related.

Hence, we agree with Narula and Cuervo-Cazurra's (2015, p. 3) assertion that "*as the world has changed, so has the IB literature*", meaning that the identification of the typologies of FDI ought to follow the shifts in the global economy in order to better understand the flows of income generated by MNEs. Furthermore, *Escape FDI* has been relegated to being a minor FDI motive, which seems very hard to reconcile, given the scale of financial flows into and out of tax havens. For this reason, we introduce and define a new form of FDI, which we call *accountability-avoiding FDI*:

> *"Accountability-avoiding FDI is an investment by an MNE in a location that provides a special combination of tax-, regulatory-, and secrecy-related incentives for non-resident entities."*

Accountability necessitates either giving an account of an event or an event that can be explained. This definition helps to capture both the tax-avoiding and secrecy-related aspects behind the use of tax havens. Avoiding tax obligations means dodging accountability in regard to the responsibilities entailed by tax laws and other regulations. The secrecy-related aspects of *accountability-avoiding FDI* hinder the ability to analyse and read transparently a set of corporate accounts.

Very often, tax haven FDI will have seemingly limited value-enhancing properties other than the enhancement of economic rent for the key stakeholders who benefit from it. In our view, *accountability-avoiding FDI* differs in many respects from the other four motives identified in the literature. Clearly, it is not driven by market-, resource-, and technology-seeking motives, although it may complement each of them. Furthermore, although, at first glance, the efficiency-seeking motive may appear to be helpful in explaining tax haven use, we would fundamentally disagree. According to Dunning and Lundan (2008), efficiency-seeking investments take advantage either "*of differences in the availability and relative cost of traditional factor endowments in different countries*" (p. 72), or of "*the economies of scale and scope, and of differences in consumer tastes and supply capabilities*" (ibid., p.191) in the context of the actual trading of both goods or services. While this framework has been helpful in explaining how and why FDI takes place, it fails to capture the kinds of artificial profit shifting discussed in this paper. After all, *accountability-avoiding FDI* does not concern the relative costs of traditional factor endowments, consumer tastes, or supply capacities; rather, it aims at artificially de-linking the intra-firm monetary flows from those factors (Christensen, Seabrooke, & Wigan 2020).

However, how does tax haven activity relate to the traditional theories of the MNE? MNEs are not encompassed by a general theory and there are competing views as to why they

exist. Furthermore, scholars may differ ideologically in regard to tax haven FDI. Those who view MNEs as a dominating influence (Forsgren, 2013) on international production and exchange may view this type of activity with caution. This controversial view, influenced by Hymer (1968), of MNEs as a dominating force fits well with our definition of *accountability-avoiding FDI* with respect to rent-seeking, in the sense that MNEs engage in activities by manipulating the political and social environment to earn excess income that would have otherwise been used to fund public goods and services.

In contrast, those who adopt the internalization theory of MNEs (Buckley & Casson, 1976; Hennart, 1982; Rugman, 2006) may view them as engaging in *accountability-avoiding FDI* simply to take advantage of cross-border market imperfections. Indeed, this perspective has dominated much of the contemporary IB literature (Dunning & Lundan, 2008). One particular facet of the internalization perspective is that noted by Rugman (2006), who wrote that the "*need for an internal market always remains in the valuation of information, and transfer prices for this intermediate product are justified*" (p. 65), even though "*so-called arm's length prices do not exist*" (ibid.). Therefore, MNEs create their own internal 'markets' out of necessity in a process in which the internal market "*becomes an integral part of the firm*", making it difficult to distinguish the "*firm's organizational structure from its internal pricing*" (ibid., p. 22). Given that this analysis was relatively far-sighted at the time it was performed, it is striking that Rugman's framework has hardly generated any research on the tax-motivated use of transfer pricing. One reason for this may be that Rugman explicitly excluded tax-driven transfer pricing from his research agenda by stating that "*the internal pricing of knowledge advantages by the MNE is merely a response to the lack of a market. It is not a suspicious action but a rational one by an efficient business organization, the MNE*" (ibid., p. 66). Furthermore, Rugman argued that "*multinationals have a relatively restricted scope for*

transfer price manipulation" and that they "*should be allowed to use whatever transfer prices it cares to*" (ibid., p. 67).

Conceptual framework

Given this definition of *accountability-avoiding FDI*, how can IB contribute to our understanding of it? In our view, instead of focussing on the magnitude of this tax haven use, as is commonly done in other disciplines, IB researchers could focus on the factors, motivations, and channels that drive *accountability-avoiding FDI* into tax havens. With this in mind, we propose a conceptual framework that can be used to investigate *accountability-avoiding FDI* from a multi-level perspective. Our framework is in part derived from Rugman's (2006) work, which argues that firm-level factors (called firm-specific advantages), and country-based ones are the two key determinants of FDI.

Jones and Temouri (2016) argue that country-based factors can be subdivided into those that originate in the parent firm's home location (Rugman's original argument, based on the CSA/FSA matrix) and those that originate in its host country. From this simple, but empirically appealing, framework, various factors that fit in to this classification can be identified. For example, R&D-intensive MNEs with high levels of intangible assets will probably possess the firm-specific advantages that make it likely that they will invest in tax havens (Jones & Temouri, 2016). This could include the ownership of patents and trademarks registered in a tax haven location (Heckemeyer, Olligs, & Overesch, 2018). Indeed, such a strategy has been used by Starbucks to mitigate corporate tax (Van den Hurk, 2014).

Figure 3 illustrates our conceptual framework, which scholars could use to explore various factors in greater detail. This framework enables the generation of a multi-dimensional perspective of the determinants that drive MNEs to use tax havens. For example, multiple micro-foundational relationships between constructs can be derived and subsequently tested

empirically. Hence, we provide a list of explanatory factors that drive *accountability-avoiding FDI*.

(Insert Figure 3 here)

In terms of the home and host country-level factors that would explain *accountability-avoiding FDI*, it is important to account for the distance between the home and host countries because such activity is often driven by a *relative difference* between countries. With this in mind, we identify the following country-level factors from the extant literature: (1) political economy factors, including tax treaties, which are argued to have an impact on MNE tax strategies (see Hearson, 2018); (2) historical context and colonial influence, such as the Commonwealth and the Royal Crown Dependencies of Jersey, Guernsey, and the Isle of Man (see Haberly and Wójcik, 2015b); (3) institutional quality differences and how, for example, liberal market economies differ from coordinated market ones in terms of the tax haven activities in which MNEs engage, which emanate from different institutional contexts (see Jones & Temouri, 2016 for a variety of capitalist perspectives and tax haven uses); (4) the complexity of legislation and regulation across countries (see Rawlings, 2007; Palan, Murphy, & Chavagneux, 2013); (5) the fiscal preferences of policy makers, particularly during times of recessions and austerity (see Nebus, 2019); (6) the degree of openness and the mobility of capital across borders (see Dharmapala & Hines, 2009); (7) the level of media scrutiny (see Schmal et al., 2021); (8) the degree of law enforcement and of tax collection agency funding; and (9) the overall economic environment between the home and host countries. For example, MNEs have been observed to use tax havens via developing countries that are characterized by capital flight (see Ali, Jones, & Temouri, 2020).

In terms of firm-level factors, our bibliometric analysis leads us to argue that *accountability-avoiding FDI* is driven by the following: (1) CEO/Finance Director preferences with respect to organizational culture and short-termism, so that post tax profits and stock price

become a primary concern (see Francis et al., 2016; Duan et al., 2018); (2) corporate governance factors that focus on the relationships between top management and the board of directors, which are based on agency theory (see Armstrong et al., 2015); (3) ownership influence and the degree of ownership concentration, with lower ownership concentration showing to increase the likelihood of MNEs owning tax haven subsidiaries (see Temouri et al., 2020); (4) degree of market power (see Martin, Parenti, & Toubal, 2020); (5) firm size and age (Rego, 2003); (6) overall degree of internationalization (see Taylor et al., 2015); (7) technological intensity and importance of immaterial rights for the firm's business model (see Desai et al., 2006; Heckemeyer et al., 2018); (8) firm capability to avoid tax, based on the level of human capital and/or the potential for the use of superior advisory services, such as the Big Four accountancy/auditor firms (see Jones and Temouri, 2018); (9) customer and client preferences (see Van den Hurk, 2014); (10) financial performance in terms of profitability, cash flow, or debt ratio (see Richardson & Lanis, 2007); (11) degree of the inter-firm trade in which the MNE engages (Hebous and Johannesen, 2021); and (12) MNE CSR strategy, which illustrates the trade-off between two activities that apparently contradict each other and are difficult to reconcile (see Lee, 2020). This is by no means an exhaustive list but, in relation to scholarly research, it identifies and categorizes many of the core country and firm-level factors that drive *accountability-avoiding FDI*.

Based on such multi-dimensional factors, how or why do firms use tax havens? To answer this question, we identify a typology that splits the tax havens to which a firm decides to resort into two domains: (1) conduit jurisdictions; and (2) sink/secrecy jurisdictions. Hence, the explanatory factors shown on the left-hand side of Figure 3 feed into the different uses of tax havens. We now discuss each domain in turn.

Conduit jurisdictions

Much cross-border tax avoidance is based on the tax-motivated planning of the prices that MNEs charge in their intra-firm transactions, whether through the interest rates applied to intra-firm debt or through transfer prices used in intra-firm trade (e.g., Becker, Fuest, & Riedel, 2012). Transfer pricing relates to those situations in which the subsidiaries within an MNE group set prices on intermediate inputs, including intra-firm services. Although these prices are supposed to be based on the arm's-length rules dictated in the model tax treaties of the OECD and the United Nations, these rules are often manipulated in order to move profits from high-tax to low-tax jurisdictions. Thin capitalization essentially means debt-shifting, whereby an MNE can manipulate its capital structure such that certain subsidiaries within its group are thinly capitalized (i.e., they have excessive levels of debt). The related interest payments are then transferred from high-tax jurisdictions (where interest is tax deductible) to low-tax ones, boosting earnings in these locations, where corporate tax is non-existent (Altshuler & Grubert, 2003; Desai, Foley, & Hines, 2004; Mintz & Weichenrieder, 2005; Ramb & Weichenrieder, 2005).

The importance of immaterial rights in IB has grown markedly due to the growing prevalence of patents and trademarks in the broader context of the information economy (e.g., Corrick, 2016; Dischinger & Riedel, 2011; Hines, 1994), with several studies having documented this widespread activity (Bartelsman & Beetsma 2003; Becker et al., 2012; Buettner & Wamser, 2013; Davies et al., 2014; Desai, Foley, & Hines, 2005; Hines 1999; Newlon, 2000). Indeed, using affiliate-level data for US firms, Desai, Foley, and Hines (2006) showed that larger, more international firms and those with extensive intra-firm trade and significant R&D activity are the most likely to engage in profit shifting to countries with low corporate tax rates. At the same time, tax scandals related to big tech companies have increased the understanding of the role played by the centralization of the ownership of immaterial rights on a firm's intra-firm flows of wealth. Ireland has emerged as a key conduit hub where many

MNEs centralize the ownership of their patents and trademarks. This enables the subsidiaries managing these rights to charge fees for their use in ways that effectively erode the tax base in the countries in which their customers reside.

We have also seen a recent trend whereby MNEs centralize various other managerial and procurement functions in procurement subsidiaries. These subsidiaries charge internal fees to manage various intra-firm transactions and are located in countries that allow for tax savings (e.g., Pearce et al., 2017). Moreover, researchers have pointed out the importance of opaque jurisdictions in the ownership strategies of sovereign wealth funds and other investment ones (Bracking, 2012; Murtinu & Scalera, 2016).

Some researchers have suggested the need for more nuanced typologies of corporate tax avoidance strategies related to the financing of mergers and acquisitions. In their cross-sector case study on tax avoidance in the Finnish mining sector, Finér and Ylönen (2017) identified a number of different ways in which mining companies gain tax benefits by means of tax-driven corporate restructurings through the use of holding companies located in both tax-haven and non-tax-haven countries. Moreover, the study highlighted the MNEs' ability to treat mining rights as intangible assets that can have major impacts on their tax obligations in corporate restructurings. This means that even seemingly tangible industries, such as extractives, are open to conducting large-scale tax avoidance through the novel use of immaterial rights.

Finally, conduit jurisdictions are also used to set up complex ownership arrangements in different group companies. These uses can be linked, for example, to non-tax related provisions found in tax treaties, to joint ventures between two or more multinationals, or to the financing of arrangements with external creditors. This highlights how MNEs also need conduit jurisdictions for reasons other than minimizing their tax burdens.

Sink jurisdictions

Especially during the 2000s, many US-based MNEs amassed large financial reserves in their foreign subsidiaries. One motivation for this behaviour was the 'tax holiday' that the Bush administration initiated in 2004, which enabled MNEs to repatriate foreign profits with a reduced tax rate. This effectively created a precedent that incentivized firms to keep their profits abroad while waiting for similar future initiatives (Marr & Highsmith, 2011). The existing definitions of FDI do not reflect this tax-motivated deferral of income repatriation. Corporate inversions have also garnered attention in the tax-related literature. Even though corporate tax rates are a minor factor in decisions related to corporate headquarters (Clausing, 2018), tax-related arguments are often used when inversions are discussed, and they can be important in individual cases (e.g., Kun, 2004).

Tax havens were also used to secure higher levels of secrecy during the 2008 global financial crisis. The British Bank Northern Rock had used an offshore company registered in Jersey to conceal the risks related to its investments in subprime mortgages (Griffiths, 2007). As is well known, those MNEs that can shift their intellectual property to low-tax jurisdictions often do so to take advantage of tax and secrecy benefits. Starbucks' decision to locate its intellectual property and trademark in the Cayman Islands is a classic example of this process (Van den Hurk, 2014). As a result of this complexity and secrecy, firms can implement complex tax avoidance techniques—such as the Double Irish—to manipulate their profits and their tax bills. Moreover, secrecy jurisdictions can sometimes be used for what we might call liability cut-outs—businesses that can be allowed to go bust without passing any liabilities on to the wider group (or up to the parent) if a particular line of business fails.

It is important to note that we do not claim this list to be all-encompassing. Scandals such as the Azerbaijan Laundromat money-laundering scheme have underlined that, sometimes, MNEs can also make investments that are driven by outright criminal motives.

Management perquisites could also influence intra-firm financing structures. This list could be continued, and identifying further uses of tax havens in MNEs would merit further research.

CONCLUSION AND AVENUES FOR FUTURE RESEARCH

Given the importance of tax haven activity in today's global economy, further research is needed in a number of areas to uncover the complex nature of MNE strategies within this domain. To this end, we have provided a conceptual framework that can be used to engage in further theoretical and applied research to understand the motivations and repercussions of tax haven use. One key contribution of our theoretical framework is that it points out how the flow of capital into tax havens is not merely tax motivated. However, we argue that such capital flows are still of an accountability-avoiding nature as they are motivated by seeking secrecy and escaping home country regulations.

Limitations

We acknowledge that our study has the following three limitations. First, one overarching limitation resides in the fact that our list of explanatory factors and uses of tax havens may not be exhaustive. However, we endeavoured to categorize many of the core country- and firm-level variables, identified in the cross-disciplinary literature, that drive *accountability-avoiding FDI*. In this regard, through our conceptual framework, we have argued how a wide range of drivers can be categorized as linked to accountability-avoiding FDI. However, any anecdotal evidence of other possible factors, company cases, and underlying motivations could enable scholars to uncover further evidence and findings, which, in turn, could extend our conceptual framework. Hence, it is important for studies to distinguish with greater precision the underlying motivations that lead to capital being shifted into these jurisdictions. Identifying further uses of tax havens in MNEs would merit further research; we thus hope that our

conceptual framework will spark further debate and yield evidence suited to shed light on other potential drivers of tax haven use that could be argued to be of a less accountability-avoiding nature.

Second, our systematic literature review was limited to English language publications, which can be seen as a limitation. However, we think that more regional level publications could be included in future analysis. Also, although we made a compelling case of preferring the Scopus database, due to its large coverage and scope, over the WoS one, some scholars could use the latter to determine whether theoretical research would yield any interesting findings that either diverge or converge with ours.

Last but not least, in the next section, we outline three areas that we argue could be particularly fruitful for future research: (1) tax haven use by EMNEs; (2) the role played by corporate governance; and (3) MNE strategy. This restricted focus could be seen as a limitation due to the multifaceted nature of IB activity across sub-disciplines. However, our list of suggestions, despite being linked to current debates, is certainly not exhaustive; rather, it provides avenues of research that we argue could generate important insights. We will now discuss and outline each of these areas in order to set out an agenda for future IB research.

Tax havens and EMNEs

The ability of MNEs to use tax havens is not just an issue for the developed world. EMNEs are also increasingly using similar techniques to avoid corporate tax and escape home country regulations (see also Chari and Acikgoz, 2016; Sutherland, Hennart and Anderson, 2019). In many emerging markets, EMNEs are faced with significant government bureaucracy, illiquid

capital markets and, in some cases, political and economic uncertainty (Hoskisson *et al.*, 2000; Meyer and Peng, 2016). Moreover, the under-resourcing of tax administrations and corporate-friendly tax treaties often make it easy to shift profits abroad with arrangements the legality of which can sometimes be uncertain (Hearson 2018; Waris and Seabrooke 2018). These factors incentivize EMNEs to move capital into foreign locations, such as tax havens, that offer more liberal institutional and regulatory environments and a degree of secrecy that enables financial flows to be hidden from the revenue authorities.

Investigating the tax haven activities of EMNEs is an important endeavour because recent reports by the IMF, the OECD, and the World Bank have argued that low tax yields in emerging countries will hinder their future development. Emerging markets are thought to be currently well positioned to be the key drivers of future global economic growth. According to UNCTAD, investment in gross capital fixed formation is expected to pick up strongly in emerging markets. However, if this investment is aligned with the use of tax havens, the benefits of increased investment may be captured by special interests, and the public at large will lose out. Governments will be deprived of the revenues needed to invest in public services, and inequality within countries may continue to rise. Through internalization theory Buckley et al. (2015) showed that EMNEs use investment-holding companies to circumnavigate around corporate taxation via round-tripping. They argued that the main drivers of this activity are the market imperfections and institutional voids found in a firm's country of origin. Moreover, the institutional environment also affects the global business strategy that EMNEs decide to adopt. Recent research by Chari and Acikgoz (2016) has shown empirical evidence of cross-border acquisitions by EMNEs that are driven by institutional weakness in the home country and lower taxes in the host one.

Given that there is limited systematic cross-country evidence in regard to the degree to which EMNEs utilize tax havens and scattered evidence of round-tripping FDI by firms in

some countries such as India and China (Beugelsdijk et al., 2010; Sutherland and Anderson, 2015), or of the specific context of acquisitions effected by EMNEs (Chari and Acikgoz, 2016), the literature does not provide any information regarding where EMNEs locate their offshore activity and how many do so. This aspect is also crucial in terms of avoiding the pitfalls that Sutherland and Anderson (2015) aptly highlighted in the context of China. They illustrated that the use of aggregated FDI data and of some firm-level datasets can lead to severe biases in the results of any FDI analysis that ignores or is not able to isolate and control for the return to the source country of any FDI routed via tax havens to onward destinations. Future research could address this shortfall by showing the extent to which EMNEs locate their offshore activities and where. It would be fascinating to understand whether the use of tax havens by EMNEs is driven by historical/cultural factors and whether the intensity of tax haven use and choice of location has evolved over time.

Tax havens and corporate governance

Another fruitful area of research would involve combining corporate governance at the MNE level and institutional theory (Peng et al., 2009), which could lead to a better understanding of the possible motivations held by EMNEs when deciding to shift capital to tax havens. For example, there commonality of various dimensions of the institutional environments found in many emerging markets affects a significant number of EMNEs that are either fully or partially state-owned or former state-owned enterprises that have been fully privatized. Given their sheer size and their speed of international expansion, the rise and spread of state capitalism in the emerging world has increasingly caused concern (The Economist, 2012). Yet, the impact of the ownership and political connections of state-owned enterprises on their internationalization—and on their use of tax havens in particular—is an under-explored area.

This is a fascinating and unexplored area of research that could enable the IB community to shed light on whether state-owned firms engage in different strategies compared

to their privately-owned counterparts in terms of tax haven use (Bruton et al., 2015). Furthermore, in both the developed and developing world context, what can be said in relation to the background of board members in terms of gender, schooling (where they obtained their MBAs), or even previous employment? Is there a difference between family and non-family owned firms in regard to the use of tax havens? Does worker representation on boards have an impact? Are there principal-agent conflicts between owners and managers with respect to tax avoidance (see Desai and Dharmapala, 2009)? While some of these questions have been discussed in the accounting literature, IB approaches could be used to extend this debate by taking into account how the answers may vary across countries, firms, and contexts. Indeed, IB scholarship is notable for its reliance on a wide range of methodologies that involve both quantitative and qualitative techniques. Indeed, there is a significant lack of studies that actually speak to managers of MNEs in regard to tax avoidance. It would be fascinating for researchers to explore whether the political views of senior managers drive the extent to which their firms may or may not be aggressive in relation to taxation. Indeed, scholars who focus on human resource management may well be fascinated with this type of research and in deriving certain micro-foundational relationships.

MNE strategy

Last, future research could investigate the links between outward FDI strategies, tax haven activity, and subsequent strategy combinations. The current literature examining the behaviours of MNEs tends to group firms according to their country of origin, while neglecting the heterogeneity of these firms within each country. Ramamurti (2008) moved beyond such clustering and developed a typology of MNE 'generic internationalization strategies' derived from both country- and firm-specific advantages. Ramamurti (2008) identified five types of MNE strategies for: (1) natural resource vertical integrators; (2) local optimizers; (3) low-cost partners; (4) global consolidators; and (5) global first-movers. Building on this classification,

future research could determine whether the adoption of a particular strategy is linked with variation in terms of tax aggressiveness, notably in the mining and minerals sectors, which could generate significant tax revenue. By focussing on sectoral differences, IB research can make important theoretical contributions that tie in with Ramamurti's (2008) typology. For all three areas discussed above, we would again emphasize that the ways in which tax havens are analysed need to move beyond a yes/no dichotomy and involve, for example, the FSI or similar useful indicators for scholars in IB to utilize in future work.

Final remarks

As the world faces the major challenges of climate change and labour market dislocation via outsourcing and artificial intelligence, policy makers will be focussing not only on the size of the economic pie but also on how it is to be distributed. Although MNEs will play a prominent part in this allocation, the use of tax havens has the potential to increase inequality and lead to a backlash against globalization.

For this reason, we argue that FDI into tax havens (i.e., accountability-avoiding FDI) differs from the other four motives described in the literature. One might argue that tax haven FDI is only one manifestation of *accountability-avoiding FDI*. For example, FDI in corrupt locations (Cuervo-Cazurra, 2006, 2008; Habib and Zurawicki, 2002; Kwok & Tadesse, 2006) could also be considered to be accountability-avoiding. This could also be said to be true about FDI in areas that are experiencing conflict (Chen, 2017; Dai, Eden, & Beamish, 2013; Driffield, Jones, & Crotty, 2013; Witte et al., 2016). Furthermore, FDI made by firms that cause damage to public health or the natural environment (Cole & Elliott, 2005; Cole, Elliott, & Fredriksson, 2006; Manderson & Kneller, 2012) could also be seen to be a subset of this type of FDI. In all of these cases, MNEs take advantage of the differences in rules and regulations found across countries, and can play countries against one another for their own self-interest. In that sense, this form of FDI leads us back to the early writings of Hymer (1968)—who, in many ways, is

a dominating influence—in that the MNE is not seen in a favourable light. In Hymer's day, the natural policy response would be to use the nation state to regulate the ability of the MNE to abuse its market power. These days, in a hyper-globalized economy, national solutions are not sufficient. Instead, supranational institutions are needed to police the world economy and ensure that it works in the interests of all global citizens. Sadly, at the time of writing, we fear that the nationalistic tendencies (Buell, 2020; Inglehart and Norris, 2016) emerging across the OECD are hindering this process, and that the impact of the COVID-19 pandemic may lead to states acting unilaterally in regard to policy making.

We conclude that, based on our robust systematic review of the tax haven literature, we came up with a robust knowledge base, depicted through our strategic diagram (Figure 1), which then led us to develop our conceptual model (Figure 3). We argue that IB scholars have the inter-disciplinary skills and expertise necessary to be at the forefront in uncovering new insights and advising both managers and policy makers about the effects of tax haven activity on their organizations and economies. We hope that this paper will represent a roadmap for those managers and IB scholars who are interested in the role played by MNEs in shifting income into tax havens on a global level.

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Table 1: Financial Secrecy Index 2020

Rank	Jurisdiction	FSI value	Secrecy score	Global scale weight
1	Cayman Islands	1575.19	76	4.58%
2	United States	1486.96	63	21.37%
3	Switzerland	1402.10	74	4.12%
4	Hong Kong	1035.29	66	4.44%
5	Singapore	1022.12	65	5.17%
6	Luxembourg	849.36	55	12.36%
7	Japan	695.59	63	2.20%
8	Netherlands	682.20	67	1.11%
9	British Virgin Islands	619.14	71	0.50%
10	United Arab Emirates	605.20	78	0.21%
11	Guernsey	564.56	71	0.41%
12	United Kingdom	534.65	46	15.94%
13	Taiwan	507.57	66	0.59%
14	Germany	499.72	52	4.71%
15	Panama	479.51	72	0.22%
16	Jersey	466.81	66	0.46%
17	Thailand	448.86	73	0.15%
18	Malta	442.20	62	0.66%
19	Canada	438.38	56	1.60%
20	Qatar	433.05	77	0.09%

Source: www.financialsecrecyindex.com. The FSI ranking is calculated by multiplying the cube of the secrecy score with the cube root of the global scale weight. The final result is divided through by 100 for presentational clarity.

Table 2: Corporate Tax Haven Index 2019

Rank	Jurisdiction	CTHI Value	CTHI Share	Haven Score	Global Scale Weight
1	BVI	2769	0.0729	100	0.0212
2	Bermuda	2653	0.0698	100	0.0186
3	Cayman Islands	2534	0.0667	100	0.0162
4	Netherlands	2390	0.0629	78	0.1276
5	Switzerland	1875	0.0493	83	0.0341
6	Luxembourg	1794	0.0472	72	0.1053
7	Jersey	1541	0.0405	98	0.0042
8	Singapore	1489	0.0392	81	0.0211
9	Bahamas	1377	0.0362	100	0.0026
10	Hong Kong	1372	0.0361	73	0.0437
11	Ireland	1363	0.0358	76	0.0311
12	UAE	1244	0.0327	98	0.0022
13	United Kingdom	1067	0.0281	63	0.073
14	Mauritius	950	0.025	80	0.0065
15	Guernsey	890	0.0234	98	0.0008
16	Belgium	822	0.0216	68	0.0182
17	Isle of Man	804	0.0211	100	0.0005
18	Cyprus	698	0.0183	71	0.0073
19	China	658	0.0173	58	0.0367
20	Hungary	560	0.0147	69	0.0049

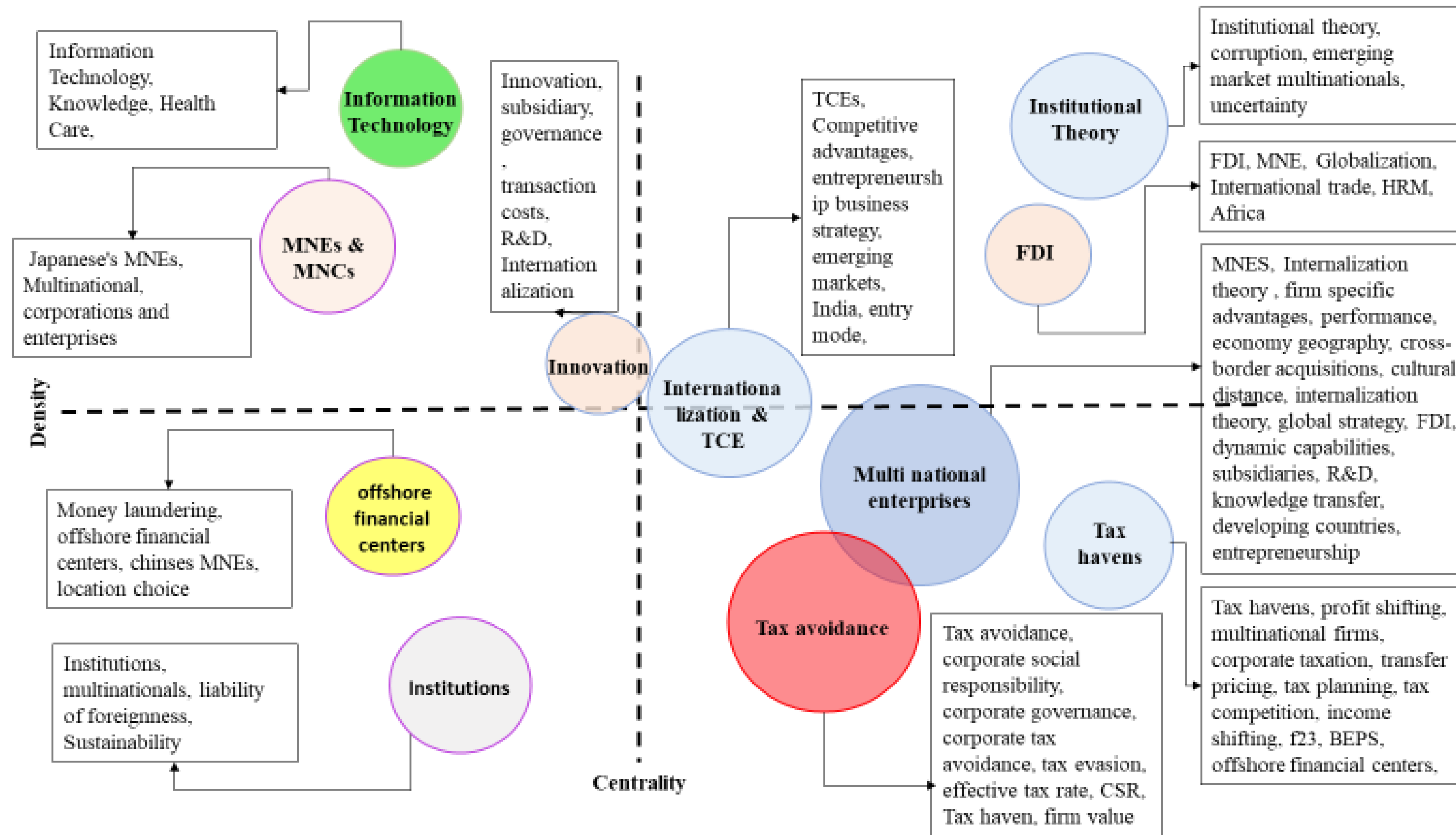
Source: https://www.corporatetaxhavenindex.org/.

Table 3: Sink and Conduit OFCs

I. Sink OFCs by sink centrality value	II. Conduit OFCs ordered by value flowing through the conduit toward sink OFCS
1. British Virgin Islands	1. The Netherlands
2. Taiwan	2. The United Kingdom
3. Jersey	3. Switzerland
4. Bermuda	4. Singapore
5. Cayman Islands	5. Ireland
6. Samoa	
7. Liechtenstein	
8. Curaçao	
9. Marshall Islands	
10. Malta	
11. Mauritius	
12. Luxembourg	
13. Nauru	
14. Cyprus	
15. Seychelles	
16. Bahamas	
17. Belize	
18. Gibraltar	
19. Anguilla	
20. Liberia	
21. St. Vincent and Grenadines	
22. Guyana	
23. Hong Kong	
24. Monaco	

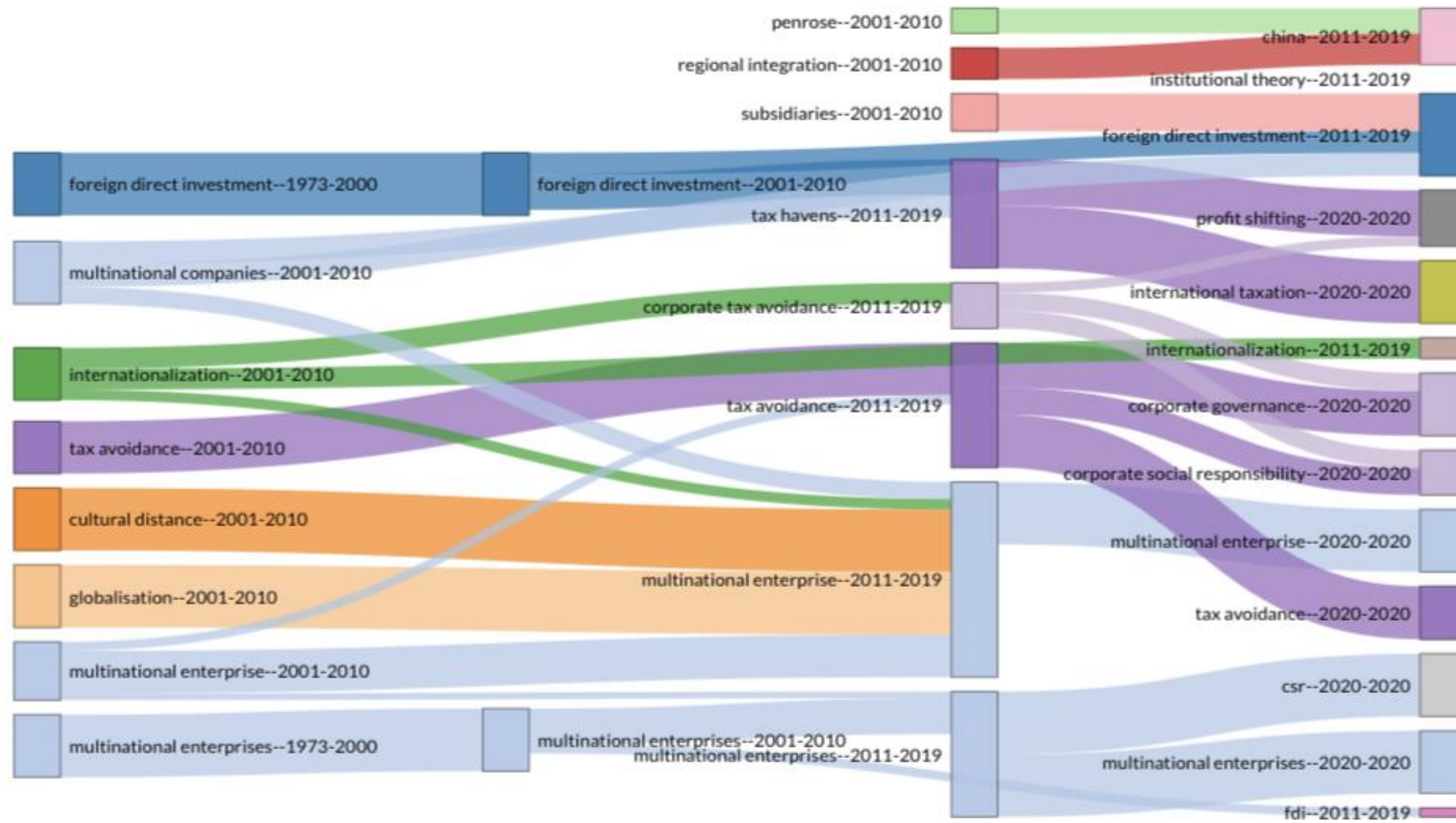
Source: Garcia-Bernando *et al.*, 2017.

Figure 1: Strategic diagram for research pertaining to tax haven



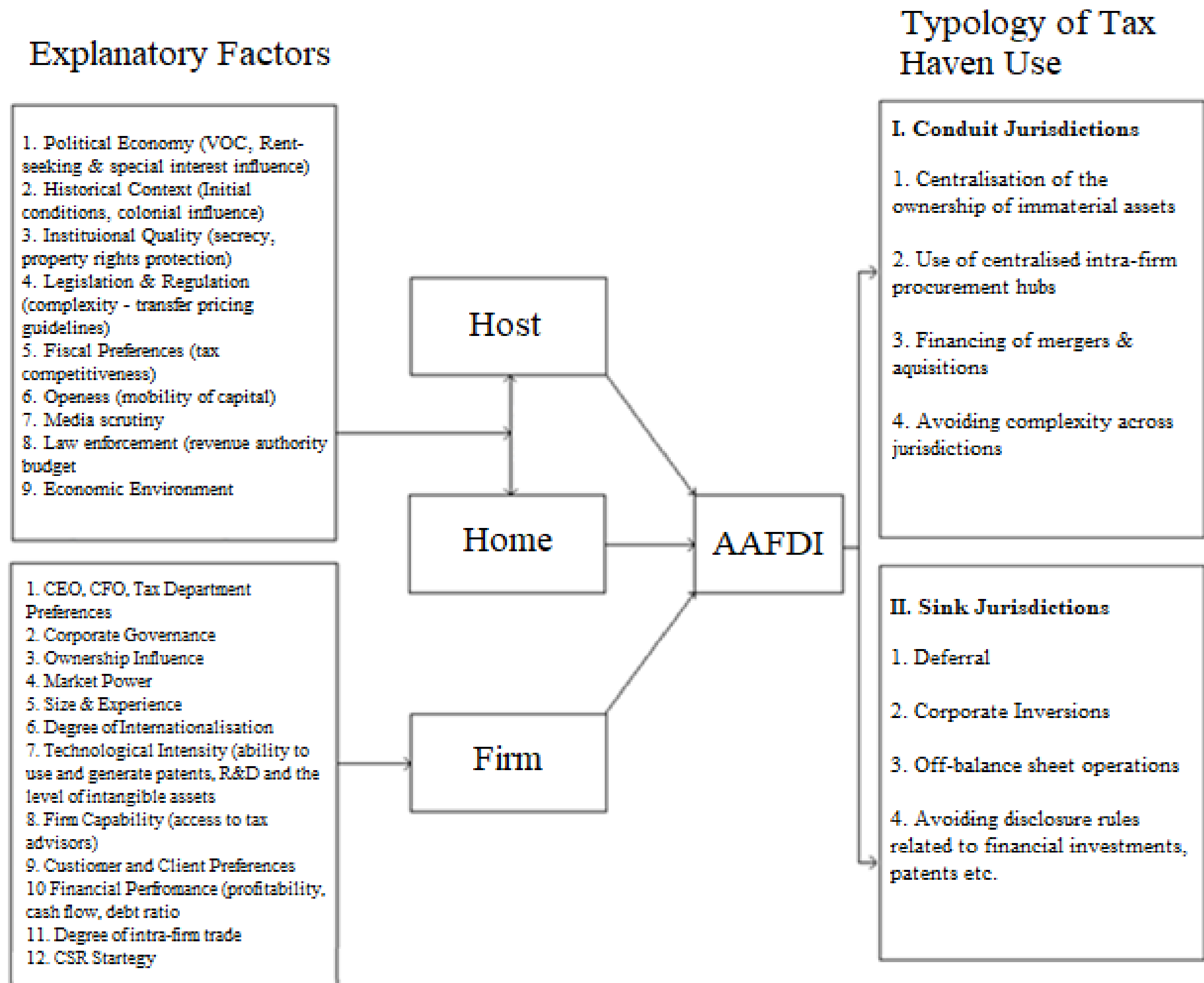
Source: Authors

Figure 2: Sankey diagram for research pertaining to tax haven



Source: Authors

Figure 3: Linking explanatory factors of tax havens with their functions



Source: Authors