

The nature of the relationship between strategic management and corporate  
taxation: The use of strategic management by the UK tax practitioner in  
corporate taxation

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## **ABSTRACT**

Tax is a critical function in any organisation. In most developed countries, it is common for an organisation to pay nearly a fifth of its annual profit to the tax authorities before distributing value to shareholders. Suppose the primary goal of the organisation is to add value for shareholders. In that case, the expectation is that it will be strategic with its tax planning to achieve and sustain a competitive advantage. To accomplish this aim, the organisation can choose from several different strategic management theories and models. This variety leads to fragmentation in academia. Similarly, research in corporate taxation also lacks integration due to the different backgrounds of scholars. This commonality between the two subjects may explain why there is limited literature on the nature of the relationship between strategic management and corporate tax strategy.

This research investigates three pertinent research questions. Is there a relationship between strategic management and corporate tax planning? Does an integrated strategic management framework show a relationship between strategic management and corporate taxation? Does the tax practitioner act strategically in corporate tax planning? A pragmatic paradigm is adopted using an interpretive research method with document analysis, questionnaire, and interview techniques.

A defined, integrated framework of strategic management is established after an extensive review of the strategic management literature. The framework consists of the design, planning and positioning schools with the resource-based view and dynamic capabilities with creative action. This framework facilitates collecting empirical data from the tax strategy documents of the one hundred largest listed organisations in the UK

(FTSE 100) and interviews and questionnaires with seventeen senior tax practitioners. Qualitative data is collected and reviewed through thematic and content analysis using NVivo software. Where appropriate, quantitative data is presented to support the qualitative evidence. An iterative approach is adopted for reviewing the tax strategy documents, helping to refine the data and improve the approach to interviews.

The findings of the research show that tax practitioners are strategic in formulating the tax strategy. Therefore, the contribution to theory is that the research demonstrates that strategic management and corporate tax are aligned by analysing tax strategy using various interconnected strategic management concepts. The research concludes that tax strategy follows the commercial strategy and is both deliberate and emergent depending on the organisation's size and nature.

The research contributes to practice by developing a strategic management tool kit for the tax practitioner to use in tax planning. The use of an integrated framework allows the tax practitioner to consider critical themes in strategic management. The paper advocates a checklist, which addresses the fundamental questions that the tax practitioner should consider for each theme. By embracing the integrated framework of strategic management and using it when formulating the organisation's tax strategy, the tax practitioner will ensure that the tax strategy is aligned with the organisation's commercial objectives.

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## Research Thesis Submission

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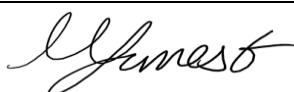
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## List of Abbreviations

ATT	Association of Tax Technicians
BEPS	Base Erosion and Profit Shifting
CEO	Chief Executive Officer
CCM	Customer Compliance Manager
CFC	Controlled Foreign Company
CFO	Chief Financial Officer
CIMA	Chartered Institute of Management Accountants
CIOT	Chartered Institute of Taxation
CPD	Continuing Professional Development
CRM	Customer Relationship Manager
DBA	Doctor of Business Administration
FA 2016	Finance Act, 2016
FMCG	Fast Moving Consumer Goods
FTSE	Financial Times Stock Exchange
HMRC	Her Majesty's Revenue and Customs
ICAEW	Institute of Chartered Accountants in England and Wales
ICAS	Institute of Chartered Accountants of Scotland
LBS	Large Business Service
L & C	Large and Complex
LSE	London Stock Exchange
MBA	Masters in Business Administration

MNE	Multinational Enterprise
OECD	Organisation for Economic Co-operation and Development
SME	Small Medium Enterprise
SWOT	Strengths, Weaknesses, Opportunities, Threats
UK	United Kingdom
VRIO	Valuable, Rare, Inimitable, Organisable
VRIN	Valuable, Rare, Inimitable, Non-substitutable

## **Chapter 1: Introduction to the Research**

In June 2013, the UK House of Commons Committee of Public Accounts published its findings on its investigation into multinationals tax avoidance. The publication focussed on Google, but Starbucks and Amazon also gave evidence. The committee concluded that these large multinationals deliberately avoided tax by creating elaborate tax structures that diverted tax revenue from the UK to countries with a lower tax rate. For example, between 2006 and 2011, Google only paid US \$16 million in corporation tax from US \$18 billion in revenue. In many cases, tax practitioners working in large accountancy firms were promoting these complex tax structures to generate fees and help facilitate tax evasion.

For many multinationals, adopting complex tax structures enables the retention of significant value. Tax avoidance is an emotive term but perfectly legal in the UK, where all taxpayers are within their rights to reduce their tax liability within the tax legislation's parameters. In contrast, tax evasion is illegal. Formulating and implementing such initiatives suggests that tax planning is a strategic manoeuvre; however, there is currently limited literature that shows an alignment between strategic management and corporate tax planning. Therefore, this doctorate focuses on examining the nature of the relationship between strategic management and corporate taxation.

Initially, Starbucks adopted an aggressive approach to reducing its corporation tax liability. However, following a series of negative publications, Kris Engskov, managing director of Starbucks UK, announced that the company would pay “a significant amount of tax during 2013 and 2014, regardless of whether the company is profitable” (BBC, 6th December 2012). This unprecedented response, by a large multinational, raises the question of whether their tax planning was strategic or rather a short-term initiative to create value. If their tax planning is

strategic, aspects will be in the strategic management literature. This rationale can be applied to most organisations in the UK and is the starting point for examining the relationship between strategic management and corporate tax planning.

This paper consists of ten chapters. Chapter 1 is the introduction, and Chapter 2 presents a relevant review of the literature, providing an extensive examination and critique of strategic management history and theories. It also identifies previous publications on the alignment with corporate taxation. Chapter 3 synthesises the literature and develops an integrated framework of strategic management, which gives context to tax strategy and defines the parameters for analysing how the tax practitioner would use strategic management. This ultimately informs the approach to gathering empirical data to assess the relationship between strategic management and tax planning.

Chapter 4 discusses the research methodology. The research aims to explore the current nature of the relationship between strategic management in corporate taxation. The research questions are:

- Research Question 1: Is there a relationship between strategic management and corporate tax planning?
- Research Question 2: Does a defined integrated framework of strategic management show a relationship between strategic management and corporate taxation?
- Research Question 3: Does the tax practitioner act strategically in corporate tax planning?

The research questions lead to four objectives for this doctorate.

1. To examine the main themes in the strategic management literature to establish an integrated framework.
2. To examine the importance of strategic management in corporate tax planning; identifying if the key themes in strategic management are used in corporate tax planning.
3. To examine the interrelationship between strategic management and corporate tax planning; are there areas in which the strategy practitioner can influence tax planning.
4. To identify what tax practitioners can learn from strategic management.

The research design explains the rationale for a pragmatic paradigm and adopting an interpretative approach with document analysis techniques, questionnaires and interviews.

Chapter 5 is the pilot study consisting of the initial research using thematic and content analysis for data from published tax strategy documents and interviews. The starting point for the interviews is a questionnaire, allowing for quantitative and qualitative data. Content analysis is used in the research techniques to analyse the alignment of strategic management with corporate taxation. The outcome of the pilot study establishes the final formal theory for the primary research of the doctorate.

Chapters 6, 7 and 8 are the results of the empirical research. The integrated framework of strategic management, defined in Chapter 3, gathers and analyses the data. Chapter 6 presents the document analysis from published tax strategies, followed by the data from the questionnaire completed by each participant interviewed. Quantitative data from the questionnaire is presented in a repertory grid, followed by qualitative data addressing each theme in the integrated framework. Chapter 7 presents the findings from the first three themes of the integrated framework of strategic management based on Mintzberg's prescriptive

schools. Chapter 8 presents the data from the final two themes of the framework, the resource based-view and dynamic capabilities with creative action.

Chapter 9 summarises the quantitative and qualitative data addressing the three research questions and reappraising the literature. The conclusion is that there is a clear relationship between strategic management and corporate taxation from the empirical data. This conclusion is based on the empirical evidence sourced using the defined integrated framework of strategic management. Therefore, the tax practitioner does act strategically in corporate tax planning; however, the terminology typically found in strategic management is not often used.

Lastly, Chapter 10 concludes by examining the implications of the findings on strategic management and taxation. The contribution to theory is through addressing the argument in strategic management between fragmentation and integration. The use of a defined framework of strategic management clearly illustrates that integration prevails in tax planning. The junction between the contribution to the theory and practice is through the role of the tax practitioner. The research adds to the limited literature on how the tax practitioner develops strategy and puts forward a strategy toolkit for tax advisers to practice. The paper concludes with recommendations for further research to address the limitations of this doctorate.



## **Chapter 2: Literature Review**

### **2.1 Introduction**

The literature review identifies the current publications on the relationship between corporate taxation and strategic management, reviewing its history and explaining the main concepts and theories that have emerged since the 1960s. Mintzberg et al. (1998) ten schools of thought describe the chronology and some of the most prominent theories and models in strategic management. The most important literature that sits outside the ten schools is also reviewed as well as publications of the connection between strategic management and corporate taxation. The review is through the lens of how each subject impacts the other, from strategic management in corporate taxation to the extent of management strategists' involvement in tax planning. What is evident throughout the literature is that there needs to be more research to understand the relationship.

### **2.2 Defining Strategic Management**

It is essential to clearly define strategic management before reviewing the relevant literature on corporate tax strategy. Kornberger and Clegg (2011) believe that to understand strategic management it is essential to learn “to speak strategy”. The confusion may be because several leading academics have put forward theories that are now well known in strategic management over the last thirty years. Although the terms strategy and strategic management are used interchangeably in the literature, they are distinct.

The term strategy originates from the Greek term *Stratēgia*, meaning 'generalship'. It is associated with the word *Stratos* meaning 'army', and *Agein*, which means to lead (Oxford University Learner's Dictionary). Throughout history, the term strategy has been synonymous with the military, the most notable example being the 512 BC Chinese General Sun Tzu and

his treatise 'The Art of War' (Griffiths, 2013). Sun Tzu is still cited in military and business strategy; Rumelt (2017) highlights the similarities between two contexts by providing several examples of good and bad strategy from war, politics, or business. Ultimately, he concludes that:

*"Good strategy is not just 'what' you are trying to do. It is also 'why' and 'how' you are trying to do it."*

Rumelt (2017, p. 85)

Applying Rumelt's rationale to this doctorate, a tax strategy is defined as what is the tax strategy, why is there a tax strategy, and how is it achieved?

Many organisations confuse strategy with simple goals, stating it is to achieve a specific profitability level, acquire a market share or develop a new product. In contrast, Montgomery (2013) highlights that strategy is the journey rather than the destination, a system that creates value for the organisation through its position and uniqueness. MacLean and MacIntosh (2015) advocate twelve components that an organisation can use to define its strategy: diagnosis, intent, timeframe, capability, opportunity, aim, tactic, method, stance, strategic group, offering and audience. Ansoff supports this approach stating:

*"A strategy is a set of decision-making rules for [the] guidance of organisational behaviour."*

(Ansoff et al. 2018, p. 18)

Strategic management is concerned with these rules and their relationships between the organisation and their environment. It allows the organisation to pursue its objectives within its capabilities and respond to internal and external environmental demands (Ansoff et al., 2018). Strategic management encompasses not just strategy but how it is formulated, implemented and by whom.

Rumelt et al. (1994) highlight that there is not a unifying paradigm in strategic management as there are so many different perspectives due to its interdisciplinary nature. They argue that strategic management consists of analysing firms behaviour, why they are different, how they can add value and determine success. Historically explained by economic theories, new schools of thought have emerged using a variety of disciplines. The neoclassical theory of the firm differentiates organisations by competition, yet more recently, academics and practitioners have also associated this with culture, power, and learning. Value is developed through multiple business units managed by a centralised corporate structure, and success is measured based on both internal and external forces.

Durand et al. (2016) point out that strategic management has always been multidisciplinary, encompassing economics, sociology, political science, and management. The subject has evolved through concepts and theories such as competitive dynamics, cooperative strategy, strategic change, strategic leadership, and strategy as practice (Durand et al., 2016). It is interesting to consider corporate tax planning in this context as it too is multidisciplinary. Lamb and Lymer (2010) highlight that tax research is fragmented. The subject is only occasionally published in leading accounting journals because the researcher needs to work outside their core discipline. In the same way that researchers need to have interdisciplinary perspectives to gain new insights into the tax field, strategic management has grown through shifts in research approaches and theoretical pluralism (Durand et al., 2016).

It is also helpful to consider how researchers and practitioners interact, either in tax or strategic management. Both subjects may be interdisciplinary, but the practitioner will need exposure to the relevant topics to consider and influence. Whether it is a tax practitioner or strategist in

industry, their view will generally be different from academics. Beech et al. (2010) state that typically, practitioners and scholars will only come together when in a classroom setting or through research interviews. This difference is crucial as it highlights the limited opportunities that tax practitioners get to learn new insights.

In analysing the relationship between the two subjects, it is necessary to look at the history of strategic management and identify relevant attributes. It is not the intention of this literature review to give a thorough analysis of every concept. However, a tour of the most pertinent literature helps to provide context. The review will identify the critical concepts and theories in strategic management and its evolution from inception. The review provides an opportunity to address the subject's fragmentation and analyse if integration is possible, examining an optimum framework for researching strategic management and corporate tax planning.

Mintzberg et al. (1998) ten schools of thought help explain strategic management's chronology and evolution. There are three distinct groups, prescriptive, descriptive and transformation. The prescriptive group consists of the formulation of conceptual design, formal planning and positioning. Together the three schools help provide a starting point for understanding strategy and its evolution. Generally, the three work because organisations work in stable environments with perfect information, advocating a top-down approach to strategy formulation. The organisation's Chief Executive Officer (CEO) and board are responsible for strategizing. (Arndt, 2011). This inflexibility led to the development of the descriptive group, composing of six schools, focussed on implementation, described as entrepreneurial, cognitive, learning, power, culture, and business environment, planning and analytical positioning. The final group is the configuration school with a focus on transformation. An analysis of each school and the alignment of critical authors is as follows.

### *The Design School*

The design school lays the foundation of strategic management. In contrast to many of the other schools, its origins are not rooted in another based discipline. Harvard University could certainly argue that many of the design school's theories and concepts came from their academics through case study teaching (Mintzberg, 1999). For example, Harvard professor Alfred Chandler (1962), who put forward the theory that structure follows strategy, was one of its main protagonists. He argued that firms need to coordinate strategic planning centrally, stating that there needs to be a separation between defining the organisation's strategy and implementing it. This idea is supported by Kenneth Andrews (1965, 1971), who was the architect of what is known today as SWOT analysis, analysing the strengths, weaknesses, opportunities, and threats of the organisation by looking at the impact from both internal and external environment.

Mintzberg (1990) states there are several different points to consider in the design school. For instance, there is strategy formulation, which is the responsibility of the CEO. Formulating strategy is simple and informal. It is unique and will emerge from the design process and should be explicit and communicated to everyone. Implementing and formulating a strategy should be sequential; implementation follows formulation.

In his paper on the design school, Mintzberg (1990) puts forward a structured critique arguing the school lacks flexibility resulting in certain aspects of strategy formulation, such as incrementalism and emergent strategy, being dismissed. Mintzberg cites Andrews (1965, 1971) work as the backbone of the school, challenging the premise that the CEO is solely responsible for defining strategy by highlighting evidence from organisations that can demonstrate

participation by several key actors. He further argues that not all strategies need to be explicit; in some cases, the organisation may be sure of its future trajectory now, only to change track later. If they communicated their aim to everyone in the organisation, it might have confused them and misdirected them.

A year after Mintzberg (1990) published his critique, Ansoff (1991) directly responded by highlighting his perceived flaws. Ansoff subscribed to some of the design school's critical components and pointed out that it was odd that Mintzberg had decided only to use Andrews work as his sole critique. Although Ansoff recognised the design school's prescriptive nature, he argued that Mintzberg was labelling all these schools as the same to add weight to his belief that most organisations should follow an emergent strategy (Ansoff, 1991). He concludes that most managers do use prescriptive strategies that are formulated in advance when working in practice.

In hindsight, the concepts of the design school only provide a limited perspective of strategic management. Although the ideas put forward by Chandler (1962, 1965) and Andrews (1971) are still widely used by strategists, they are now only part of a more comprehensive toolkit for formulating and implementing strategy. Furthermore, both Ansoff and Mintzberg's comments on the design school are valid. In some organisation's strategy will be prescriptive and be led by the CEO. In other cases, the whole organisation will be involved, and they emerge far more than being set in advance. The tax practitioner should be aware of these points and consider using the design school elements when formulating tax planning.

### *The Planning School*

In contrast to the design school, the planning school has a base discipline linked to system theory (Mintzberg, 1999). The planning school's concepts grew mainly from Ansoff's (1965) work, in parallel with the design school, as another variation of the overarching prescriptive schools. Ansoff (1965) coined the term "Corporate Strategy", prescribing five steps to its development. Firstly, the organisation needs to establish a set of objectives followed by gap analysis; this will lead to a course of action providing an opportunity to test for gaps that reduce quality once determined the organisation needs to select and implement.

Ansoff et al. (1976) put forward a strategic management map, highlighting that organisations have choices when defining their strategy based on their internal and external environment. The fact that there are choices highlights that there is more than one approach at any one time, and decisions made at a specific juncture will impact future issues. Ansoff dismissed Mintzberg's assertion that formulation is unnecessary, stating that many organisations' managers are typically unsure and formulate a strategy to ensure they do not just assume the future will be "an extrapolation of the past" (Ansoff, 1991, p. 456).

The principles of corporate strategy are very much part of modern-day strategic management. Anand (2012) highlights the difference between corporate strategy and business strategy, the former based on multiple business units whereas the latter the business unit develops an independent strategy. The corporate strategy extends to consider how to build a corporate advantage through focussing on adding value. To achieve this aim, Anand (2012) argues to focus on portfolio management, such as the composition of the successful units, and restructuring, such as improving the performance of independent units (akin to business strategy) or exploiting synergies through improving how business units work together.

Although these modern concepts have their roots in the planning school, they have evolved over the last thirty years. For example, the focus on value and economics to create a competitive advantage for the whole organisation with multiple business units borrows ideas from several theories and the last prescriptive school, defined by Mintzberg as the positioning school.

A central criticism of the planning school is that it creates bureaucracy. Wilson (1994) argues that processes can become too elaborate, slowing down decision making. For many organisations, planning led to short-term choices, neglecting culture, and managers focusing on the wrong areas. Mintzberg (1994) believes the planning school relies too much on obtaining 'hard data' for managers to make decisions. The problem is that information is too limited in scope and lacks detail on specific units in the organisation, and takes too long to obtain (Mintzberg, 1994). Mintzberg et al. (1998, p. 81) conclude that strategic planning has little to do with the strategy, being more akin to resource plans and financial budgets. Despite these criticisms of the planning school, the components are essential in formulating strategy if used with other strategic management themes as "planners have important roles to play around the black box of strategy formation, if not within it" (Mintzberg et al., 1998, p. 83).

### *Positioning School*

In the 1970s, strategic management scholars started to use organisational economics to understand organisations better, using models such as transaction costs economics and agency theory (Nham and Hong, 2011). The development of models using economics expanded in the 1980s using industrial organisational economics as one of the most fundamental strategic management shifts. Rather than focus on performance, academics started to look at industry and competition using mathematical analysis to understand how an organisation could achieve a competitive advantage.



Montgomery (2013) argues that competitive advantage and the term purpose are connected; however, the organisation's goal should be more than merely striving to beat the competition. Montgomery (2013) states that strategy is about doing something unique for a set of stakeholders which serves a specific demand. Only once an organisation has found its purpose can it look to achieve a competitive advantage.

Harvard professor Michael Porter was instrumental in bringing new economic concepts into the field of strategic management and highlighting the importance of competitive advantage (Pettigrew et al., 2002). Porter (1985) argued that competitive advantage grows fundamentally from the value a firm can create, where value is what buyers are willing to pay for a product or service. Porter wrote two of the most influential books of the positioning school and indeed in the field of strategic management. In 1980 he published 'Competitive Strategy: Techniques for Analysing Industries and Competitors' and in 1985 'Competitive Advantage: Creating and Sustaining Competitive Performance'.

In 'Competitive Strategy' (1980), Porter looks at the structural components of competition intensity in an industry, arguing that the five forces jointly determine competition and profitability. Organisations seeking to maximise profit in an industry are constrained by its competitors and five interrelated forces. The first is the threat of entry consisting of economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels and cost disadvantages independent of scale. The second is the ease of substitution in the market, such as how easy it is for competitors to enter the market. Third, rivalry among competitors is summarised as the industry's growth and the number of competitors, lack of differentiation or switching costs, exit and entry barriers. Fourth, the bargaining power of

buyers defines price and quality. Lastly, suppliers' bargaining power can reduce profitability as organisations cannot recover costs increase through their own prices. By focusing on these areas, organisations should compete more effectively to find a competitive advantage.

Once an organisation has accessed and determined the market forces, Porter (1980) argues that it should also consider three generic strategies of cost leadership, differentiation, and focus. These are useful in the strategic positioning of the businesses. Choosing any one of these three strategies will help an organisation deal with competitive forces. However, the organisation needs to consider its position as it does not want to be stuck in the middle. For example, differentiation and cost leadership are contradictory. One seeks to offer something unique that the customer will pay a premium for, and the other aims for standardisation and process simplification.

By the 1990s, Porter (1996) recognised that the theory of positioning was going out of favour. He argued that organisations need to be careful about using different strategic tools and techniques, as many can lead to being pushed away from viable competitive positions (Porter, 1996). Stating that positioning is still at the heart of strategy, Porter argued that the origins of strategic positions emerge from three distinct sources. The first is variety-based positions dependent on choices or service. The second is need-based positioning with a focus on servicing the needs of a particular group of customers. The third is access-based positioning, segmenting customers who are accessible in different ways (Porter, 1996). In its purest form, the generic strategies model can be used to characterise these strategic positions.

In 'Competitive Advantage' (1985), Porter again looks at generic strategies both from a macro and micro level and introduces a new academic model that an organisation can use to deliver

value. The value chain model is simply a more sophisticated approach to the "strategy wheel", a generally accepted model that organisations can use to define their purpose and unique set of activities (Montgomery, 2013). It helps the organisation analyse its primary and secondary activities to ensure that it gains some value as each product passes through the activity. Primary activities are inbound logistics, operations, outbound logistics, marketing, sales, and service, whereas secondary activities are support activities such as firm infrastructure, human resources, technology, and procurement. This model has become prevalent in strategic management for exploring opportunities for improvement in their business processes.

Although Porter's work is now considered part of the bedrock of the literature of strategic management, some see perceived flaws in the models, which highlight more general weaknesses in the logic of the positioning school. For example, Evans (2013) argues that one of the five forces main issues is that it does not consider the corporate environment, such as the government, regulatory framework, and pressure groups. He argues that Nalebuff and Brandenburger's (1996) theory on complements could constitute the sixth force added to the five forces model. It adopts a complementary, collaborative, and cooperative approach to help an organisation achieve a competitive advantage.

In their book, 'Co-opetition' (1996), Nalebuff and Brandenburger use game theory to understand the business strategy better. They put forward the value net model, an extension of Porter's five forces, as it reviews buyers and customers positions and looks at competitors and complementors. For all four areas, the organisation can cooperate to deliver value. Value can also be created by offering complementary products or services that could create value for both parties. Co-opetition is, therefore, where an organisation displays simultaneous collaboration and competition.

Nalebuff and Brandenburger (1996) argue that if an organisation's actions affect another's profits, there may be an opportunity to create value by cooperating. They argue that success in business strategy comes from playing the game differently; to transform an existing game into a new one, the organisation needs to change one or more of its PARTS (players, added values, rules, tactics and scope). In the case of competitors, the organisation can choose to fight over market share or collaborate to increase both parties market share. Collaboration can take many different forms; an example in corporate tax would be for several organisations working together to lobby a government on a specific adverse change in legislation.

In response, Porter recognises that firms could complement each other. However, he believed that it should not be a separate force because it is part of the definition of suppliers' bargaining power (Evans, 2013). Nalebuff and Brandenburger (1996) show that complements, collaboration and cooperation are separate choices, which the strategist can make, to achieve a competitive advantage. Correspondingly, rather than being part of a broader six forces, they should be included as additional features of an integrated framework.

The positioning school is undoubtedly an area that the tax practitioner and the management strategist need to consider. For example, tax principles such as transfer pricing, BEPS and tax in the digital economy are key themes that have evolved over the last decade and, in some industries, have significantly curtailed organisations profits. These themes are relevant in the context of strategic management and tax.

### *Entrepreneurial School*

Mintzberg's descriptive schools focus on how strategies work in practice, generally valuing all employees' contribution and emphasising content rather than formulation. Elfring and Volberda (2001) state that in contrast to Mintzberg's other schools of thought, the entrepreneurial school's roots cannot be traced back to one specific discipline. However, economist Schumpeter's work (1934) is also seen in this theory.

The entrepreneurial school sits between the prescriptive and descriptive school; it believes that the CEO is key to the strategic formulation. However, in contrast to the design and planning school, it focuses on intuition (Mintzberg, 1999). Its premise is that the environment is not stable, and therefore entrepreneurs can bring new ideas to the market which will go against the status quo. The entrepreneurial school is different from Porter's (1980, 1985) generic strategies stating that an organisation can follow more than one strategy simultaneously without being stuck in the middle. This argument is helpful to understand the rationale for an integrated framework of strategic management.

### *Cognitive School*

The cognitive school is about thinking, looking at the mental ability of the strategist. It argues that managers create mental mind maps to process, organise and store. These mind maps are part of strategy formulation (Elfring and Volberda, 2001) as managers create these maps to interpret events and turn it into a strategy. Its roots are in psychology, focusing on mental action by acquiring knowledge through thought, experience, and sense (Mintzberg et al., 1998). The cognitive school develops strategies through learning by experience and reacting to new events.

More recently, strategic cognition has become famous for empirical research in strategic management (Narayanan, 2011). Cognitive structures include a top management perspective on the environment and how they address strategic issues. Generally, the focus will be on the CEO and their approach to formulation and implementation; in this regard, there are similarities with the design and planning school; however, the cognitive and learning school together are a fundamental challenge to the prescriptive schools.

### *Learning School*

The learning school is perhaps the most influential of the descriptive schools. It originated in the 1950s through analysing government strategy (Lindholm, 1959). Quinn (1980) examined the change in an organisation and postulated emergent strategy. Burgelman (1983) looked at the processes involved by senior management and executives in making strategic decisions and concluded that this is achieved through multiple activities over time. However, the learning school only came to prominence in the 1990s through Senge (1992) and Garvin (1993). The central premise that organisations develop through learning by problem-solving, experience, experimenting and sharing knowledge internally.

Senge (1992) advocated that the organisation needs five disciplines for strategic learning. The first is defined as personal mastery, where employees focus on their development. The second is mental models, allowing individuals to improve their performance and review their actions and decisions. Third, shared vision advocates commitment through teams; fourth, team learning develops organisational knowledge through collectivism. Lastly and most importantly, system thinking, which allows managers to consider how to change systems effectively. Garvin (1993) builds on these disciplines by arguing that management must work

to its definition to establish transparent practices and tools for measurement for an organisation to embrace learning.

The theory that became synonymous with this research is Mintzberg's emergent strategy, relying on adaptability, experimentation, and ambiguity as approaches for defining strategy. In direct contrast to the planning school, Mintzberg points out that very few organisations implement their intended strategies (Mintzberg, 1990). In some circumstances, the strategists may be sure of the direction of travel to change their approach as the environment changes. Organisational learning results in the organisation discovering and addressing errors and creating new problem-solving skills by improving the knowledge base.

Mintzberg and Waters (1985) argue that there is a spectrum of different strategies. On one side are realised as intended, and on the other realised despite any intentions. Their description of strategy as eight different types was the precursor to the ten schools articulated by Mintzberg (1999). Summary descriptions of planned, entrepreneurial, ideological, umbrella, process, unconnected, consensus and imposed, highlight the interdependencies of different strategies and support the premise that organisations will adapt as they learn.

As an example of emergent strategy, Mintzberg (1979) argued that strategy emerges from organisational behaviour defined by the five P's of strategy, plan, ploy, pattern, position and perspective. These five areas help define a strategy based on the context. For example, a plan is simply a course of action. A ploy would be how the organisation can manoeuvre to compete. A pattern occurs in a stream of actions; however, the actions need to be coherent; otherwise, there is no pattern. The position is from the positioning school of where to base the organisation in the internal and external environment; lastly, perspective is how the CEO and senior

managers see the world in which they compete. All five points are applicable depending on the context, suggesting that an organisation can and should follow more than one type of strategy.

Quaye et al. (2015) acknowledge the inherent weaknesses in the learning school. In an organisation's quest to learn, it may not spend enough time reviewing its failures. Indeed, some question if learning is a strategy at all but rather merely a reactive process to change (Pelling, 2004). Nevertheless, the benefits should not be understated as many of its features are applicable in various contexts. This variety supports the use of an integrated model of strategic choices that the practitioner can use at different times to compete in the market.

### *Power School*

The origins of the power school are from political science. Elfring and Volberda (2001) refer to it as the political school of thought based on power and coalitions. Mintzberg (1999) highlights that this school has two orientations. The first is micro power, where strategies that develop within the organisation are political. The second is macro power, where an organisation uses its power over its competitors in the market. The power school addresses the differences between these two types of strategy, such as negotiating between the individual and collective power throughout the organisation. More recently, the concept of power has taken on new dimensions. For example, Pfeffer (2010) argues that any new strategy will have its supporters and opponents; power imbalances offer the best explanation of what cuts through implementation. The challenge for the CEO and senior management team is achieving this within the company culture.



### *Cultural School*

In the cultural school, developing a strategy that the whole organisation embraces is critical. The school strives to develop a strategy by establishing social norms which create efficiencies. There are many theories on the culture of the organisation that are part of strategic management. Goffee and Jones (1996) argue that culture has two dimensions with four isolated cultures, whereas Johnson (1998) advocates a cultural web with many variables, such as symbols, power, rituals, and routines. Schein (1985) puts forward three levels, defined as artefact's, values, and assumptions.

The school believes formulation and implementation are by everyone in the organisation rather than just senior management. To ensure this is successful, shared values and insights are crucial in undertaking a successful strategy (Elfring and Volberda, 2001). Any change process within an organisation should involve considering the impact on culture. However, like power, culture is difficult to define and measure as both are abstract, resulting in strategies that may not always be clear.

### *Environmental*

The environmental school looks at how dependent organisations are on market conditions. The environment is all things external to the organisation. It is similar to the positioning school's five forces as they focus on how external forces affect strategy. However, in contrast to Porter's model, the environmental school argues that there are no choices but merely an acceptance that the environment will shape the strategy. Elfring and Volberda (2001) support this statement as they that if the favourable conditions that gave rise to the success of the organisation change, it may be disastrous for the organisation with little that management can do about it

## Configuration School

Quaye et al. (2015, p. 138) state that the nine schools range from the internal processes of rational to natural and controllable through to the unpredictable. The below figure illustrates the correlation between certainty and internal processes.

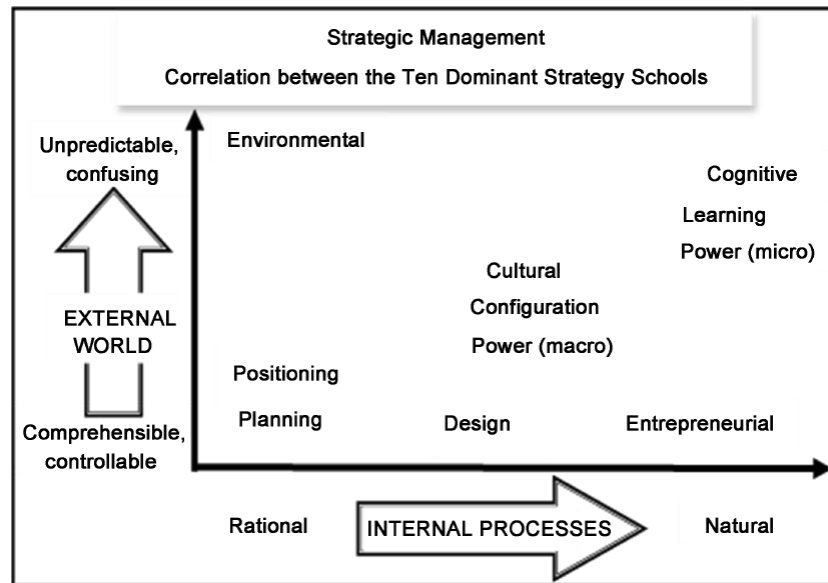


Figure 1: Correlation between the ten strategic schools of thought

(Quaye et al., 2015, p. 138)

Mintzberg et al. (1998) describe the configuration school as encompassing the other nine schools of thought. The school assumes that the organisation adopts a particular strategy based on the configuration for a specific period. The periods will change by some form of transformation, which makes the organisation jump to another configuration. Over time the organisation may start to recognise the different configurations as a pattern develops. Therefore, Mintzberg et al. (1998) argue that organisations should strive for stability for as long as possible. Accordingly, strategic management is any one of the nine schools, but the organisation must know when to use the correct one.

### *Alternatives to the Ten Schools of Thought*

Mintzberg's et al. (1998) thesis that concepts and theories fit neatly into different boxes help explain strategic management's foundations. Ultimately, they concluded that mapping the schools to three different scenarios is the best way to understand how and when to use them. For example, the schools can be used separately, in sequence, or as an integrated approach. On reflection, they argued that “together all three help us understand the whole beast [of strategy]” (Mintzberg's et al., 1998, p. 383). However, constricting the analyses to the ten schools of thought will not serve as a comprehensive tool for analysing how the strategy works in practice.

Organisations will strive to achieve a competitive advantage through other concepts to Mintzberg et al. (1998). Definitions vary depending on the strategic model. As highlighted in the positioning school, Porter's (1985) notion of competitive advantage allows an organisation to perform better than its competitors. It is initially done by surveying the market through the five forces and then choosing a generic strategy. More recently, Ghemawat and Rivkin (2006, p. 3) went further by stating that competitive advantage is when the organisation has created a way to generate superior profits in an industry by driving "a wide wedge between the willingness to pay it generates among buyers and the costs it incurs".

To achieve a competitive advantage, an organisation must consider how it provides value. The higher its added value, the greater the potential for profits. An organisation will only be able to add value by ensuring that it is unique. This can take several different forms and may focus on either the external or internal environment or both. Therefore, for a more comprehensive view of achieving and sustaining a competitive advantage, the strategist must consider other theories in addition to Mintzberg et al. (1998) ten schools of thought. For example, the resource-based view, chaos theory, dynamic capabilities, creative action, open strategy and the entrepreneurial

formula have emerged over the last twenty years and provide a more integrative strategic management approach. In considering these theories in the context of tax, it is helpful to acknowledge Whittington's (1996) theory that strategy is a social practice based on practical competence rather than just formulation and implementation.

### *Resource-Based View*

The origins of the resource-based view are in Penrose (1959) paper on 'The theory of the growth of the firm'. However, it only started to gain momentum in the 1980s with the work of Rumelt (1984), Teece et al. (1984) and Wernerfelt (1984), with the emphasis on the organisation's capabilities and assets. Wernerfelt's (1984) paper is now often cited in strategic management literature with the Strategic Management Journal, voting it one of the most influential papers before 1990 (Priem and Butler, 2001). However, it had little impact at the time of publication. The resource-based view only became popular after Barney (1991) published his paper 'A firm resources and sustained competitive advantage'.

Wernerfelt (1984) argued that products and resources are interconnected, as each requires the other to survive. Those with the necessary internal resources will have a first-mover advantage in the market, creating barriers for other organisations to compete. If competitors wish to catch up, the most natural solution is to buy the resources rather than imitate them. This approach comes at a cost and pushes out smaller organisations.

Barney (1986) introduced the theory of strategic factor markets to analyse how much resources are needed to implement a strategy. For example, suppose the strategic factor markets are perfect. In that case, the cost of acquiring strategic resources will be the same as the economic value of the resources used to implement the strategy. In defining a product strategy, Barney

(1986) concluded that organisations must know the strategy's future value when acquiring the necessary resources. The organisation needs to exploit its internal resources when implementing a new strategy to make above-normal returns.

Barney (1991) built on the theory of strategic forces by stating that the firm could use its unique resources to gain a competitive advantage where resources are either physical, human, or capital. A concept relevant to tax planning as human and capital resources will inevitably intersect with the tax function (Glaister and Frecknall-Hughes, 2008). Barney (1991) argued that the resource-based view should analyse an organisation's internal strengths and weaknesses rather than its external positioning. Thus, to achieve an advantage against competitors, the organisation's resources need to be collectively valuable, rare, inimitable, and non-substitutable. This original framework was called VRIN and later replaced by VRIO with inimitability and substitutes being amalgamated and a final condition that the firm needs to be able to be well organised to capture the value of its resources (Barney, 1995). These key points subsequently led to developing the framework 'VRIO', which helps consider how resources will impact strategy.

Like Porter's theories, achieving a competitive advantage is central to Barney's (1991) VRIO model. Barney (1991) argues that if an organisation's resources meet the definition of VRIO, it will lead to a competitive advantage; however, Priem and Butler (2001) state that this is difficult to prove empirically. For the model to be better synthetically, they argue it must address four fundamental areas, formalisation, obtaining resources, the temporal component and environmental demand.

Priem and Butler (2001) argue that making the resource-based view more formalised should address the implicit assumptions about product markets and value. VRIO is overly inclusive, making it challenging to provide a prescriptive approach to strategy. They state that in addressing the question of obtaining resources and how an organisation can achieve a competitive advantage, the model would step away from merely explanatory and descriptive to be more meaningful to practitioners on developing the strategy

The temporal component considers the organisation's history and how it has built up its resources and achieved a competitive advantage either because its competitors have not yet imitated them or given up (Priem and Butler, 2001). Finally, they argue that the resource-based view needs to be integrated with the environmental demand model, examining the assumption that there are limited homogeneity and mobility of resources.

Despite these criticisms, Priem and Butler (2001) conclude that a synthesised model will help define competitive advantage. Therefore, the resource-based view's main features are still beneficial for considering resources in the context of an integrated strategy. Applying VRIO is an integrated framework of other strategic management concepts shows why resources lead to a competitive advantage.

#### *Dynamic Capabilities with Creative Action*

The resource-based view allows management to develop new capabilities (Teece et al., 1997). If an organisation can develop and exploit a combination of competencies and resources, both internally and externally, it will achieve a competitive advantage in the market. Dynamic capabilities are when organisations demonstrate the ability to "integrate, build and reconfigure internal and external competencies to address rapidly changing environments" (Teece et al.

1997, p. 516). The organisation has dynamic capabilities to sense a change in the environment and react to new opportunities and threats.

Dynamic capabilities change the organisation's resource base, which involves sensing the need for change and learning how to respond (Helfat et al., 2007). Arend and Bromiley (2009) highlight that this requires significant managerial involvement to alter its operational capabilities fundamentally. The ability to change is at the heart of dynamic capabilities; rather than putting all the emphasis on the CEO or senior management team to formulate and implement strategy, Teece et al. (1997) argue that achieving a competitive advantage lies with the processes, positions, and paths within the organisation. The processes are the routines and practices and how people learn. The positions are how the organisation uses its assets to complement one another, for example, using technology, research, and its customers to improve efficiency. Lastly, the paths explain the strategic alternatives available to the organisation.

The roots of dynamic capabilities are in many of Mintzberg et al. (1998) descriptive schools (Arndt, 2011). The entrepreneurial school advocates perceiving new opportunities through breaking old habits and routines. The learning school helps understand the organisation's dynamic capabilities as learning concepts explain how an organisation achieves incremental improvements. The characteristics of the power school highlight that strategy is a decision-making process leading to dynamic capabilities. The environmental school addresses inertia, which the organisation can overcome by focusing on processes, routines and paths.

As a direct reference to Barney's (1991) VRIO framework, Teece et al. (1997) state that competence and capabilities can only provide a competitive advantage if based on routines and

skills that are difficult to imitate. In their view, imitation comes from replication; internally, organisations strive to replicate competencies and acceptable practices in different environments, which will create value if successful. However, it is generally challenging to replicate these competencies in different contexts, so many organisations cannot repeat the success they enjoyed in their current markets in a new setting. Teece et al. (1997) argue that imitation is simply replication by a competitor. However, evidence suggests that if an organisation cannot imitate a different environment, it will be even more difficult for another firm to replicate.

Dynamic capabilities are aligned with the resource-based view and highlight specific processes such as strategic decision making (Eisenhardt and Martin, 2000). Routines and processes change the resource base, thus creating new value for the organisation. Winter (2003) argues that the definition of capabilities can be confusing, suggesting routines are learned and will change the products and processes for how the organisation makes value. Importantly though, Eisenhardt and Martin (2000) and Winter (2003) agree with Teece et al. (1997) that dynamic capabilities can lead to a competitive advantage.

There are four fundamental problems with dynamic capabilities. Arend and Bromiley (2009) argue that it is unclear how it adds value to other concepts; for example, first-mover advantage and change management cover similar principles. Secondly, they question its theoretical foundation; if the ability to change is at its core, organisations will not display dynamic capabilities if it cannot change. However, Arend and Bromiley (2009) state that an organisation's lack of change should not rule out its dynamic capabilities. Thirdly it has weak empirical support; for example, there is no evidence of a relationship between the organisation's characteristics and successful change. Lastly, they believe the practical



implications of dynamic capabilities are unclear, with many scholars simply ascribing any evidence of change in the organisation to this concept.

MacLean et al. (2015) argue that for a more comprehensive analysis, dynamic capabilities should include novelty in action, as the current model mainly focuses on rational or normative notions of action. In this context, rational refers to economic rationality, for example, how an actor's actions result in utility. Normative views of action focus on social, cultural, and cognitive structures, resulting in a set of norms by a collective group (MacLean et al., 2015). MacLean and MacIntosh (2012) state that a rational view is prevalent in strategy as it results in adopting the most appropriate approach for the current context based on prior intentions. The resource-based view and dynamic capabilities are both prominent theories that fit under the rational banner. The normative approach, linked to the cognitive and cultural schools, helps explain how collective norms drive strategy. Evidence suggests that the resource-based view is normative as it is rational due to its reliance on competencies (MacLean and MacIntosh, 2012).

Hans Joas (1996) coined the term creative action in response to the rational or normative approach. Joas (1996) argued that human action's central element was creativity, and that intentional behaviour is an emergent part of the action. A strategist's emotion and awareness are fundamental to new actions that become intentional, as is their identity, experience, and network. It is possible to incorporate creative action into dynamic capabilities based on the three components of emerging intentions, embodied expressions, and interactive identity formation (MacLean et al., 2015).

Emerging intentions states that intentions emerge from actions, a variation of the learning school and Mintzberg's emerging strategy. The embodied expressions will influence the emerging intention, suggesting an organisation's management previous experience will shape how they react to the development of implementing a current strategy. Lastly, interactive identity formation constructs a strategist's identity by interacting with others and socialising with others. This interaction determines how they react to decisions and events both in the internal and external environment.

Following MacLean et al. (2015) premise, dynamic capabilities should consider creative action within an integrated framework. The theory already complements both the learning school and the resource-based view. The components of emerging intentions, embodied expressions, and interactive identity results in a new dimension to the research design. MacLean et al. (2015) argue that strategists' behaviour, based on their experiences and organisational structures, will affect their decision-making and formulate and implement the strategy.

### *Open Strategy and Strategy as Practice*

There is a close link between strategic processes, practices, and dynamic capabilities (Burgelman et al., 2017). The characteristics of dynamic capabilities of sensing, seizing, and managing threats is a strategic process. These are found in the organisation's procedures and routines, ultimately identified by the underlying culture. Therefore, the strategy can be seen as a social practice dependent upon how strategic practitioners act and interact (Whittington, 1996).

Strategy-as-practice is concerned with how managers do strategy, for example, introducing innovation into the organisation and identifying opportunities and threats. Whittington (2004)

states that strategy should be seen from a sociological perspective. It is a social activity in which practices are central to how a strategist's work is accomplished just in the same way that practices are essential to everyone in every aspect of society. In understanding this perspective, researchers can better understand how strategy skills are obtained and used in the organisation. The use of technology in strategy, such as computer software, helps define how a practitioner transitions from a manager to a strategist.

Carter and Whittle (2018, 2020) highlight the micro and macro-sociological perspectives on the role of strategy in organisations and the importance of strategy-as-practice in strategic management. Although a relatively new concept, it is now an influential body of strategic thought. It is linked to many other social sciences and embraced by mainstream management academics. Carter and Whittle (2020) argue that strategy-as-practice should encompass politics and power. Citing contemporary philosophers (Anthony Giddens, Pierre Bourdieu, Margaret Archer, Karl Polanyi and Niklas Luhmann), they conclude that power, politics, structure and communication are critical components in strategy-as-practice. However, this broad church is considered a limitation as sometimes it incorporates competing academic views. Importantly, Carter and Whittle (2018, p. 6) argue that although the focus is on researching practice, "it rarely engages with practitioners, it is not clear on the practical implications it has for strategists".

Strategy-as-practice is part of a more comprehensive concept known as open strategy, which is more transparent than traditional strategic management models. It involves everyone in the organisation rather than centred on top and middle managers. The exchange of ideas is promoted by open innovation, focusing on sharing knowledge, transparency, and inclusion at all levels, both internal and external, leading to a greater understanding of its strategic goals

(Hautz et al., 2016). Whittington et al. (2011, p. 539) highlight that open strategy requires transparency to ensure that the “interdependent ecosystems” of complementary services and products are maintained.

The concept of innovation is associated with dynamic capabilities by improving its routines and practices by ensuring the resource base continues to learn and develop. Drucker (1985) aligns process with sources of innovation in an organisation. For example, by focussing on a weak link in a process, the organisation creates an opportunity to innovate by improving. Similarly, knowledge-based innovation is developed through refining existing processes which requires different types of know-how. This is at the heart of open strategy as it is multifaceted and highly dynamic. However, innovation has now evolved to include new open practices such as blogging, online forums, workshops, community platforms, and new technology, all of which positively affect the organisation (Hautz et al., 2016).

Four forces promote open strategy. Whittington et al. (2011) state that organisational forces highlight the need for greater inclusion and transparency. Societal forces are defined as external regulation from the government and internally from the expectation that every manager in the organisation should contribute to the strategy. Cultural forces led to the proliferation of the concept of strategy with access to strategic tools and education, such as an MBA degree. Technology has also played a crucial role by advancing software such as Microsoft Office 365 with its applications such as PowerPoint and MS Excel and the possibility to strategically collaborate better by sharing documents using applications such as Google Docs and SharePoint. Together these forces help explain the rise in strategy as a profession in the western world.

### *Complexity Theory*

Complexity theory is a relatively new area of interest in strategic management. It falls under several different labels such as chaos theory, complex adaptive systems and complexity thinking (Macintosh et al., 2006). Generally, the theory strives to address the behaviour of organisations under uncertainty (Levy, 1994). Its most scientific form is the study of nonlinear dynamic systems subject to the forces of stability and instability, which ultimately pushes them towards chaos (Thiéart & Forgues, 1995). It has been part of the natural sciences for some time; however, it is a relatively new phenomenon in the social sciences, particularly in strategic management. Like the positioning school, its origins are in economics. However, there is also influence from physics and using elements of the cognitive and learning schools.

Complexity theory is relevant as it complements dynamic capabilities and Mintzberg's learning, culture, power, and entrepreneurial schools as they all potentially lead to a competitive advantage at micro level. Indeed Arndt (2011, p. 6) argues that complexity theory is "dedicated to the study of micro-level relationships", which provides a more comprehensive understanding of dynamic capabilities. Quaye et al. (2015) support this point, stating that complexity theory is aligned with the learning school. It encourages people at different levels in the organisation to be part of formulating strategy. By identifying patterns that lead to types of human behaviour, the organisation can address specific problems. For example, if the organisation allows its people some form of autonomy, they will react better to unpredictable situations. In this context, complexity theory is therefore also closely associated with the cultural school.

As complexity theory focuses at the organisation's micro-level, it casts doubt on the positioning school due to its economic models. For example, long term forecasting is almost impossible

under complexity theory, as such flexibility and change are vital components for any organisation to compete and survive. However, Mintzberg and Waters (1985, p. 271) are explicit that emergent strategy does not mean chaos but rather "unintended order". Organisations have an awareness of the impact of volatility, and they can take steps to mitigate these costs by changing strategy or not implementing it. Beinhocker (1997) refers to this as being at the edge of chaos, describing it as:

*"having strategies that are both focussed and robust; seeking competitive advantage by adapting continuously; operating conservatively and innovating radically; maintaining diversity while establishing standards and routines and optimising both scale and flexibility."*

(Beinhocker, 1997, p. 38)

Complexity theory, therefore, helps to build a bridge between several different theories in strategic management. If organisations need to plan uncertainty using dynamic capabilities and the learning school, it suggests an integrated framework is appropriate for formulating and implementing strategy.

#### *Entrepreneurial Formula and Integration*

The entrepreneurial formula is based on five interconnecting choices (Coda, 2012). The first choice is that the organisation chooses the markets to target and, therefore, the system in which it competes. The second choice is the products and services offered, such as the materials used and how they are delivered at a specific price. The third choice is the impact the organisation wishes to make on economic and social forces. Fourth is defining the system of stakeholders, with their expectations of the organisation. Lastly, the fifth choice is the structure the organisation will adopt to implement its plan. Combining all five preferences into one coherent formula allows the organisation to concentrate on two specific groups: the competitive

environment and the system of social, political, and economic forces based on resource allocation.

Zollo et al. (2017) argue that the entrepreneurial formula is only a few examples of an integrated conceptual framework to strategy. However, they believe there are limitations to the formula. For example, Coda (2012) does not fully explain how the choices are integrated or how decisions impact performance and exclude specific growth strategies. Zollo et al. (2017) address these points by advocating a theory of integrative mechanisms across several strategic choices, which allow an organisation to consider many different areas at one time. For example, pursuing a bundle of strategic choices such as differentiation, organic growth, and stakeholder integration would have a higher probability of success as each complements the other. Also, this leads the organisation to consider its capabilities and culture. In establishing an overall strategy, a business considers five strategic management choices (for example., stakeholders, differentiation, organic growth, resources through capabilities and culture).

The entrepreneurial formula incorporates Porter (1980, 1985) and Barney (1991) to argue that it is best to adopt extremes to establish what integrative mechanisms work. For example, Porter's (1980) generic strategies of differentiation and cost leadership are two extremes not adopted simultaneously yet can be integrated with stakeholder integration and organic growth, respectively. Zollo et al. (2017) analyse resources, organisational culture, and feedback effects. For example, separating resources into dynamic capabilities, learning capabilities, and relational capabilities, they conclude that dynamic capabilities are most effective with stakeholder integration, organic growth, and differentiation through sensing and tailoring solutions for stakeholders. In contrast, cost leadership and acquisitive strategies use the capabilities of a product or process simplification.

The entrepreneurial formula integrated approach to strategic management is helpful to investigate the relationship with taxation. Zollo et al. (2017) concluded that bundles of strategic features are the optimal model for deciding on a strategy. For example, cost leadership, arm's length stakeholder strategy and acquisitive growth are complementary choices that enhance value. Correspondingly, it is possible to add tax features to the bundle to examine how strategic management can affect corporate taxation planning.

There are only a few frameworks like the entrepreneurial formula that advocate a set of integrative strategic choices. Nham and Hoang (2016) believe the optimum integrated framework includes the resource-based view, operational economics and industrial organisation. Their conclusion is not surprising as Porter uses operational and economic models in his analysis, and Barney (1991) argues that the resource-based view complements Porter's work. However, their theory is based on reviewing the literature and, as they acknowledge, would need to be tested empirically.

Capalonga et al. (2014) developed an integrated framework to analyse organisational strategy in Brazil. The theories they used are the resource-based view, positioning school, the strategic mission and strategic typology. The strategic mission has its roots in the planning school and focuses on how business units depend on one another to grow and develop the overall organisational strategy. Miles and Snow (1978) highlighted strategic typology with three forms. The first is the defender (concerned with stability), the second is the prospector (developing means to exploit new products and markets), and the third is the analyst (generally blending the first two approaches to maximising profit and mitigating risk). Capalonga et al. (2014) found that using an integrated framework to analyse performance showed that



organisations were indeed using more than one strategic model at one time. The more they used the strategic choices aligned with the framework, the better their performance.

Durand et al. (2017) set out to integrate relevant strategic management theories by reviewing various research topics that offered synthesis. Acknowledging fragmentation, they concluded that integration is possible if empirical popularity is accepted and strategic management scholars are willing to embrace an approach that recognises the broad range of theories (Durand et al., 2017). This theory is supported by Elfring and Volberda (2001); however, they concluded that fragmentation should be generally accepted as it is not possible to group different theories. Indeed, rather than integrate, they argue that using several lenses and different definitions of strategy will provide a far greater understanding of how organisations strive for a competitive advantage.

#### *An Optimum Framework of Strategic Management*

The ten schools of thought provide a short history of strategic management to the 1990s. As demonstrated, several historical and current concepts and theories challenge Mintzberg et al. (1998) text; however, many also complement it. Strategic management cannot be defined by one school, theory or model. The strategist toolbox is extensive, and using the correct device is dependent on several variables in the organisation. On balance, using some of the schools, together with contemporary concepts and theories, will provide a helpful framework for categorising and organising relevant tax planning areas.

For a framework of strategic management to be effective in the context of tax planning, it is necessary to first define corporate taxation. The following section highlights the critical areas of corporate taxation and how these relate to strategy.

### **2.3 Defining Corporate Taxation**

The literature on the relationship between strategic management and corporate tax is limited. One explanation for the lack of research may be that it is difficult to define corporate tax strategy, perhaps due to the “interdisciplinary nature of tax services” (Frecknall-Hughes and Kirchler, 2015, p. 295). Therefore, this doctorate uses guidance from the Organisation for Economic Cooperation and Development (OECD) as the starting point for a practical description of tax planning and strategy.

In 2015, the OECD published their guidance on how member countries can mitigate organisations transferring tax profit from a higher to a lower tax-paying country. Defined as Base Erosion Profit Shifting (BEPS), the OECD put forward fifteen action points to address tax avoidance strategies. These actions are helpful as they collectively provide an explanation of tax planning by organisations.

Importantly, in contrast to tax evasion, tax avoidance is a perfectly legal approach for any taxpayer to adopt to reduce their overall tax liability. Although it can often be ethically questionable, organisations can legally formulate strategies to avoid tax. In doing so, many of the attributes of strategic management are in the tax strategy. Indeed, the OECD used strategic management theories to analyse how multinationals plan to reduce their tax liability.

The fifteen action points were introduced to ensure alignment of tax legislation and guidance across all its members. The premise is that if all OECD members adopt a bilateral approach, multinational organisations will not avoid tax by shifting their profit between countries. Consequently, Lankhorst and van Dam (2017) concluded that practitioners working on BEPS and providing advice to clients need to challenge their relevant authorities more as governments

become more aggressive in collecting tax. They argue that tax planning will become more focussed on structures aligned with the relevant legislation, diminishing tax opportunities. This suggests that the tax practitioner is strategically striving to avoid tax within their jurisdiction.

The first of the fifteen actions address the emergence of digitalisation over the last decade, which has led to many multinational organisations creating income from cross border activities without a physical presence in the country, thus, using different tax systems to their advantage. Historically, there was no consensus-based solution, and therefore, tax avoidance was prevalent in large multinationals.

Action two reduces the tax advantage from hybrid instruments that create a mismatch in the treatment between jurisdictions. For example, an organisation uses a financial instrument such as a loan; however, one country deems it equity and therefore not taxable. The result is that no tax is paid on interest receivable, yet there is a tax deduction in the country from the interest payable.

Action three strives to improve the rules on Controlled Foreign Company's (CFCs). Several OECD members introduced rules to counter the fact that organisations shifted profit from a company in a high tax rate country to a company they own in a low tax rate country (generally referred to as tax haven). Although a step in the right direction, historically, CFC rules did not always counter profit shifting. One clear example of the need for CFC rules is the widespread use of interest deductions by organisations using intercompany loans from one group company in a country with a high tax rate to another with a lower tax rate. This point is addressed in detail in action four.

Action five strives to deter OECD members from competing against one another to have the lowest tax rate to attract inward investment. In many cases, this is not just the headline rate of tax but also tax-free subsidies on royalties and intangibles. By calling for more transparency and introducing how the OECD can exchange ruling on preferential rates, members should be less inclined to lower their tax rates unilaterally. This is supported by action six, Treaty Abuse by countries to generate double non-taxation. It addresses the fact that historically organisations have sought to play countries tax treaties off against one another. For example, they are threatening to leave the country unless the tax rate is more competitive with other jurisdictions.

Lankhorst and van Dam (2017) believe that actions seven to ten and thirteen would have the most impact on the tax practitioner's current work. Tax treaties generally state profit is taxed in the country only to the extent that the organisation has a permanent establishment to which the profits can be attributable. This rule leads to manipulation by organisations as the definition of permanent establishment differs between countries. The OECD addresses this point by updating the definition of a permanent establishment. The focus of action eight to ten is on transactions being on commercial terms through an 'arms-length' agreement. However, evidence from Lankhorst and van Dam (2017) suggest that tax practitioners at the time did not think these new rules were consistent with this fundamental premise.

Action eleven, twelve and thirteen addressed data analysis, measuring and monitoring, disclosure and country by country reporting, respectively. Improving the monitoring of tax avoidance in OECD member states, more emphasis is on acquiring data. Organisations now provide information to their tax authorities corporate taxation statistics database. The OECD stated that any organisation entering into a legal tax avoidance scheme must disclose the arrangement to their tax authority. Similarly, all large organisations must now disclose a

country by the country report, stating the allocation of taxable profit and the relevant economic activity in each jurisdiction.

The final two actions, fourteen and fifteen, address mutual agreement between members. It promotes an inclusive framework in which compliance and minimum standards are peer-reviewed. Other members allow governments to modify existing bilateral tax treaties in a synchronised and efficient manner.

From the fifteen, the action that has received the most attention from a strategic management perspective is Action 1: Taxing the Digital Economy. In 2019 the OECD went further on their analysis of tax in the digital economy. Although different from a traditional business that produces tangible products, digital organisations still have some of the same strategic characteristics such as economies of scale, switching costs and complementary services. The ongoing low marginal costs and ease of global marketing mean that digital business can create value relatively quickly and, in some cases, dominate an industry to the extent that they can influence prices. For example, Google dominates the price of advertising online.

Calabrese (2019) considers three concepts of value creation and its impacts on taxation in the context of digital business. The first uses Porter's value chain, which, as outlined earlier, has been adopted by many strategists when defining the organisation's activities. However, there are three universal criticisms of the value chain that are particularly apparent when analysing digital business. For example, Porter's model does not include the value of additional information from the primary activities. It assumes a domestic market rather than an international outlook. Lastly, it is a model built to analyse the process of a tangible good such as a car manufacturer rather than a service such as an online platform. These criticisms are

helpful as they highlight the value chain's weaknesses and explain why some practitioners do not consider it when defining tax strategy.

As a possible solution to the value chain's weaknesses, Stabell and Fjeldstad (1998) put forward two alternative models, the value network and value shop. Both models are helpful as they use social networks as connectors to generate value. For example, a value network is a social network. Online providers such as Facebook can target specific groups with advertisements; the value is created by linking the organisation and the customer, creating revenue through subscription (OECD, 2018). A value shop is where the organisation interacts with one specific user or customer, such as organisations outsourcing their technological infrastructure such as medical technology used to diagnose and treat patients in a hospital.

There are evident problems taxing organisations that use these types of models as nearly all are global players and will be creating value in jurisdictions in which they have no physical presence. Historically an organisation only paid tax on the profits of their permanent establishment. If there is no permanent establishment, the organisation cannot be taxed even if it generates taxable profit. This rule allows many technology businesses to avoid paying tax.

Taxing the digital economy is receiving more attention from all the members of the OECD. Recently countries such as the UK and France have taken unilateral decisions to start taxing organisations on their digital profits even if not based in their country. This suggests that the tax practitioner's role may become more prominent as organisations look to mitigate the new rules. However, for the tax practitioner to be effective, they need to know the strategic rationale for being based in the jurisdiction and understand the organisation's commercial strategy.

In summary, the fifteen actions from BEPS are a helpful criterion for analysing strategic management in tax planning. Tax practitioners will have advised organisations on the new rules and their implications. If tax practitioners help to mitigate the consequences of the new rules, they may be acting strategically.

## **2.4 Strategic Management and Corporate Taxation**

There is limited research on the relationship between strategic management and corporate tax. Thuronyi and Vanistendael (1996) listed the tax practitioner's critical responsibilities as focusing on tax planning, advising on tax issues, inputting tax disclosure into financial accounts, preparing tax returns, and representing the taxpayer in the courts. A simplistic approach is to split the tax practitioner's work into two critical services: tax compliance and tax planning. Tax planning involves the "definite and deliberate manipulation of the taxpayer's affairs to reduce the amount of tax payable" (Frecknall-Hughes and Kirchler, 2015, p. 296). The definite and deliberate nature of tax planning aligns with Mintzberg et al. (1998) prescriptive schools of strategic management.

Glaister and Frecknall-Hughes (2008, p. 35) believe it is "apparent that the standard treatment of strategy neglects the effect which taxation may have on key strategic decisions". They considered the relationship between corporate strategy formulation and taxation. As highlighted, corporate strategy is where an organisation defines the strategy for all its business units. For example, Google defining the tax treatment for all its subsidiaries in all jurisdictions. Glaister and Frecknall-Hughes (2008) argued that there is a "tax lacuna" in strategic management, highlighting that corporate strategy models fail to make any reference to the tax implications.

In contrast to Mintzberg's et al. (1998) learning school, Glaister and Frecknall-Hughes (2008) argue that most tax strategies are intentional. For example, many large organisations spend vast amounts of money on tax advisers to ensure an appropriate structure that mitigates their tax liability. As tax decisions are a part of an organisation's decision-making process, there must be an intersection with the resource-based view. Management capability is an essential variable in setting the correct tax strategy. If senior management does not understand tax, the potential to reduce costs and find or sustain a competitive advantage diminishes. If this proposition is considered valid, it would be beneficial to include VRIO within an integrated strategy framework. The expectation is that tax practitioners are considered valuable resource within the business.

Tax planning demonstrates many emergent strategies, whereas tax compliance is more of an intended strategy (Mulligan et al., 2016). By analysing factors that influence corporate and tax strategy's alignment, Mulligan et al. (2016) found that an organisation must understand how tax planning is defined, implemented, and managed. For example, consideration of the structure and the best way to organise the tax function and reporting lines has been a critical question for all the organisations they researched.

The tax executives reporting line is critical to their involvement in the organisations broader strategy. Mulligan et al. (2016) found that the Head of Tax has more influence if they directly report to the CFO or the board. These individuals fully understand the impact of tax planning on a more comprehensive corporate strategy. However, most organisations they researched did not require board approval for corporate tax planning, suggesting a weak relationship between those defining its overall strategy and tax policy. Similarly, they found little evidence of



strategic tax planning when the organisation was making a loss even though these tax losses could add value to the business in the long term by offsetting future profit.

Mulligan et al. (2016) conclude that organisations have a weak alignment between corporate strategy and tax planning. The main reasons for this disconnect are that most organisations do not adopt the best structure to facilitate the tax function through putting the tax department in a silo or not implementing a direct reporting line to a CFO that understands tax planning. In their view, both points are worth further empirical research at the corporate and business level.

Addressing the point of a silo, Ruggles et al. (2017) advocate integrating the tax function's daily operations by achieving the tax function's following goals. The first is to use the tax data as an integral part of the business. The second is to integrate the tax data with operations. The third goal is to engage the tax function with external stakeholders. Finally, they argue the need to elevate the tax function to the strategic contributor's role. Although these are all strategic, they are aspirational, again suggesting a weak relationship between strategic management and tax planning.

In many organisations, the tax strategy is not a strategic decision by the board (Freedman et al., 2008). Examining the subject of tax avoidance in UK organisations, Freedman et al. (2008) found that it is the organisation's tax executives that formulate tax planning initiatives, with board-level members only getting involved if they had previous tax experience. This point suggests that in strategic tax planning, the tax practitioner formulates and implements the tax strategy.

Although Mulligan et al. (2016, p. 218) agree that there needs to be more research into tax and corporate strategy, they highlight that the tax literature is "not short of advocates as to the strategic importance of tax". Scholes et al. (1992), Yancey and Craven (1998) and Valente (2002) are three such examples, and their body of work aligns with this conceptualisation. Perhaps one of the most influential publications is from Scholes et al. (1992), where the writers provide a framework to help the reader consider how taxes affect business strategy. Their work received wide acclaim, with distinguished tax professor Douglas Shackelford (1995, p. 80) describing it as "a seminal work that overhauled tax research, education, and (some practitioners have told me) practice" and defining it as the "Rembrandt" of tax literature.

The text by Scholes et al. (1992) is predominantly for business students rather than tax practitioners. Recognising that MBA graduates may not be armed with the knowledge to fully understand tax planning, 'Taxes and Business Strategy: A Planning Approach' (Scholes et al., 1992) sets out to integrate corporate finance and microeconomics fundamentals with taxation. The focus is on three main themes to deliver effective tax planning; the first is that it requires consideration of the tax implications of a proposed transaction for all parties, the second that requires the planner, in making investment and financing decisions to consider all relevant taxes and lastly for the planner to recognise that taxes are only one of many costs and that if tax is to be mitigated there needs to be consideration of these other costs, for example, costs (explicit and implicit) of restructuring.

Shackelford (1995) urges any aspiring business student, academic or practitioner to read the book as it will change how they view taxes. However, Boudewijn (2002, p. 639) considered the text complex and only understandable to "postgraduates or highly qualified students". In strategic management, the text only covers some elements, most of which overlap with finance

economics. Topics such as marginal tax rates, dynamic tax planning and investment decisions influence strategic decision making and are more akin to professions such as accountancy or finance than corporate strategy. Nevertheless, Scholes et al. (1992) text is influential to business students as it helps them understand tax principles. The fact that it is challenging to read provides an insight into why there is limited evidence of alignment between the two subjects. If business graduates find studying the subject difficult, they may be reluctant to embrace it in their careers when formulating strategy.

Mulligan and Oats (2013) believed that the tax practitioner's role is extensive, operating at the macro, micro, and meso levels. However, the tax practitioner's influence on broader strategic management may depend on the organisation's structure. Mulligan et al. (2016) asserted that the tax practitioner would be most influential to the strategic business objectives in the presence of an excellent reporting structure. However, they state that this is not adopted because there is still no consensus on the tax function's significance to the organisation. Arguably this can only be determined once the company boards recognise how strategic management and tax is connected. Mulligan et al. (2016, p. 220) conclude that further research is necessary into the alignment of the two subjects:

*"None of the [tax]research has gained a real understanding of how a strategic role for the tax function is defined, mapped out, implemented, managed and monitored on an ongoing basis in complex, ever-changing organisations".*

Cooper (2016) cited several examples where large corporations are indeed strategic in taxation, for example, incorporating new companies in tax havens to reduce the overall effective tax rate. A more sophisticated option is an inversion, where a company buys a foreign subsidiary and then inverts the ownership structure. This manoeuvre results in the subsidiary becoming

the parent, allowing it to now be in a country with a lower corporate tax rate. Some organisations also seek to gain a competitive advantage by collaborating with competitors to pressure tax authorities into accepting favourable financial instruments that keep their effective tax rate low. Cooper (2016) concludes that more work is needed to understand organisations' motivation and individuals' interaction regarding tax planning. The fact that she highlights collaboration within the tax planning context suggests there is an overlap with strategic management. It also supports the argument for including collaboration in the theoretical strategic framework.

Cooper's research focussed on Multinational Enterprises (MNE's) based in the United States (US) and represented a small sample of how global businesses operate. Indeed, it is arguable that businesses in the US may be more strategic in avoiding tax as the corporate tax rate is much higher than in the United Kingdom (UK). For example, the UK's corporation tax rate is currently 19% for the tax year 2021 (whereas the US rate is 21% plus an additional federal rate between 4% to 7%).

Evidence that the authorities believe that organisations in the UK are acting strategically in tax planning is the introduction of Schedule 19 in the Finance Act, 2016 (FA 2016). This relatively new legislation obliges large organisations that are incorporated in the UK to publish their tax strategy. Arguably the government would not have introduced such an obligation if they did not view tax strategy as a critical long-term goal implicitly aligned to the broader business objectives. This point on a published tax strategy is an area for further investigation in the research phase.

In conclusion, the literature shows a weak link between strategic management and corporate taxation and that more research is needed. Despite corporate tax planning sometimes being a deliberate strategy (Glaister and Frecknall-Hughes, 2008) and, in other contexts, an emergent strategy (Mulligan et al., 2016), there is still a lack of empirical research demonstrating how the alignment of the two subjects.

## **Chapter 3: Literature Synthesis**

### **3.1 Background**

There are several conflicting and complementary theories in strategic management from the evidence presented in the literature review. Mintzberg's ten schools help provide context for the discipline's evolution; however, many other theories are also relevant. Strategy can indeed be deliberate and intended, yet in a different context, it can be emergent. As the literature highlights, strategic management is not black and white. This spectrum (Mintzberg and Waters, 1985) can accommodate the ten schools and other complementary theories outlined in the literature review.

Based on the premise of an emergent strategy, the learning school suggests that an organisation's strategy will evolve as those in the organisation receive new information. However, changing objectives or goals does not mean the organisation has changed strategy; the destination may differ, but the journey is still the same. Although fragmentation is a concern within strategic management, it is not necessarily an issue for how an organisation formulate and implement it.

Capalonga et al. (2014) argue that an organisation uses various strategic choices, while Elfring and Volberda (2001) concluded that fragmentation should be generally accepted. Using several different definitions of strategy may be helpful when analysing organisational performance. Nevertheless, there are clear synergies between several of the outlined theories that allow some form of integration. To establish if there is a relationship between strategic management and corporate tax, using an integrated approach should provide a more comprehensive analysis than focussing on one theory. However, not all theories are complementary to an integrated framework relevant to a corporate tax strategy.

Glaister and Frecknall-Hughes (2008) argue that tax planning can be an intended or emergent strategy. Mulligan et al. (2016) support this statement with evidence that it is intended in most circumstances, but at times, tax planning mirrors an emergent strategy's characteristics. Indeed, the work of Scholes et al. (1992) suggests that tax planning can be both, outlining the main areas in which an organisation can integrate tax into corporate decision making. As Calabrese (2019) highlights through her work on BEPS, strategic models such as the value chain are used by organisations to achieve a competitive advantage, deriving tax planning from the same primary and secondary activities as other strategic initiatives. Therefore, it can be argued that if tax planning can be both intended and emergent strategies, there is scope to build a framework that encompasses both. The tax practitioner should be aware of the attributes of each concept that apply to strategy.

Mintzberg and Walters (1985) highlight that a planned strategy is a deliberate strategy. This fits into the planning and design schools, emphasising the leader in the organisation formulating the strategy. Accurate forecasting and detailed analysis are critical to a deliberate strategy. These are also components of the positioning school. Porter's (1980, 1985) generic strategies, five forces and value chain help an organisation follow an intended strategy. As Mintzberg (1994) discusses in his paper, not all theories within the planning, design and positioning schools agree, but there are still many synergies, so there are all prescriptive.

Many of the "founding fathers" of strategic management focussed on integration in terms of the discipline's scope (Zollo et al., 2017). Indeed, strategic management's evolution helps analyse prescriptive schools use to define an integrated framework. However, some of the theories that were prominent in the 1960s, such as Andrew's (1971) SWOT analysis and

Chandler's (1963) theory on the organisational structure, are not as important today, replaced by a focus on competitive advantage using analysis from Porter (1980,1985), Nalebuff and Brandenburger (1996) and Barney (1991). Zollo et al. (2017) entrepreneurial formula includes many of these attributes and can be analysed at the business unit and corporate level connected through its resources and capabilities.

Zollo et al. (2017) integrated framework, based on five dimensions of competitiveness, organisation, stakeholder, profitability, and structure, lead to three types of strategic decisions: competitive strategy, growth strategy and stakeholder strategy. In contrast to Mintzberg and Walters (1985) continuum of alternative options, Zollo et al. (2017) take the approach of identifying each choice's extremes. For example, differentiation and cost leadership work well, respectively, with stakeholder integration and organic growth. This approach complements the development of a framework based on intended and emerging strategies.

MacLean et al. (2015, p. 34) argue that "intentions do not precede action but rather emerge in action itself". This suggests that strategists may set out an intended strategy yet change their approach as new developments emerge. Joas (1996) examines human behaviour in social sciences. His theory of creative human action helps to build a relationship between deliberate and emergent strategy. Strategies may change as new information comes to light, and therefore the original interpretation of strategy may be revised continuously. Therefore, it can be argued that Mintzberg's spectrum of intended to emergent strategy could also be defined as a constant loop. Human experience and decision-making revolve from intended to emergent strategy depending on the context and timelines. For example, through their BEPS guidance, the OECD set out to prevent organisations intended strategy of avoiding tax by shifting taxable profit from a high to a low tax rate country. This new legislation has resulted in new emergent tax strategies



from organisations as they strive to restructure their tax planning to ensure the new rules miss them.

As strategy evolves as new information and developments emerge, the organisation will react accordingly using its resources and competencies. The literature highlights that the resource-based view is key to both intended and emerging strategies. This assertion is supported by Joas (1996) thesis of creative action in that all three of its dimensions, emerging intentions, embodied expressions, and interactive identity formation relies on the organisation's human resources. The VRIO model helps identify what resources to use to achieve a competitive advantage; however, as Priem and Butler (2001) argue, it does not adequately address the temporal component. Evans (2013) supports this statement, pointing out that it also does not consider how resources and capabilities change over time; integrating VRIO into a collective strategy improves its effectiveness by allowing for more flexibility.

Evans (2013) suggests that the resource-based view can be challenging to use in practice due to the problems of finding resources that fit each point on the VRIO framework. Kraaijenbrink (2009) provided a detailed critique of the resource-based view, asserting that it works for firms in predictable environments. It is not enough to achieve a sustained competitive advantage. A more subjective creative notion of value is needed. As Levy (1994) states, most organisations operate in an environment of uncertainty and therefore, long term planning is futile. In the short term, planning and intended strategies can be useful, and VRIO can be a crucial component of any integrated strategy.

The components of dynamic capabilities can support the VRIO framework and complement an integrated framework as it focuses on the ability to move in a changing environment. Processes,

positions, and paths support the resource-based view by allowing organisations to consider how change can affect an intended strategy. Teece et al. (1997) provide a bridge for the resource-based view from intended to an emerging strategy by considering how competencies and capabilities rely on routines that are difficult to imitate. Suppose an organisation can sense change and learn to adapt to its changing external and internal environments through using and improving its capabilities. In that case, it will be able to achieve and sustain a competitive advantage.

The notion of competitive advantage runs throughout the literature and should be at the heart of an integrated framework. The positioning school (Porter, 1980, 1985), the resource-based view (Barney, 1991), and dynamic capabilities (Teece et al. 1997) are all seeking to define strategies that lead to an organisation creating value that exceeds its competitors. The implicit creation of value is found throughout strategic management with its origins in the planning and design schools. Therefore, a helpful tool for analysing strategic management's relationship to corporate tax is to use a framework that encompasses a feedback loop for various strategies. For example, the below figure shows that the planning and design schools are for an intended strategy, whilst the positioning school and the resource-based view are for deliberate intentions and an emergent strategy. Dynamic capabilities with creative action are helpful for emerging intentions.

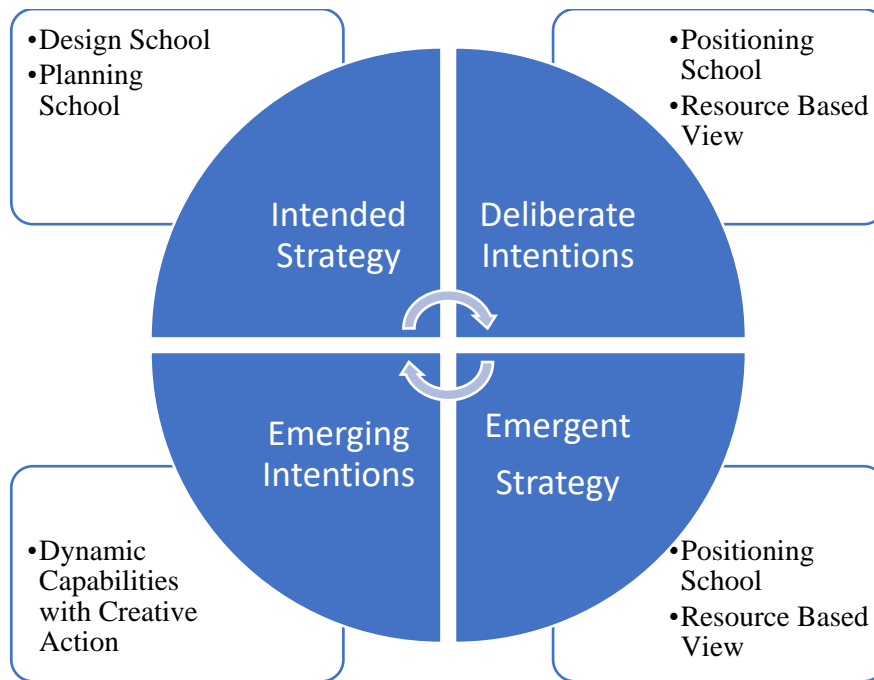


Figure 2: Integrated strategic management framework in tax planning

The above figure is an extension of Mintzberg and Waters (1985, p258) argument that there is a spectrum of different types of strategies. For example, an intended strategy will become a deliberate strategy (if realised). However, a new strategy will emerge and become realised over time due to a change in the internal or external environment. The emergent strategy may focus on rational or normative notions of action (MacLean et al., 2015) (defined as an emergent strategy in the above figure) or as creative action (Joas, 2012) (defined as emerging intentions in the above figure).

The feedback loop presented in the figure above argues that the design and planning school are intended strategies that would evolve into deliberate strategies if realised. However, the positioning school and resource-based view can potentially be both deliberate and emergent. Porter (1980, 1985) advocates that strategies are deliberate. However, in tax planning, it is also helpful to consider the components of the five forces model, generic strategies and value chain

as part of an emerging strategy. For example, is it an intentional or emergent strategy if an organisation moves into a new country to exploit a lower tax rate?

Similarly, Nalebuff and Brandenburger (1996) demonstrate that strategies can also emerge through their value net model. For example, the organisation's actions can affect another's profit, and therefore there is an opportunity to create value by cooperating. The link between the resource-based view and the positioning school highlights the deliberate element of the VRIO model. However, as MacLean et al. (2015) point out, the resource-based view is rational. It adopts the most appropriate approach for the current context based on prior intentions and can also be emergent. Finally, Jaos (2012) shows that emerging intentions are important in strategies developing through human creative action.

It is essential to acknowledge excluded theories. Zollo et al. (2017) entrepreneurial formula stand out as the fundamental model not included, mainly because they put forward a coherent argument of integrating the most topical literature into a workable model. Indeed, their paper, in many ways, lays the foundations and supports the integrated framework adopted in this paper. However, ultimately it is excluded due to their argument on adopting specific extremes when formulating a strategy using a bundle of choices. It leaves less flexibility than using Mintzberg and Waters (1985) continuum of strategic options.

Mintzberg et al. (1998) descriptive schools are not dominant parts of the framework, yet as highlighted, there are overlaps between the resource-based view, dynamic capabilities with creative action, and the cognitive, learning, cultural, power and configuration schools. Indeed, many of these theories can be considered an extension to Mintzberg's descriptive schools.

Rather than dismissing the critical elements of the descriptive schools, they are incorporated into more contemporary theories in the defined framework of strategic management.

Extensions of the descriptive schools to dynamic capabilities and the resource-based view is demonstrated through the link to the culture and political schools. For example, Arndt (2010, p. 1) argues that the theoretical roots of dynamic capabilities can be found in many of the schools of thought identified by Mintzberg. Carter and Whittle (2020, p. 2) state, “strategy is deeply cultural and always political”. The quote attributed to Peter Drucker that ‘culture eats strategy for breakfast’ stands the test of time as culture is the backbone to any successful strategy. Although Mintzberg et al. (1998) argue that culture is a stand-alone school of thought, it is embedded in strategic management literature and critical to the resource-based view and dynamic capabilities. Culture, therefore, does not need to be an independent concept in an integrated framework of strategic management.

Ultimately, as highlighted by the literature on fragmentation, any integrated framework of strategic management will be contentious. There are many concepts and theories in the literature review that are suitable for integration. The framework advocated in this doctorate is in tax strategy with the complementary concepts identified that encompass strategic management's central areas.

### **3.2 Operationalisation of the Integrated Framework**

Operationalisation is necessary to align the terms in this framework with specific concepts prevalent in corporate taxation. The framework presented outlines four points on a continuous loop from deliberate strategy through to emerging intentions. Identifying these points and

theories in corporate tax planning will provide empirical evidence of a relationship between the two subjects.

As highlighted in the literature, the introduction of Schedule 19 FA 2016 obliges large organisations in the UK to publish their tax strategy. This introduces a significant research opportunity in that themes addressed in a published tax strategy can be aligned to an integrated strategic management framework to identify the nature of the relationship between the two subjects. Moreover, the OCED fifteen action points on BEPS provide a platform for aligning critical tax planning areas with strategic management. The OECD has already published work on action one, the digital economy, explained by Porter's value chain. Extrapolating this approach to all fifteen actions and using the integrated framework as the key themes of strategic management allows detailed research on the two subjects. The table below shows all fifteen key areas that we can use for analysing tax planning.

Table 1: OECD BEPS fifteen action points

<u>Action</u>	<u>OECD area of Tax Planning</u>	<u>Description of Tax Planning Area</u>
1	Digital Economy	Over the last decade, the emergence of digitalisation has led to many businesses creating income from cross-border activities without a physical presence in the country, thus using different tax systems to their advantage. Historically, there was no consensus-based solution, and therefore, tax avoidance was prevalent in companies such as Facebook, Google, and Amazon.
2	Hybrids	Hybrid instruments result in a mismatch in the tax treatment between jurisdictions. For example, a business using a financial instrument, which one country deems equity and the other a loan, creates a tax advantage in both jurisdictions.
3	Controlled Foreign Company (CFC) Rules	CFC's provide an opportunity for organisations to shift profit from a company in a high tax rate country to a company they own in a low tax rate country (generally referred to as a tax haven). This advantage applies even though there is no substance to the transaction.
4	Interest Deductions	The action prevents tax avoidance by organisations using interest payments on intercompany loans to move profit in a company with a high tax rate to another company they own that has a lower tax rate.

5	Harmful Tax Practices	Organisations have been known to favour countries where the tax regimes were less transparent, making it easier to disguise profit from the tax authorities.
6	Treaty Abuse	Historically organisations have sought to play countries tax treaties off against one another. For example, they threaten to leave the country unless the government changes tax policy to be more in line with a more favourable country.
7	Permanent Establishment	Tax treaties generally state that profit should be taxed in a country only to the extent that the organisation has a permanent establishment to which the profits can be attributable. This leads to manipulation by organisations as the definition of permanent establishment differs between countries.
8-10	Transfer Pricing- Intangibles, Risks and Capital, High-Risk Transactions	These three rules countered organisations reducing their group tax liability by moving profit artificially to lower tax jurisdictions.
11	Data Analysis	To ensure better monitoring of tax avoidance in OECD members, more emphasis has been placed on acquiring data. Organisations now must provide information to the corporate taxation statistics database.



12	Disclosure of Aggressive Tax Planning	Any organisation entering into a legal tax avoidance scheme must disclose the arrangement to their tax authorities.
13	Country by Country Reporting	All large organisations must now disclose a country by the country report, stating the allocation of taxable profit and the relevant economic activity in each jurisdiction.
14	Mutual Agreement Procedure	OECD members have agreed to an inclusive framework in which compliance and standards are peer-reviewed by other members.
15	Multilateral Instrument	Allows governments to modify existing bilateral tax treaties in a synchronised and efficient manner.

*Source: OECD*

The figure below shows tax planning areas aligned with the key themes from the integrated framework of strategic management.

BEPS Tax Planning				
Design School -Chandler (1963)	Planning School -Ansoff (1965)	Positioning School -Porter (1980, 1985)  -Nalebuff & Brandeburger (1996)	Resource-Based View -Barney (1991)	Dynamic Capabilities with Creative Action -Teece et al (1997) -Joas (1996)

Figure 3: Alignment of BEPS tax planning with the integrated strategic management framework

The key themes for the integrated framework of strategic management are illustrated below. These themes and questions facilitate the research.



Figure 4: Key themes for the integrated framework of strategic management

Given the vast amount of strategic management literature, it is surprising that there is limited research using an integrated framework. Durand et al. (2017) argue that integration is possible if scholars are willing to embrace different theories and build their research on more than one theme. Capalonga et al. (2014) found that an integrated framework explains organisational performance. Zollo et al. (2017) and Nham and Hoang (2016) both show that combining different theories will provide a more comprehensive definition of strategic management. Ultimately, adopting the defined framework on strategic management and aligning to publications on tax strategy and BEPS will provide evidence that explains the nature of the relationship between strategic management corporate taxation.

### **3.3 Initial Theory**

The main points from the literature review and synthesis are as follows:

- Strategic management is a multi-disciplinary subject influenced by many of the social sciences.
- Corporate tax planning is a multi-disciplinary subject influenced by many of the social sciences.
- Strategic management is fragmented, and therefore establishing an integrated framework consisting of a variety of complementary theories will be subject to academic challenge.
- Although there is some research into the relationship between strategic management and corporate tax planning, there is still more to do.
- An integrated framework of strategic management is the most viable approach to analysing strategic management's relationship in corporate tax planning.

Based on the literature synthesis, the initial belief is that there is a functional relationship between strategic management and corporate tax planning. The belief statement is:

*Tax practitioners are strategic in corporate tax planning when analysed using an integrated framework of strategic management.*

The research design identifies the defined theories in the integrated strategic management framework to the tax practitioner's corporate tax planning work. The OECD addresses tax planning under its BEPS initiative.

## **Chapter 4: Research Methodology**

### **4.1 Introduction**

This chapter consists of the research methodology. Section 4.2 is the research aim, followed by the three pertinent research questions leading to the research objectives set out in section 4.3 and 4.4. The research questions are the first initial steps in the research, and the objectives set out how they are addressed. Section 4.5 presents the research design considering the most appropriate paradigm based on the author's beliefs and experience. The reasons for choosing a pragmatic paradigm are highlighted before describing the research methods and techniques used to gather and analyse the empirical evidence.

### **4.2 Research Aim**

The overall purpose of this research is to explore the current nature of the relationship between strategic management in corporate taxation by assessing connections between the two subjects and strategic management themes used in tax planning.

### **4.3 Research Questions**

After consideration of the literature, the research questions are:

*Research Question One: Is there a relationship between strategic management and corporate tax planning?*

There is limited literature on the connection between strategic management and corporate tax planning. Perhaps the two most notable publications in this area are Glaister and Frecknall-Hughes (2008) and Mulligan et al. (2016). However, more research is needed in this area. Strategic management encompasses many themes that represent an organisations strategy. If tax planning is strategic, there should be evidence of one or more of these themes.

*Research Question 2: Does a defined integrated framework of strategic management show a relationship between strategic management and corporate taxation?*

The literature synthesis defines the integrated framework of strategic management for primary research. This framework is developed from the literature and contributes to theory by exploring if integrating strategic management themes will show a relationship with corporate taxation.

*Research Question 3: Does the tax practitioner act strategically in corporate tax planning?*

This question addresses the fundamental role that tax practitioners have in defining the organisation's tax planning strategy. The literature on strategic management ranges from advocating a top-down approach (planning and design schools) to a more holistic approach where many senior managers are responsible for formulating and implementing strategy (open strategy, dynamic capabilities).

#### **4.4 Research Objectives**

1. To examine the main themes in the strategic management literature to establish an integrated framework.
2. To examine the importance of strategic management in corporate tax planning; identifying if the key themes in strategic management are used in corporate tax planning.
3. To examine the interrelationship between strategic management and corporate tax planning; are there areas in which the strategy practitioner can influence tax planning?
4. To identify what tax practitioners can learn from strategic management.

## **4.5 Research Design**

This section considers the most appropriate research design to address the research questions. O’Gorman and MacIntosh (2015) defined the methods map, in which they describe the five layers of choices that a researcher needs to make in research design. In metaphysics, the nature and structure of reality are investigated through the branches of ontology and epistemology. Ontology deals with the nature of reality and if it is objective or subjective. This leads to epistemology and the pursuit of knowledge using an appropriate paradigm. After that, the methodology for data gathering is chosen, such as quantitative, qualitative or a mix of both. This is achieved through research techniques such as questionnaires, interviews and document analysis, analysed through either an inductive or deductive approach.

The different paradigms are considered before concluding that a pragmatist approach is best to address the research questions. It advocates the case for qualitative research, recognising the benefits, where appropriate, of quantitative analysis. Following the discussion on philosophy, it highlights the research methods for gathering the data. Mixed methods research has grown in popularity and works well when using a pragmatist paradigm (Feilzer, 2010), and therefore, this thesis considers it appropriate to adopt this approach.

### **4.5.1 Research Paradigm**

Saunders et al. (2012) highlighted that the first topic to be defined in research design is the philosophy. Their helpful illustration of the research stages, defined as the “research onion”, highlights each layer the researcher must pass through when formulating a practical design. Dudovskiy (2018) further argued that within the scope of business research, the four main



philosophies found in the research onion's outer layer are pragmatism, positivism, realism, and interpretivism.

In considering each philosophy, it is helpful to look at the form of the paradigm. Brierley (2017) argued that the most common paradigm in social sciences is shared beliefs amongst its members on how data should be collected and analysed. Correspondingly, as a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW), Chartered Institute of Management Accountants (CIMA) and Chartered Institute of Taxation (CIOT), the author has significant practical experience in quantitative analysis. As a board member of an SME responsible for defining the business strategy, the benefits of a qualitative approach is recognised. This suggests that a paradigm that advocates both approaches is most appropriate, concluding that pragmatism is most suitably aligned with the author's beliefs and values.

Pragmatism allows the researcher to adopt those methods, which are deemed relevant for the research purposes. This approach may result in qualitative and quantitative research strategies, be it subjective and objective at different times, and use a deductive and inductive approach. Generally, this is known as abductive and is most suitable where induction and deduction are not always possible (Dudovskiy, 2018). Given the author's experience and background, an element of induction is possible; however, using deduction in some contexts of the data gathering and analysis supports the overall conclusions.

Mulligan and Oats (2013, p. 66) used the term "black box" to describe how some organisations perceive the tax function. Doz (2011, p. 583) suggested further that qualitative research is ideal for "opening the black box" of the organisational process. To do so, the researcher needs to have three different skills: firstly, a deep understanding of collective action, secondly in-depth

training and some experience of the research field and thirdly, a rigorous and methodical grounding in the subject. Given the author's background, the most appropriate methodology for data gathering, using a pragmatic paradigm, is qualitative.

Coghlan (2007) argues that the researcher's experience and judgment will lead them to action and define their methodology. Insider action research is particularly relevant for professional doctorates such as the DBA. It allows experienced executives to conduct research within their organisation or where they have first-hand practical experience of a subject. Key components are preunderstanding (knowledge before engaging in the research), role duality (managing organisational and roles independently) and organisational politics (understanding the social system of the organisation) (Coghlan, 2007).

De Gama et al. (2019) assert that proper research is related to the researcher's own life, with research done 'inside the process' being particularly strong. They cite several authors who advocate qualitative research as the optimum business research model, creating subjectivity. However, this can raise ethical questions as the researcher may influence the findings. As a solution to this potential issue, it would be helpful also to use quantitative analysis.

Pragmatism accepts the presence of subjectivity during data gathering and analysis. However, so does interpretivism, which strives to integrate human interest into the research. Generally, there are three variations of interpretivism; hermeneutics (commonly used in the context of biblical texts), symbolic interactionism (focusses on human interaction through language) and phenomenology (Dudovskiy, 2018). In the context of business research, phenomenology is becoming increasingly popular and can now, in fact, be considered as a counterbalance to positivism (Goldkuhl, 2012).

Phenomenology, at its extreme, results in the researcher generating data purely through induction and observation. In the context of this research, conducting a literature review combined with previous significant experience in industry implies some element of deduction. As Fernandez (2017) highlighted, consciousness, experience, meaning, sense, and subjectivity are elements of phenomenology. In practice, the boundary between pragmatism and phenomenology is not absolute, and it is possible to recognise the blending of the two in different qualitative research cases (Goldkuhl, 2012).

Realism also believes that not everything can be objective, and like constructivism, it leans towards a qualitative approach (Brierley, 2017). However, qualitative researchers raise a significant criticism, citing that it resembles positivism excessively. Maxwell (1999) argued that although realism accepts that research can be objective, it is aligned with positives in that it is sceptical of this type of research. Indeed, the main difference between realism and positivism is the treatment of causality, as the former, according to Brierley (2017), advocates understanding a situation of causality rather than general patterns. As this research focuses on qualitative methods, realism is not as desirable an approach as pragmatism.

Positivism is still the most widely used paradigm in business research (Myers, 2013). Based on the strictest definition, positivism assumes all research should be completely objective and based on facts. Therefore, the researcher assumes that they are entirely independent and objective from the sample (Wilson, 2010). However, this scenario is not always desirable; for example, Adams (2007) argued that not all research is objective, nor does every phenomenon lend itself to a hypothesis amenable to testing in the positivist tradition. If the research is mainly investigative with qualitative methods, it is challenging to use a testable hypothesis with

focused research questions as a better approach. Ultimately when considering the empirical focus of the belief statements, this research leans towards a pragmatic paradigm as it allows for more flexibility and complements the author's background.

#### **4.5.2 Research Methods**

The research methods follow the integrated framework of strategic management. The operationalisation of tax planning choices relies on the researcher's interpretation, suggesting that an interpretive method would benefit the study. Such a method supports adopting a pragmatic paradigm, with a mix of research techniques that are qualitative and quantitative for gathering and analysing data. Adopting an interpretive method will allow the use of the research techniques of document analysis and interviews.

It is helpful to recognise that some business and management authors have used the terms 'methods' and 'techniques' interchangeably (Jankowicz et al., 2016). Indeed, Zollo et al. (2017) concluded that their strategic model's validation requires significant effort in combining research designs and methodologies. However, mixed methods can, in some cases, mean mixing research techniques. Jankowicz et al. (2016) pointed out that even though mixing techniques is a common approach, the research mechanism of mixing methods, such as interpretive, case study, survey, action-based, or experimental, can be more problematic due to the assumptions each makes on epistemology and ontology. Bennet (1991) supports this statement, arguing that combining research methods can lead to data validity and analysis difficulties. Therefore, only one research method with complementary research techniques is adopted: An interpretive method using document analysis and interviews (supported by a questionnaire) will produce qualitative and quantitative data.

Babones (2015) recognises that interpretative approaches are associated with qualitative rather than quantitative research in social science. Examining the use of both types of data through the lens of research in sociology, he concludes that the interpretive method's quantitative data is useful. It allows the researcher to step away from the traditional philosophical roots of the subject. He states

*“Interpretive approaches can make the quantitative analysis more meaningful by providing a strong philosophical foundation that the researcher can use to counter the pressure towards the use of ever more arcane statistical models, whether or not that is appropriate to the research questions asked or data in hand” (Babones, 2015, p. 466).*

Therefore, a quantitative approach supports qualitative findings and provides a more comprehensive analysis of the subject.

As highlighted in the literature review, the current research mainly uses a cross-sectional study. Glaister and Frecknall-Hughes (2008) highlighted that a longitudinal study might also be beneficial. This research does not use a longitudinal study because of the challenges of collecting data over a longer time frame. The defined research techniques set out below result in a rich amount of data, which will help close the knowledge gap on this topic.

### **4.5.3 Research Techniques**

#### *Technique 1- Document Analysis*

In the first stage of gathering empirical evidence, the focus is on document analysis, a popular research technique in business research. Cooper (2018) used document analysis when conducting her case study research, analysing company financial accounts for several multinational companies over ten years to understand if they shift profit from different countries with the purpose to avoid tax. Document analysis is not often used to its optimal

potential (Owen, 2014). However, Prior (2003) asserted that it is an independent research field that supports other research techniques. Indeed, it is beneficial in providing background information, especially when interviews are part of the research (Yanow, 2007).

Document analysis provides relatively easy access to data. For example, in the first phase of the research, the published tax strategy documents from each organisation in the Financial Times London Stock Exchange 100 Index (FTSE 100) are analysed against the defined framework of strategic management in Chapter 3. All documents are in the public domain and accessible from the organisation's website. The implementation of Schedule 19 of the FA 2016 obligates large businesses in the UK to publish a tax strategy. They must publish following their accounting year-end after the introduction of the legislation. Therefore, all companies in the sample have published their tax strategy for two consecutive years and is in the public domain.

The integrated framework of strategic management allows analysis of the tax strategy documents using the qualitative data analysis software package NVivo. This software is designed for researchers working with rich data. It allows an analysis of large volumes of data and the researcher to define nodes and sub-nodes based on the themes in the integrated framework of strategic management. The constituents of the FTSE 100 can change every three months due to the change in each organisations market capitalisation. However, to ensure consistency in the research, the sample only reviews the organisation listed on the FTSE 100 as of September 2019. The list is set out in Appendix I.

#### *Data Analysis of Documents*

Qualitative analysis of data is generally through an inductive approach. Patton (1980) states that induction leads to identifying patterns and themes from the analysis. Nevertheless, what

emerges is very much dependent upon the researcher and the interpretation of the data. Berkowitz (1997) argues that qualitative analysis requires revisiting the data multiple times to ensure the development of new connections, allowing the researcher to gain a richer understanding of the material. Srivastava and Hopwood (2009) support this statement as they advocate an iterative process. They developed a framework based on reflexivity instead of repetitiveness to establish the relationship between themes. The point to consider is the research's subjective nature. For example, is it telling the researcher what they want to know, and is there a relationship between the data and the research question (Srivastava and Hopwood, 2009)?

Dudovskiy (2018) argued that there are five categories of data analysis: content, narrative, discourse, framework, and grounded theory. In business research, content analysis has emerged as the most widely used model. Drisko and Maschi (2015) propounded three forms of content analysis: basic, interpretive, and qualitative. The first, basic, is a quantitative approach, such as vital coding terms that are relatively simple and generates numeric data. According to Drisko and Maschi (2015), the interpretive analysis relies on the researcher taking a more inferential view. Analysing latent content, perhaps over several sentences, summarises and narratively describes meaning; they define qualitative analysis to allow the researcher to understand the text and the context, using predefined categories.

Although similar, an alternative to content analysis is thematic analysis. It provides essential qualitative data creating the opportunity to identify trends in the meaning conveyed in the language. In this study, the themes are the concepts and approaches identified in the integrated framework of strategic management, and the keywords are from the tax strategy documents. For example, it encompasses the five concepts of the design school, planning school,

positioning school, resource-based view and dynamic capabilities with creative action. If there is a reference to a specific theme, it is assigned to one of the five concepts using NVivo software.

HMRC (2021) published guidance for organisations on the areas to address when writing a tax strategy. For example:

- details of the paragraph of the legislation it complies with;
- the financial year the strategy relates to;
- how the business manages UK tax risks;
- the business's attitude to tax planning;
- the level of risk the business is prepared to accept for UK taxation;
- how the business works with HMRC; and
- any other relevant information relating to taxation.

Importantly, HMRC state that the tax strategy should be approved by the organisation's board of directors and be in line with the overall commercial strategy and operations.

As organisations need to follow a prescribed format, they will address some areas from the researcher's integrated framework of strategic management defined in Chapter 3. Before conducting the research, examples of possible alignment are as follows.

### *Design School*

Chandler (1962) argued that decision making should be centralised, and there should be a separation between formulation and implementation. Andrews (1971) believes the CEO needs to be the decision-maker. Evidence of these attributes can be found in the tax strategy as



organisations must state that the board approves it. It should convey information about who is ultimately responsible for the strategy, be it the CEO or the Tax Director.

### *Planning School*

Ansoff's (1965) theory on corporate strategy states that there are steps to developing and implementing strategy. The strategy needs to be formulated, with established objectives, gap analysis and testing before implementation. As the tax strategy document is prescriptive, there will be little evidence of Mintzberg (1991) emerging strategy. The planning school does allow an analysis of the formulation of the tax strategy. Similarly, Anand (2012) premise that corporate strategy is building a corporate advantage through adding value by focussing on multiple business units aligns with commentary from organisations on how they develop a comprehensive tax strategy for all their business units.

### *Positioning School*

Porter's (1980, 1985) theories of generic strategies, five forces and value chain are included in the integrated strategic management framework. It is expected that there will be commentary in the tax strategy documents that can be aligned to each theory. HMRC expects organisations to describe how they manage tax risks, highlighting how they work in the external environment with their suppliers, customers, and competitors (five forces) and the internal environment in terms of their primary and secondary activities (value chain). Moreover, Nalebuff and Brandenburger's (1996) co-opetition theory of complements, collaboration, and cooperation can align with how they work with HMRC and how they work with their competitors.

### *Resource-Based View*

Reference to managing tax risks should also result in organisations highlighting the resources they need. Barney's (1991) premise that resources need to be valuable, rare, inimitable, and easy to organise can be aligned with how organisations engage external advisers, recruit qualified individuals and have an appropriate structure to communicate to their strategic decision-makers.

### *Dynamic Capabilities with Creative Action*

Teece et al. (1997) is a helpful alternative to the notion that all strategies need to be implemented centrally with the CEO as the main protagonist. Dynamic capabilities support the argument that strategies can change, and success lies with the organisation's processes, positions, and paths. If the tax strategy documents refer to how things are done (processes), how the organisations use the resource to complement one another (positions) or the consideration of alternatives (paths), there is evidence of dynamic capabilities.

Joas (1996) premise of emerging intentions supports Mintzberg theory of emerging strategy. As highlighted, the prescriptive nature of the tax strategy document suggests it is not emergent. However, suppose there is a direct comparison between the strategic tax documents for two consecutive years. In that case, there may be evidence of a change in approach, which suggests emerging intentions is prevalent. If this is the case, there may be evidence of embodied expressions, which influence emerging intentions. Identity formation may also be present if the tax strategy refers to how decisions are determined.

The first review of each document identified the themes from each organisational strategy allocated to specific nodes based on the defined integrated framework of strategic management.

The nodes are as follows:

Name	Description
<u>Design School</u>	References to attributes found in the design school
<u>Dynamic Capabilities with Creative Action</u>	References to attributes found in the dynamic capabilities & creative action
Emerging Intentions, Embodied Expressions, and Interactive Identity	Is tax planning based on emerging intentions, embodied expressions, and interactive identity?
Processes, Paths and Routines	Could the organisation change the tax strategy through processes, paths, and routines?
<u>Planning School</u>	References to attributes found in the planning school
<u>Positioning School</u>	References to attributes found in the positioning school
Five Forces	Reference to Porter's five forces model
Complementary, Collaborative, and Cooperative	Reference to Nalebuff and Brandenburger - co-opetition
Generic Strategies	There is a reference to either differentiation, cost leadership and focus

Name	Description
Value Chain	The value chain leads to competitive advantage by focussing on the primary and secondary activities in the business
<u>Resource-Based View</u>	Examples of resource-based view- VRIO
Inimitable	Cannot imitate the resource- there is no replication
Organisable	A resource can be organised
Rare	A resource is deemed to be rare
Value-	A resource is deemed to add value

Figure 5: Coding of strategy documents

HMRC (2021) provides prescriptive guidance regarding what each organisation must disclose in their published tax strategy. Interestingly, although these are the largest listed organisations in the UK and therefore should have the resource to provide a comprehensive commentary on how they approach taxation, the volume and detail varied considerably. For example, many organisations simply published two pages stating just enough to meet the HMRC requirements. In contrast, others, such as Lloyds Banking Group, SSE Plc and Rio Tinto, published an extensive document detailing their approach to tax and contribution to the UK Treasury.

#### *Technique 2- Interview*

Interviews are conducted with senior tax advisers in the UK to understand their current approach to strategic management. The qualifications, experience and background of each participant are set out in Appendix II. The total sample of those interviewed originated from a request from the CIOT for volunteers and the researcher's professional network. The criteria

for accepting volunteers or approaching tax advisers is that they are UK qualified tax advisers that work in corporate tax at a senior level in their organisation.

The researcher approached potential participants through the professional network website LinkedIn or their work email address. The initial contact explained the purpose of the research and a request for an interview. If the participant expressed an interest, they received a follow-up email with detailed information about the research and the consent form; both approved by Heriot-Watt University, Edinburgh Business School Ethics Committee.

Interviewing tax advisers is a similar approach to Glaister and Frecknall-Hughes (2008), who interviewed senior tax practitioners in UK multinationals. Similarly, Mulligan et al. (2016) interviewed tax practitioners in Silicon Valley, Cooper (2016) interviewed the Finance Directors of several US multinationals operations based in the UK. Congruent to the above researchers, conducting the interviews allows an inductive, exploratory approach. Interviews are popular research techniques, resulting in a question of originality for this research. Ultimately, as this research adopts a qualitative approach, interviews will be one of the most favoured data collection techniques. The difference for this research is that those interviewed will be tax practitioners in the UK that work in consultancy and internally for organisations.

Content analysis is used from the qualitative data to produce a repertory grid. Hoft et al. (2018) stated there are generally two approaches evident when applying content analysis to the repertory grid, theory-driven, based on a theoretical assumption from previous work and the literature, and data-driven, developed from the raw data. As the integrated framework of strategic management is the starting point for categorising the interview's constructs, this research follows a theory-driven approach for the content analysis. Data from the interviews support the findings from the document analysis. The content analysis highlights specific

constructs like the evidence from the document analysis, supporting this thesis's initial theory's rationale and extension to the final formal theory.

Adopting a pragmatic paradigm supports the approach of gathering and analysing quantitative and qualitative data where appropriate. Using a repertory grid technique for the interviews provides a platform to gather such data. It allows measurement of cognitive constructions, arguing that people develop their own rules, or constructs, for people's events and opinions, based on their previous experiences (Kelly, 1955). For example, tax practitioners may not use strategic management in their tax planning because they have never been taught the terminology and are not aware of the significant implications.

Using a grid for the strategic themes and tax planning components helps elicit the topic's interview constructs. Each construct is documented and allows the researcher to provide a rated scale (Jankowicz et al., 2016). Before the interviews, all participants considered their experience of advising organisations on the OECD BEPS fifteen actions. Participants scored each question between 1 and 10, with the highest number reflecting alignment with themes in the integrated strategic management framework and the lowest no alignment.

Conducting this first step as a questionnaire allows a starting point for the semi-structured interview to gain rich qualitative data. From the results of the ratings, a repertory grid allows for gathering and analysing quantitative data. The constructs and ratings form part of the qualitative and quantitative analysis. The constructs provide rich data used to address the research questions supported by numerical data. A more sophisticated quantitative analysis is possible using statistics. However, the focus for this research is on gathering simple quantitative data that will complement the qualitative approach throughout the research,

Content analysis is used to analyse the qualitative data for the repertory grid. Hoft et al. (2018) stated there are generally two approaches evident when applying content analysis to the repertory grid, theory-driven, based on a theoretical assumption from previous work and the literature, and data-driven, developed from the raw data. As the integrated framework of strategic management categorises the participants' constructs, this research follows a theory-driven approach for the content analysis.

#### **4.5.4 Ethics**

The research was conducted following the Heriot-Watt University Postgraduate Research Student Code of Practice and approved by Edinburgh Business School Ethics Committee. All participants were informed in advance of the rationale for the overall research, and their participation was voluntary. Information from participants is confidential, and anonymity is applied to the published answers.

It is relevant to address impartiality as the researcher has a similar background to the participants. For example, all are qualified tax advisers, and many are members of the same professional institutes, for example, the ICAEW and CIOT. As the research leans towards qualitative data, there is a risk that the researcher influences participants by aligning the questions with his preconceptions. Addressing this potential risk is through the rigour of the interview process, the transparency of all participants' background, and the trustworthiness of the tax advisers.

Chartered Accountants and Chartered Tax Advisers follow the professional standards of their relevant professional institute. For example, the CIOT aims to maintain an educational and

ethical framework of the highest standard to “produce tax advisers of the best quality for the general public” (Chartered Institute of Taxation, 2018). Conducting and participating in doctorate research meets this aim. In doing so, all Chartered Tax Advisers must “act with reasonable care and skill, honesty, integrity, impartiality and professionalism” (Chartered Institute of Taxation, 2018). Ultimately, there will be an element of subjectivity in the research; however, this constitutes an acceptable part of a pragmatic paradigm. The fact that quantitative analysis is consistently used supports the research techniques and contributes to objectivity.



## **Chapter 5: Pilot Study and Theory Development**

### **5.1 Approach**

This chapter sets out the initial findings from a pilot study conducted in May and June 2020 and approved by the Edinburgh Business School Doctoral Research Committee in August 2020 as part of the DBA intermediate submission. The pilot study is an essential part of the empirical process and central to developing the formal theory (Wallace and Jankowicz, 2017). It allows the researcher to test the proposed methodology on a smaller scale before embarking on the full plan.

The pilot study is based on the defined methodology in Chapter 4. A pragmatic paradigm is used with an emphasis on qualitative data supported by quantitative information. The research techniques of document analysis and interviews, with questionnaires, are used for the study. In Section 5.3, an initial document analysis of the tax strategies of the organisations listed on the FTSE 100 is reviewed. Data analysis is through coding the findings to the specific strategic management themes identified in the literature synthesis.

In Section 5.3, data is presented from interviews with four tax practitioners. The pilot helped to ensure that the interview questions are fully understood by the tax practitioners and refine any questions which are not transparent or need more context. It establishes what tax practitioners are willing to divulge and what they think are the critical strategic components of their roles. The small sample of interviews is not enough to provide meaningful quantitative data; however, it allows the researcher to test the final thesis's repertory grid process. NVivo software is used to code the tax strategy documents and identify the relationship between strategic management and corporate tax planning.

## 5.2 Benefit of the Pilot Study

It is acknowledged that the initial research questions may evolve through the research phase. MacIntosh et al. (2016) highlight that changing a research question can lead to ethical questions about the integrity of the research. This statement is particularly true in pure scientific research where hypothesising after results are collected is seen as poor practice. However, the emphasis within constructionist or processual perspectives in some social science research would regard refining research questions as part of the research journey. It may not be appropriate to have a rigid research question. For example, in circumstances where information gathered in the field further refines the understanding of the phenomenon studied. The contested and subjective nature of strategic management means that it helps to consider different disciplines' interaction and how new strategies can emerge.

MacIntosh et al. (2006) cite complexity theory as a reason not to focus on pure scientific techniques, as analysing the uncertain nature of strategy is best by evolving the research question to the environment's changes. Indeed, creative action (Joas, 1996) addresses uncertainty through emerging intention, highlighting that if strategies evolve, so can the research question. Given that emerging intention is one strand of the researcher's integrated strategic management framework, it is plausible that the research questions could evolve after the initial empirical research. The change is in conjunction with the ongoing review of the current literature base.

The defined research questions for the initial theory are:

- Is there a relationship between strategic management and corporate tax planning?
  - Does an integrated framework of strategic management show a relationship?

- Does the tax practitioner act strategically in corporate tax planning?

Following the pilot study results and feedback from the Edinburgh Business School Doctoral Review Committee, the final research questions excluded the sub-question on an integrated framework as this is better addressed as a research objective.

### 5.3 Results of Empirical Research for Pilot Study

#### Document Analysis

The first set of results produced the following alignments with the key themes. The references represent the wording in the tax strategy documents identified to the themes defined as the coding (nodes):

Table 2: Table of results of key themes for the pilot study

Name	Documents Reviewed	Themes Identified
<u>Design School</u>	81	126
<u>Dynamic Capabilities with Creative Action</u>		
Emerging intentions, Embodied Expressions and Interactive Identity	4	4
Processes, Paths, and Routines	39	53
<u>Planning</u>	32	38
<u>Positioning</u>		
Five Forces	11	15
Co-opetition -Complementary, Collaborative, and Cooperative	63	80
Generic Strategies	6	9
Value Chain	23	30
<u>Resource-Based View</u>		
Inimitable	2	2
Organisable	6	6
Rare	28	32
Valuable	25	27

The 'documents reviewed' column represents each strategy document's total number aligned with each theme from the above list. The 'themes identified' column represents the total number of comments on each theme. As previously highlighted, Patton (1980), Berkowitz (1997), and Srivastava and Hopwood (2009) advocate adopting an iterative approach to document analysis which will produce much richer data. In the initial analysis, only the planning and design schools' themes did not have sub-nodes; after reviewing the documents, it was clear this is needed for each of these categories to code specific commentary.

The design school represents centralised decision making and evidence of the CEO formulating the strategy. In contrast, the planning school uses Ansoff's five steps of strategy (formulation, establishing objectives and goals for the organisation that are consistent with its capabilities and allowing it to respond to the demands of the external and internal environment). The planning school distinguishes corporate and business strategy by identifying evidence where the organisation's tax strategy focuses on multiple business units rather than just one. The results of the second review focussing on the planning and design school is as follows:

Table 3: Revised results of the strategic management themes in tax planning

Name	Documents Reviewed	Themes Identified
<u>Design School</u>		
Central decisions	39	52
CEO main decision-maker	52	66
<u>Dynamic Capabilities with Creative Action</u>		
Emerging intentions, Embodied Expressions and Interactive Identity	4	4
Processes, Paths, and Routines	40	56
<u>Planning</u>		
Formulation-objectives, gap analysis, testing and implementation	11	12
Strategy for multiple business units	18	25
<u>Positioning</u>		
Five Forces	11	15
Complementary, collaborative, and cooperative	63	80
Generic Strategies	6	9
Value Chain	23	30
<u>Resource-Based View</u>		
Inimitable	2	2
Organisable	6	6
Rare	29	33
Valuable	25	27

As illustrated in the table above, there is evidence that most of the themes from the integrated framework of strategic management are in the tax strategy documents. A visual representation of three companies documents with the highest number of identified significant references is 3i plc, Glencore, and Centrica. For example, the below figure shows how each tax strategy links to its key themes.

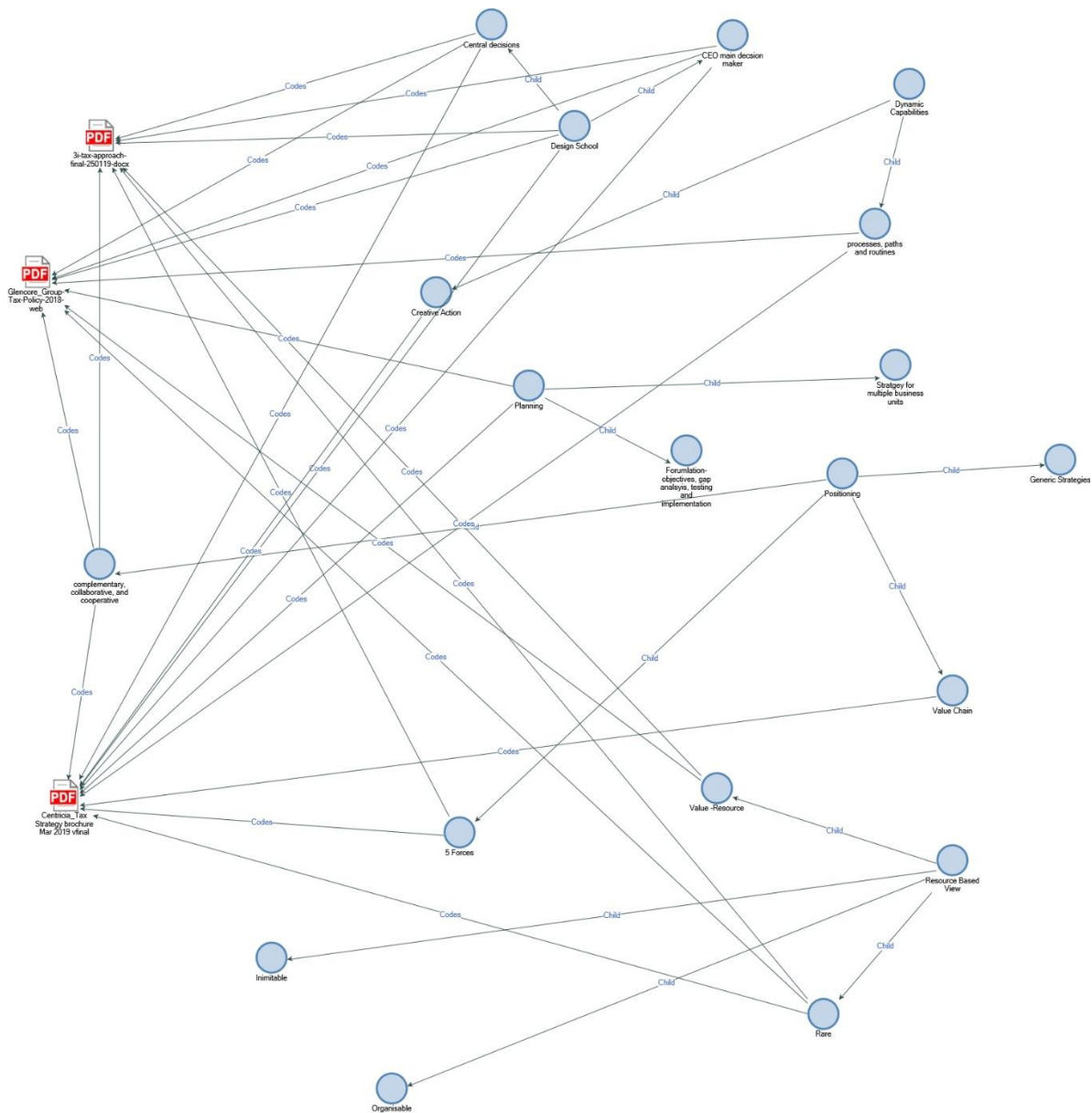


Figure 6: Alignment of tax strategy documents to the integrated strategic management framework for 3i plc, Centrica, and Glencore

The figure demonstrates that it is possible to identify key themes from the three documents with the most substantial references and support the premise that organisations use several theories when defining their tax strategy. Therefore, it is appropriate to use the integrated framework of strategic management to analyse the relationship. At this juncture of the research, the focus is on testing if the initial theory can translate into a formal theory for the final thesis.

This is demonstrated by analysing the detail of one organisation's tax strategy document with a more comprehensive analysis of a more extensive sample done at the next stage. For example, focussing on a tax strategy document for 3i plc, there is evidence of all five themes.

#### Design School

1. *"The Board's Audit and Compliance Committee receives an annual update from the Group Tax Director as well as ad-hoc updates on legislative and other changes that may impact the business".*
2. *"On behalf of the board, the Finance Director has primary responsibility for the Group's tax strategy, control and management of tax risk, assisted by the Group Tax Director and the Group's UK based, in-house tax team".*

This statement shows that decisions are taken centrally; however, it is the Finance Director rather than the CEO with overall responsibility.

#### Positioning School

3. *"3i Group plc ("the Company") is an investment company that has two complementary businesses, namely Private Equity and Infrastructure. Its core investment markets are in Northern Europe and North America. The Company and its subsidiaries together comprise the "Group"."*
4. *"The Group or third party funds, that fee income is taxable in the jurisdiction in which the managing or advising entity is based."*

Statement 3 provides evidence of Porter's five forces as it highlights the organisation is defining a strategy to compete in the external market. However, there is also evidence of the

planning school as it represents the overall corporate tax strategy as the document is for more than one business unit.

#### Co-opetition -Complementary, Collaboration and Cooperation

5. *“We pursue a professional, courteous and open relationship with all relevant tax authorities, governments and related third parties, in particular, acting cooperatively and transparently”.*
6. *“We make appropriate disclosure of all transactions undertaken. We may seek certainty from relevant authorities on tax matters in advance of Relevant Transactions being undertaken”.*
7. *“If disputes arise, we seek to work collaboratively to agree with the facts and set out the technical position with the relevant tax authority as quickly and efficiently as possible. We pursue tax litigation when advised that we have a strong technical position and where it is justified from a commercial and economic perspective”.*

Statement 5, 6 and 7 follow on from HMRC’s prescriptive guidance on the tax strategy document's content. Indeed, all one hundred tax strategy documents refer to collaboration with HMRC. The context here is a collaboration with a regulatory body, which reflects Nalebuff and Brandenburger’s (1996) theory of Co-opetition. Organisations have recognised that the best way to do tax planning is through continuous engagement with HMRC.

#### Resource-Based View

8. *“In-house tax team assisted by high-quality external advisors, as required, are involved in investment and business decisions”.*
9. *“The Tax Manager is appropriately qualified and is responsible for the overall management of Group tax requirements including compliance with tax legislation and*



*key tax deadlines, maintaining the day-to-day relationship with HMRC, and providing suitable training and support to the business. Advice from external advisors is obtained where the appropriate skills and expertise are not available in-house”.*

Generally, in the context of tax planning, resources are considered through the lens of human capital, for example, the skills and knowledge of the organisation's tax advisers. Statement 8 and 9 provide evidence as to how an organisation regards their tax advisers. For example, they are rare (need to pay a third party for specialist advice) and valuable (for example, a tax advisor's qualifications and the areas they are responsible for within the organisation).

#### Interviews

On 20 March 2020, the UK government imposed a “lockdown” on the whole population to reduce the spread of Covid-19. By this time, there was an unprecedented global pandemic. The UK lockdown resulted in restrictions on non-essential travel and contact with people outside of the family home. Consequently, each pilot interview was conducted by teleconference using Microsoft teams.

This research secured support from the Chartered Institute of Taxation (CIOT), who agreed to facilitate a request to members of their technical tax committees for volunteers to interview. However, as only a small sample of participants is needed at this juncture, senior tax practitioners from the researcher's network were interviewed. This provided an opportunity to conduct pilot interviews on an informal basis and receive feedback on the overall structure and format of the process allowing for improvements for the final thesis.

Four tax practitioners were interviewed for the pilot study. An alphanumeric code defines each participant; for example, “P1” represents Participant 1. All were asked to consider their answers in the context of their involvement in advising on the fifteen action points from BEPS. The discussion was based on how each participant answered each question, seeking to tease out richer data rather than merely recording a score. As this was the pilot stage, each participant was asked for general comments on the interview structure and the questions. Initially, P1 and P2 were interviewed and following their feedback, the questions and process were refined for P3 and P4 to ensure that the structure taken forward for the final thesis works effectively. The questionnaire for P1 and P2 is set out in Appendix III and for P3 and P4 in Appendix IV.

Appendix II states each participant's background and experience, obtained from initial discussions before the interview, their company website, and their profile on the professional networking website, LinkedIn. The individual's qualifications, years of experience, description of current employer and if they have worked or advised large and small organisations. All four participants are Chartered Accountants (three members of ICAEW and one the Chartered Institute of Accountants in Scotland (ICAS)), and all are Chartered Tax Advisers (CIOT). Three of the four have an undergraduate degree. The results and conclusions are categorised by the defined themes set out in the integrated framework of strategic management.

The questions fit into the six categories with the focus on the specific themes identified for the integrated framework of strategic management theories, for example:

- Design School
- Planning School
- Positioning School
- Resource-Based View

- Dynamic Capabilities
- Creative Action

### Design School

Question	1. The CEO sets the tax strategy of the organisation	2. Tax decisions for an organisation are made by the board of directors
Revised Question		2. <i>The <u>strategic</u> tax decisions of an organisation are made by the board of directors.</i>
P1	5	6
P2	6	4
P3	3	5
P4	3	8

Question one referred to the involvement of the CEO. P1 and P2 scored higher than P3 and P4.

P1 questioned the use of the word “sets” as he was not sure this helped considering the CEO’s role, whereas P2 states:

*“[The] CEO sets the strategy and whatever strategy they set the tax falls within it. It is all-encompassing”.*

(Interview P2)

P3 and P4 do not think the CEO is involved in setting tax strategy as this is the Tax Director’s responsibility. It is acknowledged that the CEO reviews the tax strategies if there is a need to

publish them. However, P3 said that he did find published tax strategies deliberately vague and not reflecting what the organisation is trying to achieve.

Question two aimed to establish if the board makes tax decisions. P1 and P2 recognised this question as similar and dependent on their answer to question one. For example, if the CEO was not involved in setting the tax strategy, there was a low probability of the board of directors involvement. P1 asked why question one referred to “tax strategy”, whereas, in contrast, question two was on tax decisions. This query was supported by P2, stating that it depended on the nature of the tax decision as generally anything that was not material or commercially sensitive would not go to the board and that they usually would deal with one individual who would report to the board on tax decisions.

There was a discussion on whether the wording of the question should be changed for both participants, for example, replacing “tax strategy” with “tax decisions”. Evidence from the document analysis shows that the board does sign off on the published tax strategy. However, both participants' responses suggest that it is not clear if they make tax decisions. Based on the feedback from both P1 and P2, the wording of the question was refined for P3 and P4 to:

*The strategic tax decisions of an organisation are made by the board of directors.*

P3 said he thought question two followed neatly on from question one; again, most boards did not get involved in the tax strategy from his experience. He gave the question a score of five as he knew that listed organisations do get involved, even if to just sign off on the tax strategy. P4 scored this high as he considered the question in publishing the tax strategy document; however, he reiterated that he thought it was the Tax Director role to set the strategy.

Q1 and Q2 link to the integrated framework of strategic management

Question one is linked to the design school and addressing the role of the CEO. From all participants' answers, the CEO does not set a tax strategy even though he is responsible for setting its commercial strategy. For question two, the board's role in making tax decisions is not clear, and there is little evidence of the board's involvement in the decision-making process. However, alignment to the integrated strategic management framework is on the board's involvement in strategic decisions.

Following the revised question, P3 and P4 scored high in publishing a tax strategy rather than implementing the plan. It raises the question, is the tax strategy document a true reflection of the tax strategy that the organisation has implemented.

Planning School

Question	3. All tax planning is formulated with established objectives and reviewed before implemented	4. For large organisations with multiple business units, tax planning is done centrally rather than by each business unit
Revised Question		
P1	8	9
P2	8	10
P3	5	10
P4	10	8

P1 and P2 strongly agreed with the statement in question three. P1 stated that when he worked for a large multinational, everything needed to be reviewed by the head office in the USA. The only experience he had of an organisation undertaking tax planning quickly without any formal review was applying historic tax legislation on company dividends, known as Advance Corporation Tax. However, this was a very long time ago, and the legislation is now changed. He cited the recent issues with Starbucks and Google and their policy change to pay large amounts of corporation tax to the UK treasury as clear evidence that it can be reactive.

P1 thought the recent example of multinationals effectively making gifts to HM Treasury in the form of tax (not owed due to their tax planning) was perhaps the most critical strategic tax issue now facing large organisations. Reputation risk was the fundamental reason they had made this decision, and he believed we would see a lot more of this type of behaviour in the future. P2 believed there were always outliers, but in general, tax planning followed a well-defined formal process.

P3 stated:

*“I think tax strategies are deliberately safe and non-objectionable.”*

(Interview P3)

The best practice is to have a well-considered strategy. The statement from P3 suggests that the organisation strives to have deliberate strategies. Participant 4 thought they were always considered and could not think of any examples where an organisation simply changed approach reactively.

In question four, P1 had already highlighted that all tax decisions are made centrally when he worked for a large multinational. His recent experience is that a fund management team would define the tax planning and strategy for an extensive portfolio of companies based in the UK.

P2 supports this statement:

*“From my experience [when it is the same fund manager], typically [they] have the same tax view on things. The actual individual may be managing different investments, but fundamentally they will feedback into the central fund management team to get buy-in on how we should approach specific items”.*

(Interview P2)

P3 and P4 believe that tax planning is centralised. P3 said that the head office would always have to approve a business unit’s new tax plan.

#### Q3 and Q4 link to the integrated framework of strategic management

The planning school argues that strategy is deliberate rather than emergent. All the participants agreed with this statement which aligns with Ansoff’s five steps for strategy. Each could identify examples where the organisation has not always followed this process and been reactive. The example of Starbucks and Google making a payment to HM Treasury following the well-published investigation by the UK Parliamentary sub steering committee, even though they had no legal obligation to do so, highlights how the organisation may change strategy quickly considering new developments. In this case, customers would not use their product because they are concerned about tax avoidance. This suggests that the planning school is not always prominent in tax strategy, as it can be deliberate and sometimes emergent.

## Five Forces

Question	5. Organisations make a conscious decision to use tax planning to be competitive in their markets
Revised Question	
P1	7
P2	2
P3	2
P4	4

P1 thought that historically organisations did use tax planning to compete in the market. He cited the use of the hybrid (BEPS Action 2) rules as a clear example of where it was possible to gain an advantage by simply setting up a company in a specific jurisdiction. He also thought that tax planning would help organisations when they do move into a new market.

P2 started by clarifying the question:

*“I was reading this question as getting a competitive advantage.”*

(Interview P2)

He did not think that an organisation used tax planning to compete but instead maintained the status quo from his experience. Organisations did not explicitly set out to be more competitive through tax planning, mainly because they did not want to appear to be too aggressive against their peers. However, he did caveat this point in that many of his clients were happy to pursue higher-risk tax structures if they thought they were tried and tested in the market.



Generally, neither P3 nor P4 thought organisations were trying to use tax to gain an advantage in the market. P3 reiterated that most just wanted to be in the “middle ground” in the market. P4 said that there had been a noticeable shift away from aggressive tax planning to a compliance focus by organisations.

#### Q5 link to the integrated framework of strategic management

Question five seeks to gather evidence that tax practitioners know of Porter’s five forces and whether they think their clients use tax to gain a competitive advantage. The response from P2 highlights that this is a straightforward question and that he is aware of the term competitive advantage. Initially, he thought this was not a motive for an organisation. However, as he acknowledged, his clients would adopt riskier strategies if others in the market were using them. This statement suggests that tax planning is a means to compete in the market. P1 support this assertion by highlighting that the BEPS hybrid rules are a clear example of where organisations try to gain an advantage.

## Generic Strategies

Question	6. The tax strategy of an organisation is a key component of following a wider strategy of differentiation	7. Tax planning helps the organisation follow a cost leadership strategy
Revised Question		<i>The tax strategy of an organisation is a key component of following an overall cost leadership strategy</i>
P1	8	6
P2	7	5
P3	3	3
P4	3	6

P1 and P2 thought tax is a critical component of a broader strategy of differentiation. In contrast, P3 stated tax is not part of differentiation as, in their experience, the Tax Director (Head of Tax) was “terrified” of taking an overly aggressive approach. P4 said that he knew of only one company trying to use tax reporting to differentiate itself from others in the market.

Question seven, P1 and P2 believed that tax does not directly impact cost leadership, although they recognise that reducing tax will reduce costs by its nature. P1 did say that some organisations use investment in research and development to get specific tax reliefs; however, he was not sure if this is a cost leadership approach.

Like question six, refining question seven to clarify that tax is one critical component, rather than the strategy itself, should help gain more insightful data for the final thesis. For Participant 3 and 4, the question changed to:

*The tax strategy of an organisation is a key component of following an overall cost leadership strategy*

Based on this question, P3 and P4 believe that tax does not directly impact cost leadership, although reducing tax will reduce costs.

#### Q6 and Q7 link to the integrated framework of strategic management

It is not clear if organisations use tax as a point of differentiation. Although P1 and P2 thought this was part of tax planning, P3 and P4 disagreed. Similarly, none of the participants' thought tax is a critical component of a cost leadership strategy.

## Co-opetition

Question	8. Organisations use complements, collaboration, and cooperation in tax planning
Revised Question	<p><i>Organisations will consider the following three components when defining their tax strategy:</i></p> <ul style="list-style-type: none"> <li>• <i>Complements (where the sale of their product or service complements the product or service of another company by adding value to mutual customers)</i></li> <li>• <i>Collaboration (where working together will produce a better outcome for both parties)</i></li> <li>• <i>Cooperation (where they share information to produce a better outcome for both parties)</i></li> </ul>
P1	7
P2	6
P3	1
P4	4

P1 and P2 did not initially recognise the term complements. P1 stated that he had seen collaboration and cooperation between organisations on tax planning; however, he was unsure of the definition of complement. As the term complements needs to be defined, it suggests that this term is not used consistently by tax practitioners. Nevertheless, to ensure a more accurate response in the future, the question was refined to the following:

*Organisations will consider the following three components when defining their tax strategy:*

- *Complements (where the sale of their product or service complements the product or service of another company by adding value to mutual customers)*
- *Collaboration (where working together will produce a better outcome for both parties)*
- *Cooperation (where they share information to produce a better outcome for both parties)*

However, based on the revised statement, P3 still did not understand the definition of complements and therefore scored the question one. After discussing specific examples for all three categories, he said that he does have experience of collaboration and cooperation. However, he still cannot see how complements are relevant. P4 also needed more context on complements and concluded that it did not apply to tax planning. He initially scored the question one but increased this to four after further discussion, highlighting that he has seen limited evidence of collaboration and cooperation from his clients.

The response from all four participants highlights two critical points to consider for the primary research. The first is that covering cooperation, collaboration, and complementing in just one question may result in a consistently low score even though tax advisors may have experience of two of the three components. The second is that participants benefit from talking through the question and may change their mind after receiving more context. Therefore, splitting the components into separate questions could be beneficial and provide more information to frame the statement.

#### Q8 link to the integrated framework of strategic management

The responses support the premise that tax planning requires collaboration and cooperation, both externally, between competitors, and internally, between the correct people. The answers

from all four participants raise the question of whether the components are applicable for tax strategy. For future interviews, it may help to separate the three components into separate questions.

#### Resource-Based View

Question	9. Resources are important in tax planning
Revised Question	<i>Resources are of significant value to an organisation in setting the tax strategy as they are rare with few substitutes and easy to organise</i>
P1	9
P2	10
P3	5
P4	8

P1 agreed with this statement, highlighting that tax planning relies on the expertise of the tax practitioner. His view was that if an organisation did not have the right resources, managing tax could be “time-consuming” and “expensive”. P2 highlighted that they need to spend more time advising organisations on tax issues when they do not have an in-house tax team or lack the correct technical ability. He agreed that resources were crucial for tax planning.

This question was perhaps the easiest for each participant to answer. Indeed, it would be slightly odd for them to score low, given their background and involvement in corporation tax.

Tax planning cannot happen without resources, generally in the form of human capital, through the tax practitioner's expertise and knowledge. However, the resource-based view further seeks to identify valuable, rare, inimitable, and organisable. Although the question established the resource's importance, it did not provide any further detail. For a more informed answer from Participant 3 and 4, the question changed to the following:

*Resources are of significant value to an organisation in setting the tax strategy as they are rare with few substitutes and easy to organise*

Nevertheless, P3 still found the wording of the question problematic as he agreed that resources might be rare with few substitutes, but he did not see how they were easy to organise. He did agree that resources were critical and therefore increased his original score from a five to eight. P4 approached this in the context of human capital and agreed with the statement.

#### Q9 link to the integrated framework of strategic management

There is undoubtedly evidence of resources being valuable, rare, substitutable, and organisable. However, an organisation does need to achieve all these conditions to achieve a competitive advantage using its resources. Based on the answers from the participants, it is not clear if this is the case. Nevertheless, the resource-based view is a vital part of the integrated framework of strategic management as it helps analyse the organisation's internal strengths and competencies.

## Dynamic Capabilities

Question	10. Establishing coherent processes are important in tax planning
Revised Question	
P1	8
P2	9
P3	8
P4	8

All participants strongly agreed with the statement in question ten. P1 believed that coherent processes were vital to ensure that the tax practitioner knows the “road map” and the “direction of travel”. The conversation referred to the previous discussion on Starbucks and Google being reactive on their tax planning following criticism from the public on the amount of tax they paid. P1 acknowledged that there probably was not a defined process for this change in strategy; however, organisations did follow set processes from his experience. P2 stated that processes were critical as they allowed the organisation to set out what they wanted to achieve in tax. Participant 4 highlighted how this was becoming even more important to the organisation by introducing the Criminal Finances Act 2017, which imposed further obligations on the organisation to ensure that they do not facilitate tax evasion.

### Q 10 link to the integrated framework of strategic management

Schedule 19 FA 2016, obligation to publish a tax strategy, is prescriptive legislation as it allows an organisation to establish processes to follow when defining tax planning. However, as



pointed out by P1, there are occasions where this does not work. Nevertheless, this question supports the assertion that dynamic capabilities are relevant to tax practitioners' and organisations' tax planning.

### Creative Action

Question	11 Tax planning changes regularly	12.Tax advisers and senior management use their previous experience when defining the organisation's tax strategy	13. Tax strategy is influenced by how tax advisers and senior management interact with their peers from other organisations	14.Organisations define their tax planning based on how they believe it will be perceived by their stakeholders and the wider public
Revised Question	<i>The tax strategy of an organisation changes regularly</i>			
P1	7	9	8	10
P2	6	10	10	8
P3	5	10	9	9
P4	2	9	9	8

P1 answered question eleven in the context of a change in tax planning. He did not think it occurred regularly, only when there was a significant change in legislation. P2 said that he did not understand the question as it could mean tax planning will change from client to client or within the organisation. If it is the former, it does change, and if the latter, there is little change. For example, in the context of BEPS, little has changed since introducing the new rules. Considering the response from P2, the wording of the question was changed for P3 and P4 to the following:

*The tax strategy of an organisation changes regularly*

Based on the new wording, P3 believes organisations change their tax strategy regularly, and P4 said that it might help define the timeline of “regularly” in this context.

Question twelve, scored highly with all participants as they felt that tax practitioners experience will always influence their advice. P2 highlighted why the experience was so relevant:

*“We are trying to understand the fact pattern and if we have experience with another client with a similar fact pattern”.*

Question thirteen, P1 and P2 said they spoke with their peers both within the same organisation and externally on current tax issues. P2 said it was common to speak with peers before finalising the client's advice. P3 linked this back to his previous statement that most organisations want to be in the middle ground with their tax strategy rather than being an outlier. Except for one situation where he knows a CEO takes a very aggressive tax approach, most organisations do what they think others are doing. P4 would want to understand what other tax practitioners were advising. However, this did not mean he would necessarily advocate the same advice if he thought it was aggressive tax planning.

Question fourteen, P1 already referred to his concerns about reputation risk influencing tax strategy in the future. He thought this would be even more important due to Covid-19, as the British public would not want to support an organisation believed to be not paying their fair share towards essential services such as the National Health Service. P2 did say that some clients, such as those running large family offices, were not generally influenced by anyone. However, this may be because they did not need to consult any other stakeholders. P3 and P4 thought this was very similar to the previous question

#### Q11, 12, 13, 14 link to the integrated framework of strategic management

The responses from the participants suggest that tax planning does not change regularly. Alignment with emerging intentions in creative action is, therefore, limited. Nevertheless, given the previous answers, this is certainly an area to explore further in the final thesis. There is little evidence of tax strategies emerging. The catalyst for any change is new tax legislation or restructuring in the organisation.

Question twelve is seeking to determine if there is alignment with the term embodied expressions from creative action. The high score shows that this is a vital part of how tax practitioners define tax planning and strategies for an organisation, using their knowledge gained from previous experience in similar roles. There is clear evidence of embodied expressions from creative action in setting tax strategy.

Answers to question thirteen suggest that identity formation in creative action is prevalent amongst tax practitioners. However, there is little evidence of senior management being

influenced by their peers. This question was explored further with P3 and P4, and there is clear evidence of identity formation from creative action when tax practitioners define tax strategy.

In question fourteen, participants' high scores show evidence of emerging intentions when defining a tax strategy. It may not happen all the time, yet in the case of reputation risk, organisations were willing to change their approach if they thought it would harm their long-term growth. Evidence from P3 and P4 shows attributes from creative action's emerging intentions in setting tax strategy.

### Overall Results

The score of each interview is represented below with an average overall.

Table 4: The score of each interview with an average

1	The CEO sets the tax strategy of the organisation	Interviews				Average	Theme from Strategic Network*
		5	6	3	3		
2	The strategic tax decisions of an organisation are approved by the board of directors	6	4	5	8	4.25	Design School
3	A tax strategy is formulated with established objectives and reviewed before implemented	8	8	5	10	5.75	Design School
4	For large organisations with multiple business units, setting the tax strategy is done centrally rather than by each business unit	9	10	10	8	7.75	Planning School
5	Organisations make a conscious decision to use tax planning to be competitive in their markets	7	2	2	4	9.25	Planning School
6	The tax strategy of an organisation is a key component of following a wider strategy of differentiation	8	7	3	3	3.75	Five Forces
7	The tax strategy of an organisation is a key component of following an overall cost leadership strategy	6	5	3	6	5.25	Generic Strategies
8	Organisations will consider the following three components when defining their tax strategy: • Complements (where the sale of their product or service complements the product or service of another company by adding value to mutual customers) • Collaboration (where working together will produce a better outcome for both parties) • Cooperation (where they share information to produce a better outcome for both parties)	7	6	1	4	5	Generic Strategies
9	Resources are of significant value to an organisation in setting its tax strategy as they are rare with few substitutes and easy to organise	9	10	5	8	4.5	Co-opetition
10	Establishing coherent processes are important in setting a tax strategy	8	9	8	8	8	Resource-Based View
11	The tax strategy of an organisation changes regularly	7	6	5	2	8.25	Dynamic Capabilities
12	Tax advisers and senior management use their previous experience when defining the organisation's tax strategy	9	10	10	9	5	Creative Action: Emerging intentions
13	Tax strategy is influenced by how tax advisers and senior management interact with their peers from other organisations	8	10	9	9	9.5	Creative Action: Embodied Expressions
14	Organisations define their tax planning based on how they believe it will be perceived by their stakeholders and the wider public	10	8	9	8	9	Creative Action: Identify formation
						8.75	Creative Action: Emerging Intentions

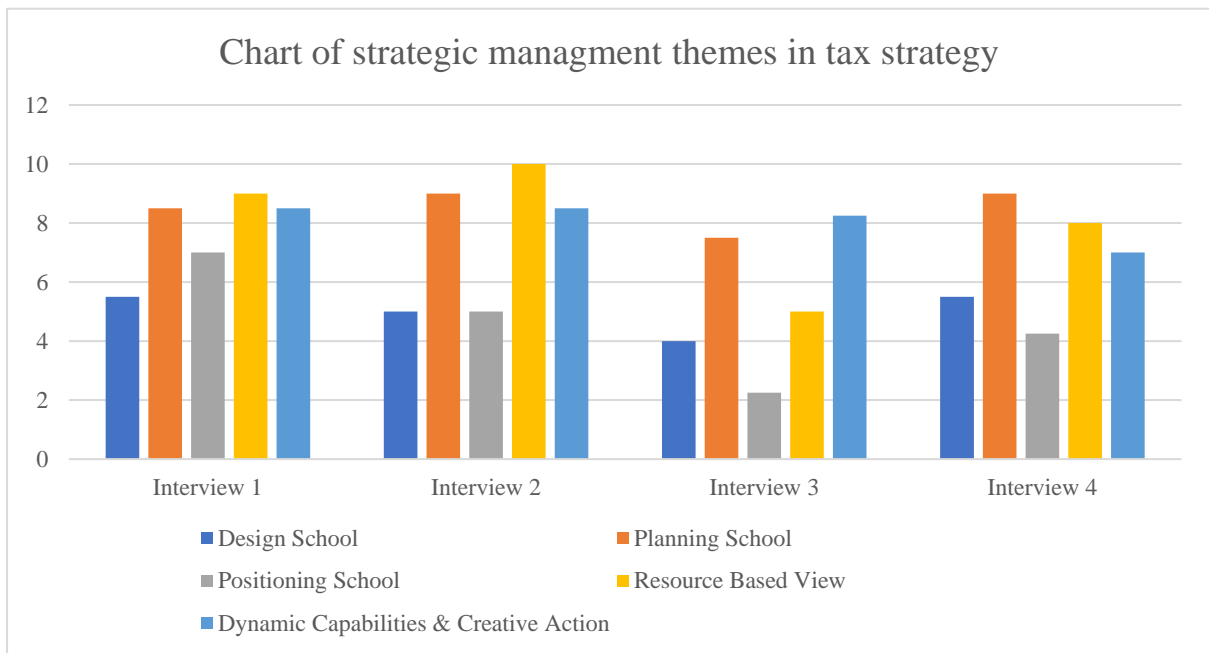


Figure 7: Key strategic management themes in tax strategy

The average score of each participant is illustrated as follows



Figure 8: Evidence of the integrated strategic management framework from interviews

As illustrated, from the fourteen questions, only three scored an average of below 5. This suggests that there is an alignment between strategic management and tax strategy. The most prominent theory is creative action with the three components of emerging intentions, identity formation and embodied expressions.

The results of the interviews show that the structure works for a broader sample in the final thesis. From the revised questions, participants answered all comfortably apart from complements, collaboration, and cooperation. Although they agreed that collaboration and cooperation are clear, the point on complements clouded their answer. This confusion leads to the conclusion to either exclude the reference to complements or pose it as a standalone question. Reviewing the coding in the document analysis also shows a low score to complements compensated by collaboration. As highlighted in the literature synthesis,

Brandenburger and Nalebuff (1996) argue complements as a sixth force, and this deserves further investigation within the context of tax planning. Therefore, there are fifteen questions for the primary research with a larger sample to accommodate the point on complements separately.

#### **5.4 Outcome of Pilot Study**

The initial belief statement is adapted into a final statement informing the primary research based on both the pilot document analysis and initial interviews with the questionnaire results.

The initial belief statement was:

*Tax practitioners are strategic in corporate tax planning when analysed using an integrated framework of strategic management.*

This original statement is based on the literature review and synthesis conclusions, namely that both strategic management and corporate tax planning are multidisciplinary with overlapping theories. An integrated strategic management framework demonstrates the nature of the relationship between the two subjects.

The evidence presented from the initial empirical data supports the following final formal theory:

*Organisations are strategic when defining their corporate tax strategy when reviewed using an integrated framework of strategic management.*

The significant difference from the initial to the final theory is the omission of “tax practitioner”. This is not to exclude the tax practitioner's role as they are always implicitly involved in tax planning. However, as shown in the literature review and the pilot study, other actors within the organisation also play a significant tax planning role. For example, initial research on alignment with the design school suggests that the CFO is also heavily involved in tax planning and that the board ultimately agrees to the tax strategy.



## **Chapter 6: Empirical Research and the Repertory Grid**

### **6.1 Introduction**

Chapter 6 to 8 set out the results of the primary research. The chapters follow on from the pilot study and the subsequent changes made to the interview questions. The methodology for the main study is the same as the pilot study. A pragmatic paradigm is adopted with an emphasis on qualitative analysis supported by quantitative data. The primary study uses the same research techniques as the pilot study with document analysis and interviews with the questionnaire. Following the same approach allows the pilot study's initial findings to be included in the main study results.

Section 6.2 shows the most prevalent themes identified in the tax strategy documents. Similar to the pilot study, NVivo software facilitates extracting content from the tax strategy documents to the relevant themes in the integrated framework for strategic management defined in Chapter 3. Section 6.3 shows the score of the seventeen participants interviewed using the repertory grid.

### **6.2 Document Analysis**

Sections 6.4 to 6.8 include the results of the document analysis. The answers support the data from the questionnaire and semi-structured interviews with tax advisors to help identify the most prominent themes when defining the tax strategy. The tax strategy document for each company that constitutes the FTSE 100 is analysed to identify common themes. Appendix I shows each organisation and the dates of publication of the two most recent tax strategy documents analysed. The dates range from 2018 to 2020 as organisations publish up to twelve months after the end of their accounting period. The expected sample of the tax strategy document is two hundred (two for each organisation). However, some organisations only publish their tax strategy on an HTML website page and do not provide their historical

documents. The sample used for the primary research is, therefore, one hundred and seventy-five documents.

The document analysis follows Berkowitz's (1997) description of adopting an iterative set of processes and revisiting specific parts of the text as new connections emerge, and more complex relationships develop. For example, rather than allocating text to the five forces, it is earmarked to one of its components: customer bargaining power, supplier bargaining power, the threat of substitutes, threat of new entrants, and industry rivalry. The advantage of creating these sub-nodes is that it creates more opportunities to align text across several themes, which provides further evidence of integration.

### **6.3 Interview results and the repertory grid**

The primary research conducted interviews with seventeen tax advisors. The main sample includes the results from the four tax advisers interviewed for the pilot study. As highlighted, the CIOT supported this research and shared the author's request to all technical sub-committee members (over one hundred tax advisors) to volunteer to be interviewed. The criteria for accepting volunteers is that they work in corporate tax at a senior level in their organisation. The CIOT request resulted in five (30% of the final total) volunteers interviewed for the final research. Twelve volunteers were approached independently by the author through his professional network.

Appendix II shows the experience and qualifications of each tax advisor interviewed. Following the same approach as the pilot study, to ensure their anonymity, each participant has a code name based on 'P' (for the participant) followed by the interview number. As highlighted in Appendix II, all participants have worked for one of the four largest global

accountancy firms at some point in their career. PricewaterhouseCoopers (PWC), Ernst & Young (EY), Deloitte Touche Tohmatsu (Deloitte) and KPMG are collectively known as the 'Big Four'. Most participants have also worked in the tax function for an FTSE 100 organisation. Importantly for the primary research, all participants have experience advising FTSE 100 organisations on BEPS.

All participants interviewed are qualified to give tax advice to clients in the UK. Eleven are qualified Chartered Accountants (ICAEW or ICAS) and Chartered Tax Advisers (CIOT). These are the most common qualifications for tax advisors as many organisations ask their trainees to have an accountancy qualification before specialising in taxation. Another route to becoming a qualified tax adviser is to become an Associate Tax Technician (ATT). Many tax practitioners who take the ATT route will also become qualified Chartered Tax Advisers by sitting the CIOT exams after passing the technician syllabus. Two participants are qualified through this programme. One is a qualified Solicitor and Chartered Tax Adviser and three participants are not Chartered Tax Advisers but are qualified to give tax advice as a Chartered Accountant (ICAEW) or through the HMRC tax inspector programme.

It is not necessary to have a university degree to become a qualified tax adviser in the UK. However, only one participant did not complete a university degree before embarking on a career in tax. The rest of the participant's degrees range from accountancy and economics to english literature and mathematics. No participant holds a qualification that specialises in strategic management, such as a masters degree or doctorate. The fact that no one in the sample has received formal education in strategic management is an interesting dimension to the research. Although this is out of the research scope, it is worthy of further discussion considering the participants' interview answers.

Appendix V is the questionnaire that the participants completed before the interview. Appendix VI shows the semi-structured interviews with potential probes on each question to ensure rich data collection. The questionnaire results are presented in a repertory grid, illustrating what tax advisers believe are the most prevalent themes from the integrated framework of strategic management in tax planning. The repertory grid for the primary research includes the results of the pilot study. Appendix III and IV highlight the subtle changes from the pilot study's questions to the primary research. As there is no change in the essence of the questions, the pilot study results are valid for the final results. For example, in question two, P1 and P2 are asked to rank the following statement:

- *Tax decisions for an organisation are made by the board of directors*

The wording changes to the following for all other participants

- *The strategic tax decisions of an organisation are made by the board of directors*

However, the changes to questions eight and nine in the primary research questionnaire are fundamental. For example, these questions focus on co-opetition with the pilot study asking participants about cooperation and collaboration and complements in just one question (question eight). In the primary research, this is split into two questions. Question eight is on collaboration and cooperation, and question nine is on complements. The change creates some doubt as to the integrity of the data for the primary research. To address this point, in February 2021, the four participants interviewed for the pilot study also answered questions eight and nine from the primary research. The questions are, therefore, consistent for all seventeen participants. The results of the questionnaire are as follows:

Table 5: Results of the questionnaire for the main study

No	Question	Interviews																
		Interview 1	Interview 2	Interview 3	Interview 4	Interview 5	Interview 6	Interview 7	Interview 8	Interview 9	Interview 10	Interview 11	Interview 12	Interview 13	Interview 14	Interview 15	Interview 16	Interview 17
1	The CEO sets the tax strategy of the organisation	5	6	3	3	2	0	6	5	9	4	6	10	8	5	7	4	4
2	The strategic tax decisions of an organisation are approved by the board of directors	6	4	5	8	7	5	9	7	9	6	8	8	7	8	7	4	6
3	A tax strategy is formulated with established objectives and reviewed before implemented	8	8	5	10	5	3	9	6	9	5	7	3	6	7	4	4	5
4	For large organisations with multiple business units, setting the tax strategy is done centrally rather than by each business unit	9	10	10	8	6	9	9	8	10	8	10	8	9	6	8	8	8
5	Organisations make a conscious decision to use tax planning to be competitive in their markets	7	2	2	4	6	7	9	6	0	6	6	8	7	3	7	5	6
6	The tax strategy of an organisation is a key component of following a wider strategy of differentiation	8	7	3	3	4	7	5	4	2	6	4	5	5	5	3	3	5
7	The tax strategy of an organisation is a key component of following an overall cost leadership strategy	6	5	3	6	5	7	5	4	2	6	4	5	5	5	3	3	5

No	Question	Interview 1	Interview 2	Interview 3	Interview 4	Interview 5	Interview 6	Interview 7	Interview 8	Interview 9	Interview 10	Interview 11	Interview 12	Interview 13	Interview 14	Interview 15	Interview 16	Interview 17
8	Organisations will consider the following components when defining their tax strategy: <ul style="list-style-type: none"> <li>• Collaboration (where working together will produce a better outcome for both parties)</li> <li>• Cooperation (where they share information to produce a better outcome for both parties)</li> </ul>	9	8	9	7	5	7	5	4	2	6	4	5	5	5	3	3	5
9	Organisations consider complementary products and services when defining their tax strategy. A complement is where the sale of a product or service complements the product or service of another company by adding value to mutual customers	8	7	9	7	0	3	4	7	0	0	1	5	5	5	8	5	3
10	Resources are of significant value to an organisation in setting its tax strategy as they are rare with few substitutes and easy to organise	9	10	5	8	6	4	5	5	8	1	6	5	9	8	5	6	6

		Interview 1	Interview 2	Interview 3	Interview 4	Interview 5	Interview 6	Interview 7	Interview 8	Interview 9	Interview 10	Interview 11	Interview 12	Interview 13	Interview 14	Interview 15	Interview 16	Interview 17
11	Establishing coherent processes are important in setting a tax strategy	8	9	8	8	6	7	8	8	7	7	9	6	7	8	9	7	9
12	The tax strategy of an organisation changes regularly	7	6	5	2	3	3	3	5	2	1	3	8	2	4	3	1	6
13	Tax advisers and senior management use their previous experience when defining the organisations tax strategy	9	10	10	9	8	8	8	8	10	3	7	9	9	8	8	7	9
14	Tax strategy is influenced by how tax advisers and senior management interact with their peers from other organisations	8	10	9	9	7	8	7	7	7	7	8	6	8	8	8	6	9
15	Organisations define their tax planning based on how they believe it will be perceived by their stakeholders and the wider public	10	8	9	8	7	9	9	7	6	8	8	6	6	8	7	7	9

The scores by each participant are averaged based on each theme in the integrated strategic management framework. The results are as follows

Table 6: Individual average score per theme and participant

	Interview 1	Interview 2	Interview 3	Interview 4	Interview 5	Interview 6	Interview 7	Interview 8	Interview 9	Interview 10	Interview 11	Interview 12	Interview 13	Interview 14	Interview 15	Interview 16	Interview 17
Design School	5.5	5	4	5.5	4.5	2.5	7.5	6	9	5	7	9	7.5	6.5	7	4	5
Planning School	8.5	9	7.5	9	5.5	6	9	7	9.5	6.5	8.5	5.5	7.5	6.5	6	6	6.5
Positioning School	7.6	5.8	5.2	5.4	4	6.2	5.6	5	1.2	4.8	3.8	5.6	5.4	4.6	4.8	3.8	4.8
Resource Based View	9	10	5	8	6	4	5	5	8	8	6	5	9	8	5	6	6
Dynamic Capabilities with Creative Action	8.40	8.60	8.20	7.20	6.20	7.00	7.00	7.00	6.40	5.20	7.00	7.00	6.40	7.20	7.00	5.60	8.40
Average score per participant	7.80	7.68	5.98	7.02	5.24	5.14	6.82	6.00	6.82	5.90	6.46	6.42	7.16	6.56	5.96	5.08	6.14



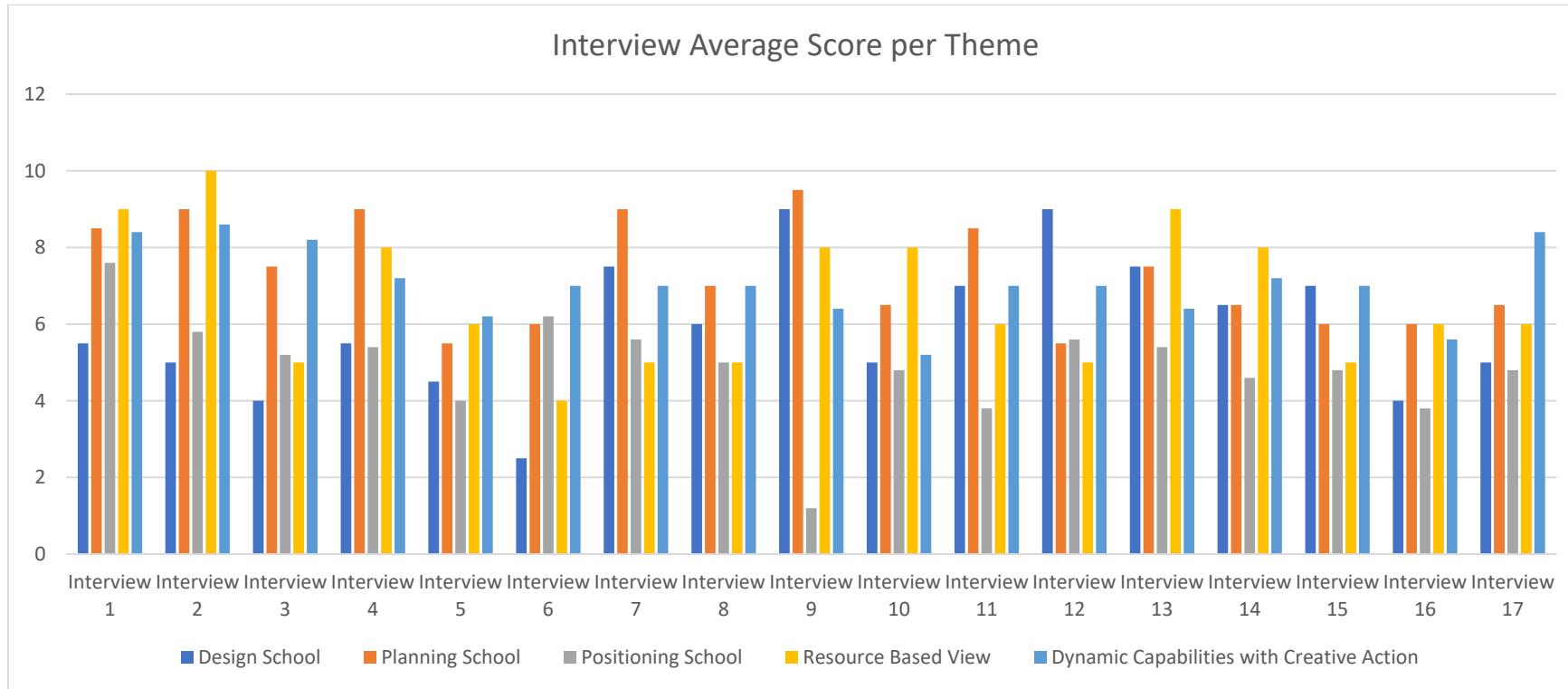


Figure 9: Average score per theme for each participant

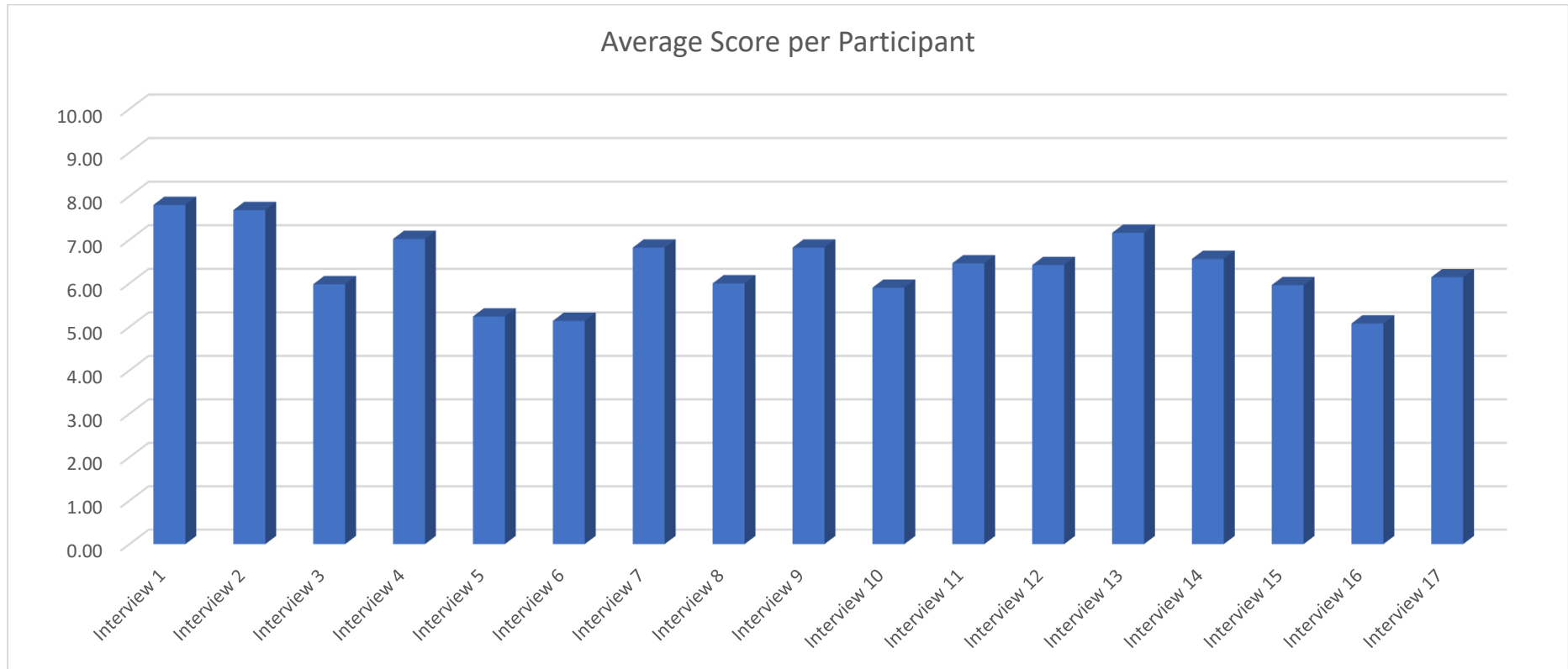


Figure 10: Average score per participant

Table 6 shows the average score per participant for each theme and their overall average score. The data is presented graphically in figures 9 and 10. The theme with the lowest score (4.92) is the positioning school due to the low marks on co-opetition as many participants did not recognise these components in tax strategy. The highest scoring is the planning school. Participants were asked to rank five statements on themes attributed to the positioning school, with most participants agreeing that tax strategy is formulated and centralised.

The average score per participant is between 5.08 (Participant 16) and 7.80 (Participant 1). The mathematical range is negligible at 2.72, which is expected considering the interview's semi-structured nature and the participants' similar experience. The standard deviation from the average score by all participants is as follows:

Table 7: Standard deviation from an average score of each theme in the integrated framework of strategic management

<u>Strategic Management Theme</u>	<u>Standard Deviation</u>
Design School	1.8
Planning School	1.4
Positioning School	1.3
Resource-Based View	1.8
Dynamic Capabilities with Creative Action	1

As illustrated, there is a low standard deviation across all the themes, indicating that the values are close to the mean, highlighting that the participants presented similar scores on average for each theme. The lowest score is from P16, and the highest is from P1; both have similar

backgrounds with over thirty years of experience working in tax and senior positions in FTSE 100 organisations. The answers, therefore, reflect the participants' direct experience working in different organisations.

## Chapter 7: Empirical Research for Mintzberg’s Prescriptive Schools

### 7.1 Introduction

Chapter 7 follows from chapter 6 and sets out the primary research results for Mintzberg’s prescriptive schools. Section 7.2 shows the data for the design school, section 7.3 for the planning school and section 7.4 for the positioning school.

### 7.2 Design School

Evidence of the design school is through identifying three main themes. The premise is that the CEO is responsible for formulating the strategy, including tax. The design school also believes the organisation's board approves the strategy and that structure is critical to successful implementation. Results from the document analysis are in the following table.

Table 8: Evidence of the design school in tax strategy documents

Name	Number of documents referring to design school	Reference to themes in documents
Design School		
Leadership	35	47
Board Approval	34	44
Structure	34	49

There is a small number of references to the components of the design school. Thirty-five (20 per cent) documents explicitly mentioned leadership, and thirty-four (19 per cent) refer to board approval and the structure of the organisation. The low amount of references shows that components from design school are not often used in tax strategy.

Questions one and two address the design school, whilst there is also some overlap with question four on the planning school, as it asks about structure. The figure below illustrates the average score from all seventeen participants for question one and two.

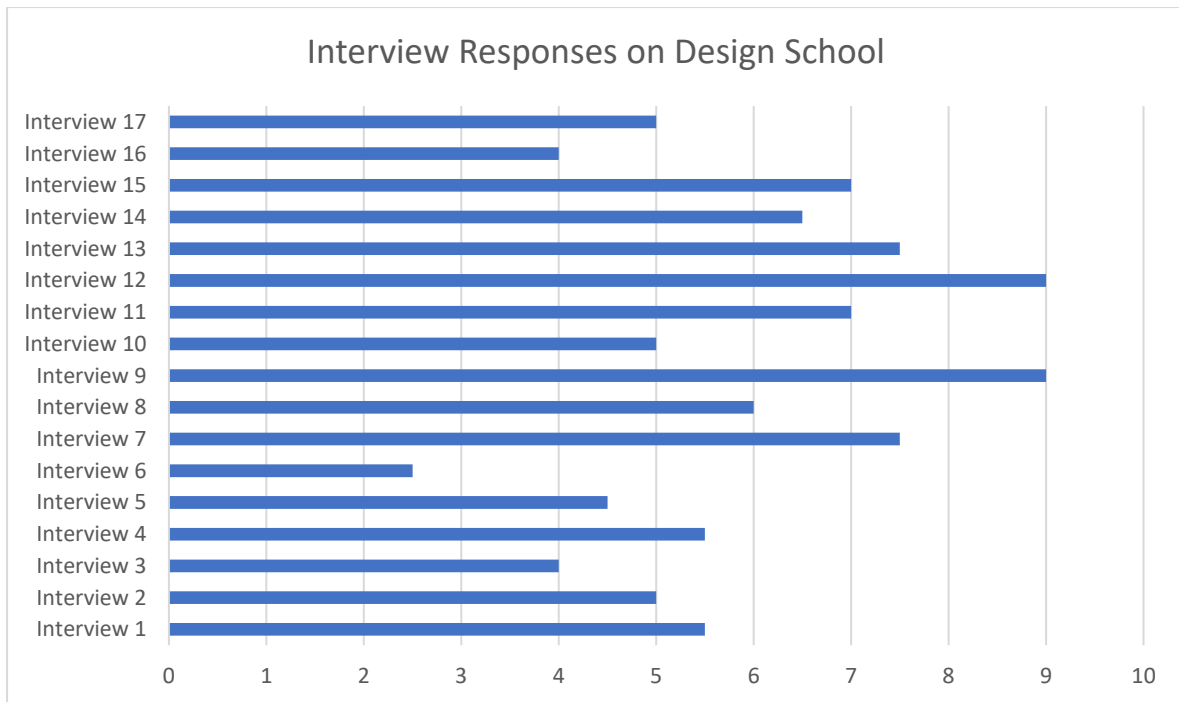


Figure 11: Evidence of the design school in tax strategy documents

In contrast to the document analysis references, the trend from the participants answers illustrates that most tax advisers do recognise the components of the design school from their experience in tax planning. Only three participants scored the questions less than five, with most above six. The results suggest that tax advisers do consider leadership, board approval and structure in tax strategy.

### Leadership

The role of the leader in the organisation is a critical component of the design school. FA 2016 states the below requirement:

*“The company's approach to risk management and governance arrangements in relation to UK taxation.”*

*(FA 2016 17(1)b)*

Governance should implicitly cover the leader's role and involvement in setting the tax strategy.

There are thirty-five references to the leader's role in the tax publications that form the data set.

However, only one document states that the CEO is responsible for the tax strategy (AVEVA, 2020). This is in conjunction with the Chief Financial Officer (CFO), Finance Director and Company Secretary. The typical approach is for the CFO to have delegated responsibility from the board to define the tax strategy. For example, WPP and Mondi tax strategy documents state: *“Responsibility for the tax strategy, the supporting governance framework and management of tax risk ultimately sits with the Chief Financial Officer (CFO). Day-to-day responsibility for each of these areas sits with the Group Tax Director, who reports to the CFO.”*

(WPP, 2019, p. 1)

*“The Board is ultimately responsible for ensuring the tax affairs of the Group are managed effectively, consistent with the principles of financial management applied throughout the Group. The Chief Financial Officer is the Director responsible for the Group’s tax affairs at Board level. There is an annual review by the Board of the tax strategy of the Group”.*

(Mondi, 2019, p. 1)

The below word tree illustrates the primary responsibilities of the CFO.

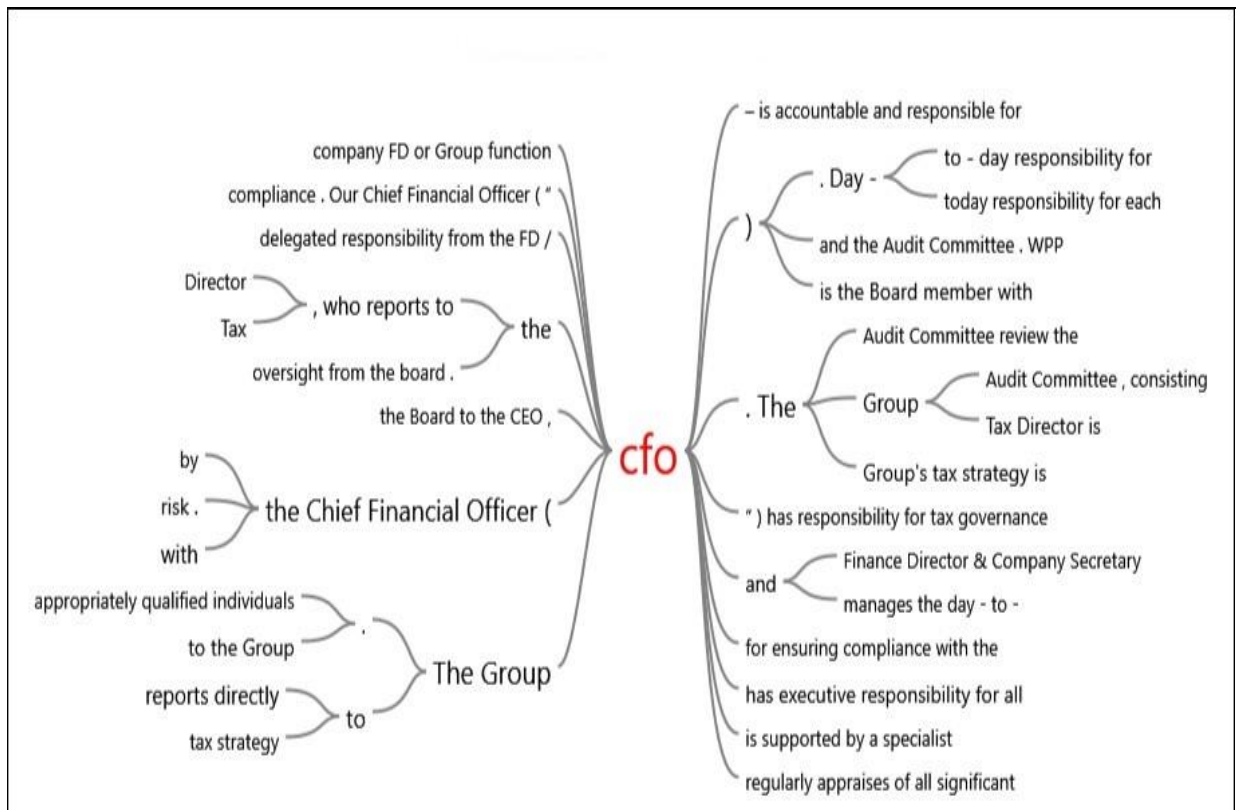


Figure 12: Word tree illustrating CFO responsibilities

Source: NVivo word search on FTSE 100 tax strategy documents

In most organisations, the CFO's role requires chairing the Audit Committee or Risk Committee and fulfilling the role of Senior Accounting Officer, a position in the organisation that requires annual reporting to HMRC on the organisation's tax controls and carries the risk of personal liability. For example, the Barratt tax strategy states:

*“The Barratt Developments PLC Board sets out the overall strategy of the Group in relation to Taxation, with overall responsibility for oversight of the tax affairs of the Group delegated to the Chief Financial Officer. The Chief Financial Officer is also the Senior Accounting Officer for all Group entities”.*

(Barratt, 2020, p. 1)



The design school is more concerned about how strategy is formulated rather than implemented. Although the evidence shows it is the CFO rather than the CEO responsible for the tax strategy, the Tax Director is critical to implementation. They will be responsible for the tax affairs of the organisation, reporting to the CFO. For example:

*“The Group CFO has executive responsibility for all tax matters. The day-to-day responsibility for the operation of the Tax function rests with the Group Tax Director, who reports directly to the Group CFO”.*

(RSA, 2020, p. 1)

*“The Group Tax team, led by the Group Tax Director, has the responsibility to manage the Group’s tax risk. The Chief Financial Officer has ultimate accountability of ensuring that the implementation of the tax strategy and management of the Group’s tax risks, are fully aligned with the overall strategic direction and risk management principles set out by the Executive Board”.*

(Baillie Gifford, Scottish Mortgage 2020, p. 3)

*“The Group Tax Director provides the Audit Committee with regular updates on the Group’s tax obligations, and all material decisions relating to tax are governed by our Delegations of Authority framework, which has been approved by our Board”.*

(Tesco, 2019, p. 3)

Based on the document analysis, the CEO is rarely involved in the tax strategy formulation. This statement supports Mulligan et al. (2016) research where they conclude it is the CFO, supported by the Tax Director, responsible for formulating tax strategy. The FTSE 100 published tax strategy documents show that in all instances, the tax strategy is ultimately approved by the board and therefore, although the CEO will have oversight, the CFO defines the tax plan, delegating it to the Tax Director in the organisation.

The role of the leader is explored further in the interviews. The first question to all participants is the involvement of the CEO in setting the tax strategy. Again, all agreed that it was the CFO rather than the CEO that formulates the tax strategy. P10 stated that the CEO might be involved; however, their focus is on the strategy's commercial implications, understanding the risks, and ensuring effective communication. P10 states:

*“The CEO would probably have overseen the commercial spin and all that sort of thing. Looking at the effective tax rate and the bottom line. But in my experience [they were] not so involved in some of the elements that build up to that.”*

*“I think they would be the frontman for communications and things like that. When you get behind that, if you get under the skin, it is usually the CFO that sort of takes responsibility as the sort of the sign off internally.”*

*“Maybe it is rubber-stamped by the CEO, but I don't feel they are close to the plan and implementation.”*

(Interview P10)

P11 and P17 support this statement, who also believe the CFO is ultimately responsible.

*“The CEO will generally not get into the details of what the tax strategy is. It is normally the CFO that will be involved.”*

(Interview P11)

*“I think this [question] misunderstands the way most companies work! No, the CEO would not normally get involved directly at all! The executive on the board who would have the most direct oversight is actually the Finance Director because the tax is generally part of the group finance function.”*

(Interview P17)

Most participants agreed that the CFO has responsibility for formulating the organisation's tax strategy; in turn, the most senior individual who works in tax supports the CFO. The Tax Director generally writes the tax strategy, and the CFO is ultimately responsible for ensuring the board approves it. P9 explains:

*“It really comes down to the fact that someone like me is going to draft and put the ideas down, but it will need rubber-stamped and put into place at a [more] senior level”.*

(Interview P9)

The main reason why the CEO does not formulate the strategy is that they lack the technical tax expertise. P9 explains:

*“In a large organisation with delegating responsibility - you would not expect the person at the top to understand all the minutiae [of tax planning].”*

*“I think if you've got a large private company, the CEO is much more likely to be aware and personally interested. By the time you get up to FTSE 100 companies' tax is just one of many things on the CEOs agenda.”*

(Interview P9)

P13 believes the CFO “will “seek to understand the tax implications of certain things and certain material events” and will make it their business to learn about specific tax issues. However, they will focus on a broad overview rather than the detail. P13 states that their understanding of tax is:

*“It is the match of the day version rather than the full game”.*

(Interview P13)

### Findings on Leadership

The design school's premise is that the CEO is responsible for controlling all aspects of the organisation's strategy. In turn, they delegate to other "subordinate roles in strategy formation" (Sarbah and Nyarko, 2014). However, evidence from the interviews shows that this premise does not hold. The Tax Director formulates the tax strategy, and this is reported to the board by the CFO. This type of structure is contrary to the design school's premise that the leader is responsible for formulating strategy.

### The role of the board in tax strategy

The board of directors plays a crucial role in strategy formation (Sarbah and Nyarko, 2014). Andrews (1965, 1971) believes that the board must review the strategy before implementation. FA 2016 sets out that all organisations must report on their governance of the tax strategy. However, only thirty-four tax strategy documents provided a clear statement of the board's role.

Sometimes the board will delegate to the audit committee to oversee the tax strategy. For example:

*"The assessment and management of tax risks are regularly reviewed by the Audit Committee, as is the Group's tax strategy."*

*"Furthermore, the Audit Committee receives an annual update on the tax position of the Group, including a summary of all HMRC activity about the Group, and will discuss taxation at other meetings periodically throughout the year".*

(Barratt, 2020, p. 1)

In many organisations, the audit committee will oversee risk management which encompasses tax planning. The internal audit team will monitor and test vital financial controls, including

tax, and report to the audit committee. Typically, some of the board members are also on the audit committee. The following statements summarise this structure.

*“Our integrated approach combines a top-down strategic view with a complementary bottom-up operational process. The board takes overall responsibility for risk management. The Audit Committee takes responsibility for overseeing the effectiveness of risk management and internal control systems on behalf of the board and advises the board on the principal risks facing the Group including those that would threaten its solvency or liquidity”.*

(British Land, 2020, p. 1)

*“The Prudential plc board is accountable for that strategy, and we have mechanisms in place to ensure awareness of and adherence to the strategy. We report to the Group Audit Committee and to the board regularly on our tax affairs, and we have clear procedures in relation to tax risk management”.*

(Prudential, 2019, p. 12)

*“As part of the bank’s governance structure, the board discharges certain responsibilities through board sub-committees, including the Group Audit Committee and Group Board Risk Committee. Tax risks are reported to the Group Audit Committee, and significant risks are escalated to the board via the group and franchise governance structures”.*

(RBS, 2019, p. 1)

Evidence from the interviews supports the premise that the board will approve but not formulate the strategy. P5 states:

*“Yes- from my experience, the board will approve the tax strategy; however, they do not get involved in formulating it. It is really just their blessing.”*

(Interview P5)

P8 explains the process in their organisation for approving the tax strategy.

*“It will be formulated by me because I’ve got knowledge of the kind of things that need to be thought about, and then I would say that the type of things I would intend to do at a group board level and then that would be signed off. So, I would put that together, the criteria, thoughts, and structure behind that and say this is what I’m planning to do and why and then try and get agreement to the strategy. So that [detail] will come from me, but it would go to the board, and they would generally see what type of things I was targeting or trying to do.”*

(Interview P8)

Most participants believed that the board provides more than just a rubber stamp as they want to know the tax issues before signing off. The board insists on this level of diligence because taxation is a vital issue for its stakeholders. P13 explains:

*“If I look back at my time at [name of major corporate bank], the board were very, very conscious, and keen to understand what we were doing from a tax perspective and its relevance to commercial transactions. In this organisation, and I have seen it ring through several large corporates as well, major transactions, such as a disposal or acquisition, there might tend to be papers prepared to go through all the commercial rationales on the finance and accounting implications and very much a section on the tax implications that explains all the steps of structures are being put in place to manage or mitigate tax implications of the transaction to the board. If it’s just a pretty vanilla transaction and tax consequences are X, they just move on, but it is very much their opportunity to see the steps and understand the risk. Ultimately they’re the ones that they will be held accountable if HMRC or the press pick it up”.*

(Interview P13)

The size of the organisation will also affect the role of the board in formulating tax strategy.

*“I think it's only as you get up to the biggest companies that you actually think about tax as something to be managed across the organisation as a whole and to be aware of the level of risk in tax as a subject.”*

(Interview P11)

*“It depends on the client. I had a client years ago when I was in the Big 4, and his job was to maintain the tax rate for the Group within certain parameters. Preferably several per cents lower than the headline rate of corporation tax but on the other hand not too low because HMRC, or the Inland Revenue in those days, would get suspicious. In that sense, there was a strategy set almost at board level, before all the fury about tax avoidance schemes. So, it's [now] a very different world. But in the broader sense, the tax cost that the Group was prepared to put up with was set by the board, and the Head of Tax was tasked with finding sufficient schemes and usually marketed by Big 4 firms to allow him to keep the tax rates within those parameters. That was kind of the deal”.*

(Interview P12)

### Findings on the role of the board

Arndt (2011) argued that organisations in the prescriptive school, such as the design school, operate a top-down approach to strategy formulation. The organisation's CEO and board are responsible for strategizing. Although there is no conclusive evidence from the tax strategy documents, information from participants interviewed highlights that the board has oversight. The extent of this oversight is dependent on the size of the organisation and its internal structure.

### The structure of the organisation

Alfred Chandler (1962) was the first to highlight the relationship between structure and strategy, arguing that departments and reporting lines align with the business strategy. The premise that structure must follow strategy is, therefore, a primary component of the design school. Evidence of the organisation's structure should therefore be in the published tax strategy documents.

Chandler (1962) was concerned with managing the organisation structure, such as by function (for example, HR, Finance and Marketing) or by-product lines. Generally, the types of products or services the organisation provides will define if it is a centralised structure. Halma, for example, has a decentralised structure with each region having autonomy for their operating companies.

*“Halma is a multinational business headquartered in the United Kingdom with a decentralised structure comprising a small head office team and locally managed autonomous operating companies. Our strategy is to acquire and grow businesses in relatively non-cyclical, specialised global niche markets”.*

(Halma, 2020, (website))

Prudential also gives autonomy to business units; however, the overall tax strategy is formulated centrally.

*“Governance over tax ownership of our tax strategy, as with the wider business strategy, rests with the Group’s Board. The day-to-day responsibility for tax rests within the business units, as taxes by their nature are levied on legal entities, and sometimes groups of entities, rather than on the Group as a whole. Business unit audit and risk committees receive regular reports and updates on material tax risks, tax disputes and tax policy developments. Business units*



*submit regular tax risk reports to Group Tax, which are reviewed by the Group's Head of Tax, and are discussed in regular meetings between the Group Tax function and the business units. At Group level, the Group Audit Committee receives regular updates from the Group's Head of Tax on material tax issues, tax disputes and tax policy developments. The Chief Financial Officer provides updates on material tax matters as part of the regular updates to the Board".*

(Prudential, 2019, p. 8)

For larger organisations, business units will need a certain level of autonomy to manage their tax affairs. However, this depends on the overall strategy of the Group rather than by tax decisions. For example, Aviva states they have an office in several locations around the world for commercial purposes.

*"In 2017, our major businesses were situated in the UK, France, Canada, Spain, Italy, Poland, Ireland and Singapore. 97% of revenues, 100% of our profit and 100% of our tax paid in 2017 was in these top eight jurisdictions. Aviva currently has captive reinsurance companies in Bermuda and Barbados. These were put in place to provide capital efficient pooling of risk in traditional reinsurance locations with a supportive regulatory regime and significant local experience. A strategic decision has been taken to transfer a large proportion of our internal reinsurance business to our UK based company, Aviva International Insurance Limited".*

(Aviva, 2019, p. 8)

As an example of the structure in the banking sector, Barclay's highlight in their tax strategy that all structuring is in line with their tax principles:

*"We have business operations in a number of jurisdictions which have low tax rates, principally in the Isle of Man, Jersey and Guernsey, where for many years we have been a significant local employer. However, we do not market the tax benefits of these locations to*

*our clients. Where a client chooses to invest via these locations, Barclays will only provide the client with services that are compliant with our tax principles”.*

(Barclays, 2019, p. 2)

In contrast, for some organisations, their structure is very much based on the tax reliefs available. For example, setting up a Real Estate Investment Trust (REIT) has tax advantages that some organisations can pass on to the consumer. This benefit, in turn, defines the management structure. The British Land tax strategy highlights these benefits.

*“The Government launched the Real Estate Investment Trust (REIT) regime in 2007, and British Land became a REIT on 1 January 2007, paying a conversion tax charge more than £300m. The regime requires REIT groups to hold mainly investment properties and enables shareholders to directly replicate the tax treatment of owning the property, paying tax themselves on their share of rental income. Consequently, tax is not levied on British Land entities on profits from their qualifying UK property rental business, and this income must instead be distributed to shareholders. Tax is deducted from these REIT distributions and shareholders may pay additional tax themselves on amounts received. Since conversion to REIT status, British Land has paid out over £2bn of REIT distributions”.*

(British Land, 2020, p. 1)

In some instances, structure and tax strategy is aligned rather than one following the other. For example, if there is a tax advantage that results in creating value for shareholders. BHP and ITV highlight this point:

*“We locate our business activities where value is optimally created and accordingly do not engage in transactions that do not have proper commercial purposes and economic rational. Where we have the option to choose how to structure a transaction we will seek to do so in a*

*tax-efficient manner thereby contributing to superior business performance, whilst always adhering to our Tax Principles. Where tax incentives are transparently available to all eligible taxpayers, we will give consideration to accepting them should we meet the relevant criteria”.*

(BHP, 2020, p. 2)

*“Where alternative routes exist to achieve the same commercial result, the most tax efficient approach in compliance with all relevant laws should be considered. However, we will always strive to pursue our primary objectives of paying the right amount of tax at the right time from a legal perspective and maintaining our strong reputation with stakeholders including HMRC and other tax authorities”.*

*“Overall, the decision-making process will be influenced by ITV’s commitment to its shareholders and whether any potential tax and reputational risk is within the business’s risk appetite”.*

(ITV, 2019, p. 4)

The interviews explore the alignment of tax strategy and structure in more detail. P12 provides context:

*“Yes, I think just from my experience, again from the larger entities I used to work with, [structure] tended to have to be centrally imposed.”*

*“It’s only at the central level that you see how all the contributions to the business profits and then the adjustments for tax purposes will fit together.”*

(Interview P12)

The by-product of the alignment of tax strategy and structure is that it provides an opportunity for the tax department to play a role in the formation of the organisation. P4 describes this as an “opportunity for the tax function to be involved in senior management”. Ultimately, the type

of business defines the structure; for example, P7 highlights why they still follow a central structure despite offices in several countries.

*“Yeah, it is just the nature of the business and the management context. For example, the fund manager will be located in one central jurisdiction. They may well have operating units in other jurisdictions but to the extent that the manager essentially is trying to deliver the business's objectives in the central context. I think mostly for all the business strategies, including tax, it will be driven by the centre. I get that there will be other businesses which operate a different kind of model because that is what works well for them.”*

(Interview P7)

#### Findings on the structure of the organisation

In the traditional sense, the organisation's internal structure, such as department functions and reporting lines, affects tax strategy formulation. Many of the published tax strategy documents discuss tax planning's governance arrangements and support the statement that the tax function is "compartmentalised" (Ruggles et al., 2017). More broadly, where the organisation sets up its business will affect tax planning as well. In turn, this will have a direct consequence on the internal structure. For example, having several subsidiaries based in different countries, perhaps because of the low tax rates, may affect whether tax strategy is defined centrally or by business unit. Evidence from the interview shows that large organisations will nearly always strive for a central structure; however, ultimately, this will depend on its size and nature.

### **7.3 Planning School**

The planning school assumes the organisation should analyse the problem, develop a plan to address the issue and finally define the steps to enact a plan. The published tax strategy documents are analysed to identify these themes, highlighting if tax strategy is formulated

before implemented, with set objectives and tested to monitor progress. The research also distinguished between the tax strategy for business units and corporate strategy, done centrally.

The table below illustrates the results of the document analysis.

Table 9: Evidence of the planning school in tax strategy documents

Name	Number of documents referring to planning school	Reference to themes in documents
Planning		
Formulation, objectives, gap analysis, testing and implementation	42	48
Strategy for multiple business units	93	149

Table 9 shows that forty-two documents (24 per cent) refer to the planning school's components suggesting that organisations do not consider these tax strategy components. There are ninety-three (53 per cent) documents that show organisations define their tax strategy for multiple business units.

The figure below shows the answers to questions about the planning school.

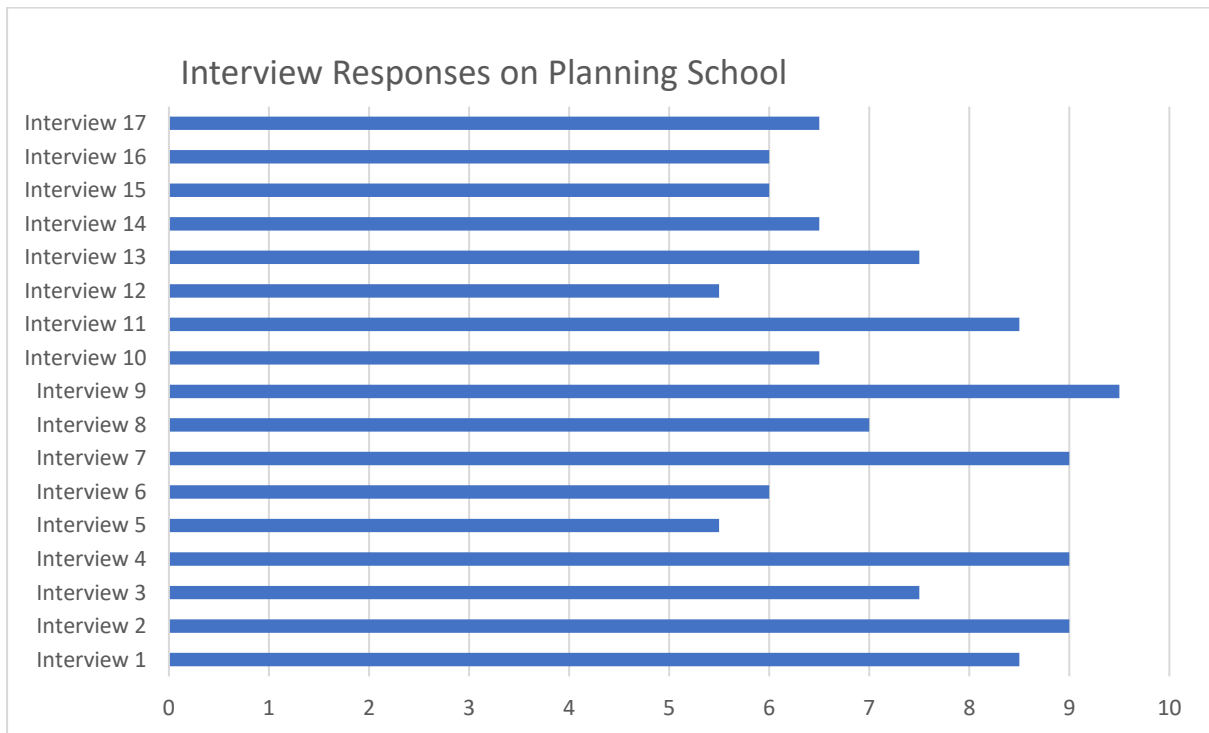


Figure 13: Interview responses on planning school

The total response from all participants on the planning school's themes is positive, with no participant scoring an average of less than five. In contrast to the document analysis on formulation and implementation, the questionnaire's answers show that organisations use the planning school's components in tax strategy. Although only 24 per cent of the tax strategy documents refer to the formulation, objectives, gap analysis, testing and implementation, this does not necessarily mean that it does not happen in organisations.

#### *Formulation to implementation*

For many organisations, the objective is to ensure that the tax strategy follows the commercial strategy. For example, the London Stock Exchange states:

*“The tax strategy supports the Group strategy and is focused on ensuring that taxes (and tax risks) are managed to provide sustainable outcomes within the parameters of the Group’s strategic and commercial objectives and that all tax obligations are complied with in all countries in which the Group operates.”*

(London Stock Exchange, 2020 (website))

Ocado goes further and provides four objectives to ensure that the tax strategy and commercial strategy are aligned.

*“The tax strategy supports the Group’s commercial objectives to drive growth, maximise efficiency and utilise proprietary knowledge. This is achieved through the four ‘tax strategy pillars’.*

#### *Tax Strategy Pillars*

- *To comply with applicable tax obligations and laws in all jurisdictions.*
- *To pay the right amount of tax at the right time in the relevant jurisdiction.*
- *To ensure we meet both our legal and moral obligations when optimising gains for shareholders returns.*
- *To ensure a transparent and open relationship with all tax authorities in all tax jurisdictions.”*

(Ocado 2018, p. 2)

Standard Chartered are another organisation that highlights the commercial rationale in its tax strategy document.

*“Under our tax strategy, we manage our tax affairs in alignment with our commercial strategy, having regard to building long term shareholder value and to maintaining our reputation as a responsible taxpayer with tax authorities and regulators”.*

(Standard Chartered, 2020, p. 1)

Some organisations set out their objectives through defined values or code of conduct. The aim is to ensure that tax planning aligns with the commercial rationale and to create value. For example:

*“Tax planning is aligned with our business strategy and conforms to our global code of business conduct.”*

(Rio Tinto, 2018, p. 20)

*“Our business operations are focussed on a foundation of five core corporate values which are embedded into our strategy. As part of ‘Making a Positive Difference to Our Community,’ we believe that it is important for us to comply with tax legislation.”*

(Sainsbury’s, 2020, p. 1)

*“Berkeley’s business strategy articulated through the framework of “Our Vision” is “to be a modern, world-class business generating long-term value by creating successful, sustainable places where people aspire to live”. Underpinning Our Vision is a core set of values, including integrity, and this underpins our approach to taxation and our dealings with HM Revenue and Customs (“HMRC”).”*

(Berkeley Group, 2020, p. 1)

*“Our tax strategy is aligned with the overall Group strategy, and we seek to manage tax cost and risk accordingly in line with our Code and Core Values taking into account our external reputation and views of stakeholders. Our approach is to be compliant with the tax laws in the countries in which we operate, and our transfer pricing policy is designed to ensure that country profits (and associated tax thereon) align with economic value creation.”*

(Smith + Nephew, 2020, p. 2)

*“Our tax policies and objectives, which are approved by the Board on an annual basis, ensure that we:*



- *only engage in reasonable tax planning aligned with our commercial activities and we always comply with what we believe to be both the letter and the spirit of the law.*
- *do not engage in marketed, aggressive or abusive tax avoidance;*
- *do not use tax havens for tax avoidance purposes;*
- *are committed to an open, transparent and professional relationship with HMRC based on mutual trust and collaborative working; and*
- *maintain a robust governance and risk management framework to ensure that these policies and objectives are fully complied with and applied at all levels”.*

(United Utilities, 2020, p. 1)

Another FTSE 100 Bank, NatWest (formerly Royal Bank of Scotland), states it follows the code of practice on taxation for banks. This code was introduced in 2009 and applies to all banks and building societies. NatWest applies the code globally; however, business units are responsible for identifying risk.

*“The businesses and functions within RBS are accountable for identifying, owning and managing tax risk and are responsible for delivering a robust, coordinated and effective control regime. Our Internal Audit department provides independent assurance to the Board and Executive Management on the quality and effectiveness of governance, risk management and internal controls to monitor, manage and mitigate key risks including tax risk.”*

(RBS Group, 2018, p. 1)

Evidence from the interviews supports the assertion that organisations set tax objectives based on commercial goals. Larger organisations can put more emphasis on the formulation and aligning the tax with the commercial strategy. For example, P13 states:

*“So, in my experience, I am fortunate enough that I have worked with people who do take this stuff really seriously, for example [states name of the large retail bank and large utility company]. The [large utility company] applied for the fair tax mark on an annual basis. All the businesses I have worked with, the tax strategy is off the back of the commercial strategy.”.*

*“This shows me the board take it [tax] seriously rather than being an opportunity to be exploiting loopholes and generate super returns. Commercials come first [and] tax objectives and strategies [are] built around the commercial strategy”.*

(Interview P13)

P15 said that they always strive to understand the organisation's commercial strategy before advising on specific tax planning.

*“The advice we give has to be for commercial reasons – with the deal they are doing - it has to fit commercially. We have moved completely away from the tax tail wagging the dog. We need to structure the deal to reduce the tax liabilities and so we wouldn't take something to someone even if big tax saving- if it was going to completely interfere with the commercial stuff”.*

*“When you were asking about tax strategy -you know - I think that is one of the things that struck me- we try to be strategic in how we provide advice to fit the client's strategy but not necessarily just tax strategy”.*

(Interview P15)

One participant was surprised that the organisation could establish a tax strategy without going through a formal formulation process. P7 states:

*“Yeah, yeah – I would have thought this was a given really -I mean you got to have some established objectives and know what it is and what you're trying to achieve and consult the wider business and look at the big picture before you decide on the strategy”.*

(Interview P7)

However, it is not clear if smaller organisations formulate tax strategy. P10 explains:

*“So, I deal with some big companies that have got a published tax strategy. They would have really thought about what that means. They would have gone, kind of under the skin of that, in further detail with their team, they would think about different elements of taxation in the different territories and really kind of understand what that means and then there are others [smaller organisations] that will copy the guidance from the revenue website and stick in the name where appropriate and sort of pop it on the website to make sure they have ticked the box”.*

(Interview P10)

#### Findings of formulation to implementation

Ansoff (1965) highlights five steps to the development of a corporate strategy. The first step identified from the published tax documents and interviews is establishing a set of objectives. For a large organisation, the tax strategy follows the commercial strategy to create value. Adopting a code of practice or principles allows the organisation to define its objectives in the context of tax planning. However, not all organisations will follow a defined plan, with smaller organisations willing to document the minimum information needed to fulfil the requirements of FA 2016 with their tax planning less formulated.

#### Corporate strategy versus business strategy

Corporate strategy focuses on multiple business units; in contrast, business strategy is developing the strategy within the unit (Anand, 2012). FA 2016 states that the organisation must report on the group tax strategy eighteen times. It follows that the tax strategy is set

centrally and is, therefore, part of its broader corporate strategy. However, although most of the published FTSE 100 tax strategies set out a group approach, there is a line between business and corporate strategy.

The structure of the organisation is vital for defining tax strategy. In the banking sector, following the financial crisis in 2008, large retail banks split their divisions into risky and non-risky assets. Barclays now operate two business divisions, Barclays UK (a ring-fenced bank comprising mainly UK Personal and Business Banking and Barclaycard) and Barclays International. However, both divisions follow the same tax strategy, stating

*“Our commitment to tax transparency:*

*Action 13 of the BEPS project significantly increased transparency standards for multinational taxpayers by introducing new requirements for transfer pricing documentation and Country by Country Reporting (CbCR).*

*In addition to complying with CbCR and the new transfer pricing documentation requirements, we are fully committed to maintaining enhanced tax disclosures as demonstrated by the voluntary disclosures within this report.*

*The sixth version of the EU Directive on Administrative Cooperation (commonly known as DAC6) aims to provide tax authorities in EU member states with additional information in order to assist them in tackling harmful tax practices. DAC6 imposes a mandatory reporting requirement on certain participants in cross-border arrangements that meet prescribed ‘hallmarks’ to disclose details of the arrangements to tax authorities”.*

(Barclays, 2018, p. 2)

Other organisations, with perhaps less regulatory requirements, highlight a group approach to their tax strategy:

*“The day-to-day management of the Group’s tax affairs is dealt with centrally with responsibility for this delegated to the Group Tax Manager”.*

(Barratt, 2020, p. 1)

*“The tax strategy applies to Burberry Group plc and its worldwide subsidiaries”.*

(Burberry, 2020 (website))

*“Centrica’s Tax Strategy is applied consistently to all companies within the worldwide Centrica Group and, is widely understood within the Group”.*

(Centrica’s, 2019, p. 1)

*“The tax policy is mandatory and applies to all Glencore Group entities”.*

(Glencore, 2019, p. 3)

One of the most helpful statements on centralising functions such as tax is from Unilever (2020), stating:

*“Our brands are important assets used in our business and managing them effectively requires a global strategy. Centralising parts of our business means we can offer consumers innovative products quickly. By bringing together activities in one location, we create efficiencies and economies of scale which create value for our consumers and our shareholders”.*

(Unilever, 2020 (website))

This statement highlights that organisations structure their tax function strategically, centralising to create efficiencies that ultimately allow them to provide their products more efficiently.

More generally, if the tax plan is not strategic, it is delegated to the business units tax team. For example, the Finance Director for each business unit in DCC (2018) is the Senior Accounting Officer (SAO) to HMRC rather than just one group representative. Appointing an

SAO is mandatory and based on each group's size; this is, therefore, a structural decision from DCC. Similarly, Halma delegate to their divisional FD's.

*“Halma’s operating structure means that our operational tax risks are managed by the Finance Directors (“FDs”) of each of our worldwide operating companies supported by our UK Head Office.”*

(Halma, 2020 (website))

Smurfit also delegates the tax planning to each business unit, but, importantly, they also work closely with the Group Tax function.

*“The Chief Financial Officer in each country is responsible for the implementation of the tax strategy. They work in close collaboration with the Group Tax Director and the tax team based at the Global Headquarters in the development and execution of that strategy. This includes the recruitment of complimentary and appropriately experienced professionals at the Global Headquarters and at a country level commensurate with the level and complexity of our operations”.*

(Smurfit, 2019, p. 2)

Similarly, Prudential states that business units are responsible for tax planning, but strategic tax issues are centralised and approved by the group board.

*“Governance over tax ownership of our tax strategy, as with the wider business strategy, rests with the Group’s Board. The day-to-day responsibility for tax rests within the business units, as taxes by their nature are levied on legal entities, and sometimes groups of entities, rather than on the Group as a whole. Business unit audit and risk committees receive regular reports and updates on material tax risks, tax disputes and tax policy developments. Business units submit regular tax risk reports to Group Tax, which are reviewed by the Group’s Head of Tax,*

*and are discussed in regular meetings between the Group Tax function and the business units. At Group level, the Group Audit Committee receives regular updates from the Group's Head of Tax on material tax issues, tax disputes and tax policy developments. The Chief Financial Officer provides updates on material tax matters as part of the regular updates to the Board".*

(Prudential, 2019, p. 4)

Most participants agreed that tax strategy is defined at the corporate rather than business level. P7 highlights that the nature of the business is a determining factor.

*"Yeah, it is just the nature of the business and management context. For example, the manager of the fund will be located in one central jurisdiction. They may well have operating units in other jurisdictions but to the extent that the manager essentially is trying to deliver the objectives of the business in the central context. I think mostly for all the strategies of the business, including the tax, will be driven by the centre. I get that there will be other businesses that operate a different kind of model because that works well for them. Yeah, it depends on the nature of the organisation".*

(Interview P7)

P11 found it comical that any large organisation would not define the strategy centrally.

*"There is no way you would let a subsidiary set its own tax strategy! That is set at head office level (laughs). I just think if you have a large group with diverse operations, it's a central level risk to be aware of the tax issues in the subsidiaries. It would be very similar for treasury policy. You would take a group level decision, [for example] the level of hedging you want on your balance sheet, and you're not going to let one subsidiary be significantly exposed to interest rate movements if the group strategy is primarily to have a fixed rate."*

(Interview P11)

P12 supports this statement by providing an example of a UK organisation with multiple business units.

*“If I am in the North East region manufacturing department, I'm not going to have visibility, specifically, of the taxable profits that my bit of the business contributes. It's only at the central level that tax policy in that context can be formulated because it's only at the central level that you see how all the contributions to the business profits and then the adjustments for tax purposes will fit together. For example, if we look at something like a capital allowances claim or like capital expenditure, if you have to spread your budget over time. You want to optimise the tax results, you know it is the central unit that might say that if we buy this factory in the South West region, it is in an enterprise zone. We get better allowances, or something, so let's do that sooner rather than later.”*

(Interview P12)

Only P13 and P14 provided a different perspective. P13 points out that it may be better for the organisation to think by business unit rather than centrally.

*“This is one of the things that I have said a number of times to clients. Maybe sometimes we need to chop down [the tax strategy of] the business into business units because these guys have such diverse business operations. You know you've got a choice; you can either set a tax strategy that is generic to wrap itself around the whole organisation or to reflect the diverse parts”.*

*“Perhaps we need to get better as a profession and recognise that for large multinational organisations, one size does not fit all”.*

(Interview P12)

The statement from P14 perhaps best reflects the reality of tax planning.



*“I think that depends! I have seen it both ways because there is some centralisation, but it depends on personalities, depends on the structure of the organisation. You know I've seen business units preparing their views but also business units being told what to do”.*

(Interview P14)

### *Findings on Corporate Strategy versus Business Strategy*

Evidence from the published tax strategy documents and interviews shows that organisations do set their tax strategy centrally. Prudential highlight all the business units still need to work closely with the group tax function before making any strategic decisions. Centralisation is not always the best approach as it depends on the business's nature. For example, in some organisations, such as Barclays and NatWest, there is more autonomy in business units or divisions due to government regulation on the business structure.

## **7.4 Positioning School**

The integrated strategic management framework advocates four models for the positioning school. Co-opetition by Nalebuff and Brandenburger (1996), with the components on cooperation, collaboration, and complements, support the five forces model. Porter's generic strategies and the value chain are also evident. The table below shows the number of references from the published tax strategy documents.

Table 10: Evidence of the positioning school in tax strategy documents

Name	Number of documents referring to positioning school	Reference to themes in documents
Positioning		
Five Forces		
Customer bargaining power	1	2
Ease of substitution	0	0
Industry Rivalry	25	29
suppliers bargaining power	1	1
Threat of Entry	0	0
Generic Strategies		
Cost Leadership	19	21
Differentiation	6	7
Focus	8	8
Co-opetititon		
Collaborative	109	133
Complementary	2	2
Cooperative	35	38
Value Chain		
Primary Activities	3	3
Secondary Activities - support activities	3	3

The positioning school's most common theme is co-opetition with collaboration identified in one hundred and nine documents (62 per cent). The high score is that many organisations refer to how they work with the tax authorities. In contrast, the five forces components are only in twenty-five documents (14 per cent), and the value chain is only three documents (2 per cent). Ultimately, except for collaboration, there is little evidence in the tax strategy documents of the positioning school

The figure below shows the average score from each participant on the positioning school questions. In contrast to the document analysis, the interviews suggest that the positioning

school is a central concept used in tax strategy. Except for participant nine, the other participants identify with its themes. Participant nine is an outlier because they scored zero for the questions on the five forces and complements.

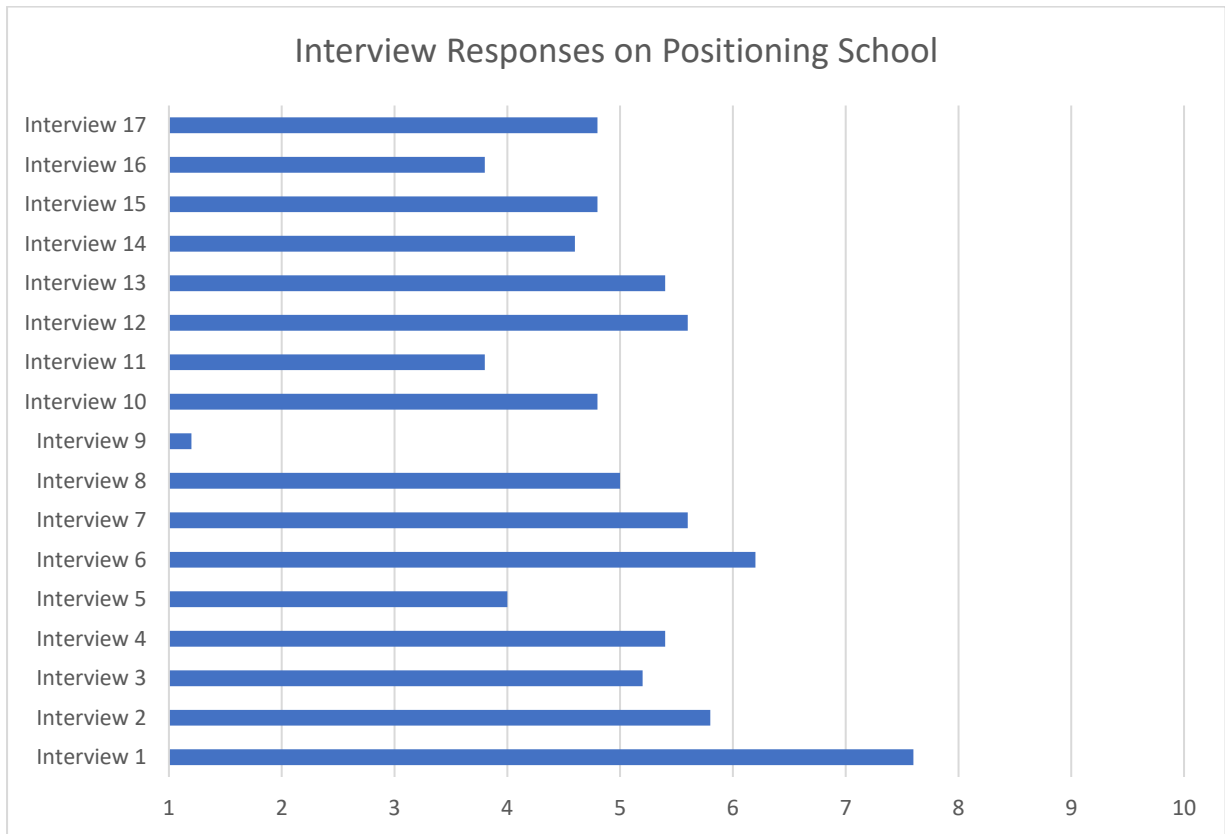


Figure 14: Interview responses on positioning school

### Five Forces

Porter argued that the five forces model determines competition and profitability. The threat of entry, ease of substitution in the market, rivalry among competitors, buyers' bargaining power, and suppliers' bargaining power. Analysis of the published tax strategy documents strives to find evidence of alignment with these forces.

The two most prominent themes identified in the published tax documents and interviews are the threat of entry and rivalry among competitors. There is no evidence of tax planning using the themes of the threat of substitutes or suppliers' bargaining power. Only one organisation highlights customers bargaining power; however, this is in the commercial rather than tax strategy. For example, although Rio Tinto is incorporated in Australia, they operate several of their support activities from Singapore. This does have a tax benefit as it is a country with a low tax rate; however, using this location is commercial.

*“As over 70% of the Group’s sales are to customers located in the Asian region, it makes commercial sense to have our global commercial centre based in Singapore. We have other commercial offices close to other key regional markets located in Chicago and Frankfurt, with regional sales support offices located in China, Japan and South Korea.”*

(Rio Tinto, 2020, p. 27)

Porter defines the threat of entry as product differentiation, capital requirements, switching costs, access to distribution channels and cost disadvantages independent of scale. The most prominent theme in the tax strategy documents is the organisation’s subsidiaries located in a low tax rate country for purposes other than a tax benefit. Rio Tinto cites distribution channels as the main reason for working in other countries, some of which are tax havens. For example, it states:

*“In Singapore, the government has granted our company a tax incentive that applies to the income made by our Singapore marketing and procurement businesses. This is one of a range of incentives that is legislated and open to all taxpayers in Singapore if they can demonstrate significant contribution to the economy and meet the criteria set by the government. If we meet the substance and activity requirements of the incentive, we will pay a reduced tax rate of 5% on eligible profits from these activities until 2022, after which the rate increases to 5.5%, which*

*will be effective until 2027.*

*The Singapore government has also granted our company a full exemption on income from qualifying shipping activities until 2027 under the Maritime Sector Incentive – Approved International Shipping (MSI-AIS) Enterprise Scheme, and income from qualifying insurance activities until 2023 under the Tax Exemption Scheme for Captive Insurers carrying on Offshore Insurance Businesses. These incentives are also contingent on the location of significant economic substance in Singapore and are available to all qualifying taxpayers.*

*Canada is a competitive location for international shipping.*

*Our North American shipping desk is located in Montreal and benefits from an income tax exemption on the profit generated on managed ships. Quebec's (Canada) government offers partial tax holidays on profits earned from government-certified capital investments of more than C\$100 million. Over the years, our subsidiaries have had six capital investment projects approved for such tax holidays.*

*We invest heavily in research and development (R&D) and take part in incentives designed to encourage investment in R&D. For example, more than C\$100 million was invested each year in Canada on R&D projects, giving us access to important tax incentives from federal and provincial governments.*

*In Belgium, our diamond-trading business is subject to the Carat Tax regime. It is compulsory for diamond-trading companies that are registered in Belgium and is applicable to turnover generated by genuine and habitual diamond trade. Under the Carat Tax regime, the standard corporate tax rate of 33.99% is applied to 2.1% of gross turnover less allowable deductions, however taxable income cannot be lower than 0.55% of turnover.*

*None of the regimes under which we have been granted incentives have been noted by the OECD as being a harmful tax practice.”*

*(Rio Tinto, 2020, p. 27)*

In the financial sector, it is common for organisations to set up subsidiaries in specific countries. For example, Bermuda and Barbados are common trading jurisdictions in the insurance industry as they allow organisations to pool capital more easily (Aviva, 2018). In banking, the Cayman Islands is commonly used due to its uncomplicated company laws and low operating costs (Barclays, 2019).

From the published tax strategy documents, there is evidence that large organisations look at the threat of entry from new competitors into their markets; however, this is regarding the commercial implications rather than for tax planning. The commercial strategy will dictate if an organisation has enough scale to set up companies in jurisdictions that offer a low tax rate. Any organisation is free to incorporate a company in the Cayman Islands or Bermuda. Indeed, the low set up costs and simple company law are incentives for organisations.

The consensus from participants is that tax planning is not a tool to deter competitors from entering a market. P13 explains:

*“No one will decide to put a manufacturing facility in China because Chinese taxes fare fairly benign. They will do it because of labour cost and land cost. If there's a tax advantage, it is a by-product of the commercial decision. I think that goes for a lot of other businesses. What I am seeing at the moment that in tech and software development, going into different territories is more driven by a supply of labour or shortage of supply of labour than in the UK.”*

(Interview P13)

When organisations consider another of Porter's forces, rivalry among competitors, they may adopt specific tax strategies to compete in the market. Shareholder value is a top priority; however, this is balanced with the following applicable tax law. DS Smith explains:

*"We are committed to maximising long-term, sustainable value for our shareholders. This means observing all applicable laws, rules and regulations in meeting our global tax compliance, reporting and payment obligations in all jurisdictions where the Group operates. We maintain appropriate management structures to meet those obligations."*

(DS Smith, 2019, p. 2)

GSK highlights the social responsibility it has to its customers and their commitment to providing value to shareholders.

*"At the same time, we have a responsibility to our shareholders to be financially efficient and deliver a sustainable tax rate. As part of this approach, we look to align our investment strategies to those countries where we already have substantial economic activity and where government policies promote tax regimes that are attractive to business investment, transparent in their intent and available to all relevant taxpayers, such as the UK Patent Box."*

(GSK, 2018, p. 1)

A common theme throughout the documentation is the need to be a responsible organisation.

*"The Group will only engage in responsible tax planning aligned with our commercial and genuine economic activities. We do not use tax structures or undertake artificial transactions, the sole purpose of which is to create a contrived tax result. For example, we exclude transactions with parties based in tax haven jurisdictions when the transactions are not in the ordinary course of Group trading business or which could be perceived as artificially transferring value to low tax jurisdictions."*

(Burberry, 2020 (website))

*“ITV is a responsible taxpayer. This is recognised by the tax strategy, which establishes a clear Group-wide approach based on openness and transparency in all aspects of tax reporting and compliance, wherever the company and its subsidiaries operate.”*

(ITV, 2020, p. 2)

Most participants interviewed agreed that organisations are now conscious of their social responsibility. However, some industries are using tax planning to be more competitive in the market. P13 explains:

*“I suppose this is just because I think in more traditional markets [for example] the utility's, the banks, manufacturing, retail. I think the instances where people have been proactively using planning to enhance earnings and shareholder returns have dramatically reduced. In a banking context, the point when the banking code of practice came in back in 2010/2011 really changed behaviour. The focus is now on tweaking the commercials rather than putting them in convoluted steps. In a digital world, businesses that operate digitally, I have no doubt that they are structuring the supply chain to take advantage of low tax rates. [For example,] Amazon will still do sales from Luxembourg and Apple from Ireland.”*

(Interview P13)

P13 believes that organisations such as Amazon can influence the supply chain and establish subsidiaries in low tax rate countries because they can manipulate tax laws to their advantage.

He states:

*“On the digital side, it's largely because these guys can do it because the tax law in the UK and all other territories wasn't written with businesses that work with that level of agility in mind. So, these guys were able to create supply chains that just had never been thought of by*



*any of the tax codes written down in the statute books. The OCED has now been scrambling to ensure that the tax law catches up. But they are incredibly agile; so, if we don't do it right, we don't fill the holes across the board. It will be really easy to move traditional sectors, it is really hard to lift up your factory and drop it somewhere else. These guys have very agile supply chains- they can shut down and open in a new territory pretty rapidly. I do think the tax law will catch up, though.”*

(Interview P13)

As P13 highlights, organisations in the digital space look at tax planning differently from many other industries. In other industries, tax is not used as a tool to gain a competitive advantage.

P7 explains:

*“My own take of it- my own personal experience and coming at it from a large business operating in a number of jurisdictions- being competitive involves managing your taxes in a way that puts you in the middle of the pack in terms of what your competitors are doing. I mean to take the example of the private equity and funds industry. The use of capital carry schemes as an example to incentive the investment executives who work for the business is an absolutely essential part of the business in terms of attracting and retaining the best individuals that you can get to work for the business. So, you know, your own personal view on the use of capital carry schemes and whether they are the right side of the line in terms of tax avoidance, you absolutely have to, I find when you are using and implementing these schemes and try to set your own tax planning.”*

(Interview P7)

The main reason for not being an outlier is because the organisation does not want to be seen to be cheating the government of vital tax revenue, as P6 explains:

*“There is an ongoing debate of value and ongoing societal contribution, particularly over the last six months [due to the Covid-19 pandemic]. We did a webinar recently in which the CEO of [name of large retail bank] said that basically, in essence – they were at the core of the last recession, so they want to do all they can to help on this one. Many large businesses now focus on the contribution to society; this is reflected in the likes of the Tesco or Vodafone tax reports where they state their tax contribution.”*

(Interview P6)

### Findings on Five Forces

Porter’s (1980) five forces model states that organisations need to examine each force and determine what can achieve and sustain a competitive advantage. Evidence from the published tax strategy documents and interviews shows that industry rivalry and the threat of entry are the key components; however, it is not clear either provides a tax competitive advantage.

### Collaboration, Cooperation and Complements

Nalebuff and Brandenburger (1996) theory of co-opetition is an extension of Porter’s five forces. Evans (2013) states that complements are the missing sixth force for Porter’s model. The value net model focuses on suppliers, customers, competitors and complementors. All four can deliver value and can be dependent on one another as well as creating value independently. The value net model focuses on working with other organisations in the same industry; however, as the published tax documents illustrate, organisations can also work with other players to create value.

FA 2016 s.17 (1d) states that an organisation must publish “the group's approach towards its dealings with HMRC”. As this is a requirement of the legislation, all organisations should publish, to some extent, how they work with HMRC. The themes of cooperation and

collaboration are, therefore, prevalent throughout the documents. For example, the below word tree, produced from NVivo, shows areas where organisations describe where they collaborate on tax strategy.



Figure 15: NVivo word tree on where organisations collaborate tax strategy

Many organisations state that they willingly cooperate with HMRC and seek a positive relationship with the tax authorities. For example:

*“The Group promotes collaborative professional working with tax authorities to build open,*

*transparent and trusted relationships.”*

(BAE, 2020, p. 51)

*“We’re pleased to report that we have a very open, cooperative and transparent relationship with HMRC. The Group works with HMRC in real-time (and before tax returns are filed, where possible) in accordance with the principles of the Framework of Co-operative Compliance. When occasional differences of opinion occur, usually concerning the ‘fine detail’ of tax legislation, we work together to resolve them professionally.”*

(Lloyds Banking Group, 2019, p. 5)

*“SSE’s primary objective in relation to tax is that the Group operates in accordance with all relevant laws, rules and regulations in all jurisdictions in which SSE operates, at all times:*

- Central to that is being open, honest and transparent in all correspondence with tax authorities and other regulatory bodies, ensuring full disclosure is provided.”*

(SSE, 2019, p. 22)

*“The guidance requires companies to articulate how they meet the requirement to work with HMRC on current, future and past tax risks. The Group maintains a professional and collaborative working relationship with HMRC, but tax is inherently complex, and from time to time, the complexity of tax laws means that differences in interpretation may arise. The Group works proactively with HMRC to resolve such matters in a timely manner through discussion wherever possible.”*

(Berkeley, 2020, p. 2)

When asked about collaboration and cooperation, most participants initial response is to cite the organisation’s relationship with HMRC. The main point of contact at HMRC for a large business is their Customer Compliance Manager (CCM), formerly defined as the Customer Relationship Manager (CRM). The CCM is appointed for businesses dealt with by the Large

Business Service (LBS) and for a selection of businesses dealt with by Local Compliance (Large and Complex) (L&C). LBS customers have a turnover of £600 million or above or assets of £2 billion or more. An L&C customer is a business with a turnover of £30 million or more or more than 250 employees. P13 explains:

*“The guys that really take tax strategy seriously proactively, trying to collaborate and cooperate through their CCM. At [name of large retail bank], we spoke to our CCM pretty much monthly and told her about transactions, post-tax filing, specific positions etc. To keep the revenue on the side and make sure that if they had any particular objections to how we would do things, this is flushed out. It helps if we need to pivot and do things a different way. I know that there's are a few other larger organisations that take that collaborative working relationship with HMRC – they take it pretty seriously as well; they expect and desire to have these regular conversations.”*

(Interview P13)

Ensuring a strong relationship with all tax authorities, not just in the UK, is essential for a large organisation. P7 explains.

*“The principle of transparency and collaboration is important for a large business and also for public opinion. As a principle that works and if we were talking about my experience of what we do in the UK- for example, in the organisation I work for – we have a really good relationship with HMRC and work very well with them. You have to recognise that multinationals work in many jurisdictions, but not all tax authorities will have the same approach how they work with taxpayers.”*

*“For some jurisdictions- you might want to be [helpful] but if this approach is not working- you fall back on the approach of well you asked me the question, so I will just give you the answer.”*

(Interview P7)

Several FTSE 100 organisations refer to the CRM in their UK tax strategy publication.

*“We engage with HMRC constructively, honestly and in a timely and professional manner. We will seek to resolve disputed matters through active and transparent engagement. Regular contact is made with our Customer Relationship Manager at HMRC by our Head of Tax, and we also schedule a “Business Risk Review” meeting annually. NEXT has an in-house tax team of qualified tax professionals. This team has specialist knowledge across all applicable tax areas and liaises with their equivalent technical experts at HMRC regularly and seeks to do so in “real time”.”*

(Next, 2020, p. 2)

*“We believe in an open and constructive dialogue with tax authorities. We also meet our HMRC Customer Compliance Manager formally at least once a year to review our business activities. We use this as an opportunity to openly discuss any current, future and past tax risks across all relevant taxes and duties. RB’s goal is to have a professional working relationship with the Customer Compliance Manager and other HMRC technical experts.”*

(Reckitt, 2019, p. 17)

*“In the UK, the Group is in regular dialogue with its Customer Relationship Manager at HMRC to update them on significant transactions, changes in the business and to seek advice at an early stage in respect of any tax issues.”*

(JD Sports, 2020, p. 1)

Where there is no reference to CRM, organisations still highlight the importance of meeting with HMRC regularly.

*“In addition, the Chief Financial Officer, Group Financial Controller and the Group Tax*

*Manager meet formally with the Group's HM Revenue & Customs Customer Relationship Manager on an annual basis."*

(Barratt, 2020, p. 2)

*"The tax team discuss matters in real-time with HMRC and disclose all relevant facts and circumstances, particularly where there may be tax uncertainty, or it is unclear how the law applies to the matters under consideration. Where appropriate, we will share our tax analysis of transactions with HMRC in advance and seek formal clearance of the anticipated outcome where there is significant uncertainty."*

(British Land, 2020, p. 3)

*"The Group's in-house tax team seeks to have a transparent and constructive relationship with HMRC through regular catch-up meetings and correspondence, at or in which it discusses developments in the core business, as well as past, current and prospective tax issues affecting the Group."*

(3i plc, 2019, p. 2)

*"CRH seeks a constructive and cooperative working relationship with the UK tax authorities through discussions and updates between the in-house tax team and the HM Revenue & Customs Customer Compliance Manager. Where differences of opinion on technical issues arise, we seek to resolve these proactively."*

(CRH, 2018, p. 2)

Outside of the relationship with HMRC, participants highlight cooperation and collaboration with other stakeholders. Working with industry bodies to help develop tax policy and protect current legislation is a prevalent theme. For example, private equity organisations have worked with the British Private Equity and Venture Capital Association (BVCA) to lobby the UK Treasury. P12 explains:

*“Well, I suppose, I mean, yeah, HMRC was always very open to representations from representative bodies of one sort or another. I mean, it is a matter of continued wonder to me that the carried interest that venture capitalists take when they make investments is somehow treated as being a capital item [for tax purposes] when frankly it is clear to me that there effectively trading in the shares of trading companies. I'm fairly certain that the BVCA has persuaded HMRC not to rock that particular boat - that might be an extreme example, but I think it's a perfectly fair example.”*

(Interview P12)

*“The BVCA will regularly collaborate with the profession and with their members when it comes to the new law that might have an impact on all PE funds and return. The pinch points may be around the securities rules on management carry [schemes’]. It was all about helping, [and] collaborating to understand the pressure points and in helping HMRC and the Treasury understand the potential commercial pitfalls and fall outs if preceded with the policy objective as it was perhaps initially communicated – the ensured everyone was happy.”*

(Interview P13)

This is supported by the tax strategy documents from Burberry and Prudential.

*“We take an active role in contributing to the UK and international tax policy-making process, where relevant, including taking part in formal and informal consultations, either on our own account or through relevant trade and industry organisations.”*

(Burberry, 2020 (website))

*“We believe that more informed and sustainable outcomes are achieved where governments openly consult with industry and other affected stakeholders. We work with governments, both*



*directly and through industry trade bodies, to explain the wider impact that tax proposals will have on the industry, the regulatory environment and our customers.”*

(Prudential, 2019, p. 11)

The theme of complements is more challenging to identify in the tax documents. Nalebuff and Brandenburger (1996) define a complementor as:

*“A player is your complementor if customers value your product more than when they have the other player’s product than when they have your product alone. A player is your complementor if it’s more attractive for a supplier to provide resources to you when it’s also supplying the other player than when its supplying you alone”.*

(Nalebuff and Brandenburger, 1996, p. 16)

As expected for a tax strategy document, there is no evidence of any complementors in the published tax strategy documents.

Most participants interviewed did not recognise the definition of complements in the context of tax planning. P11 summarises:

*“So, I understand what complementary products and services are. I couldn’t see how it had any relevance to the tax strategy.”*

(Interview P11)

*“I struggle to get my head around complements.”*

(Interview P4)

*“I certainly can’t really see a way in which tax could really be the issue there in terms of collaborative, complementary working if you like.”*

(Interview P12)

*“Yes! I think I see what you are driving at, but I just do not see tax as part of this discussion; it is a more commercial discussion.”*

(Interview P6)

### *Findings on Co-opetition*

Evans (2013) argues that complements should be the sixth force to Porter’s five forces model. There is no evidence to support Evans’s statement from tax strategy documents and interviews. In contrast, cooperation and collaboration, the two vital components of the co-opetition (Nalebuff and Brandenburger,1996), are used in tax planning. Collaboration with HMRC is at the top of organisations' agenda, followed by working with industry bodies.

### Generic Strategies

Porter’s (1980) generic strategies state that organisations should choose a strategy focussed on either cost leadership or differentiation. If it does not choose one, the organisation risks being stuck in the middle and therefore not focussing correctly on either. The central theme from analysing the published tax documents is cost leadership. Organisations strive to reduce their tax liability if it has a commercial benefit. For example, many will consider incorporating a subsidiary in a country with a low tax rate if this helps their supply chain. For example:

*“While individuals and companies have legal obligations to pay tax, those obligations do not, however, extend to paying more than the amount legally required. Companies also have a legal obligation to act in the interests of their shareholders.”*

*“Tax is a business expense which needs to be managed, like any other, and therefore LSEG may respond to legitimate tax incentives and statutory alternatives offered by governments. We will utilise tax incentives or opportunities for obtaining tax efficiencies where these:*

- *Are of a type that the tax authorities would expect*
- *Are aligned with business or operational objectives; and*

- *Do not carry significant reputational risk or significant risk of damaging our relationship with the fiscal authorities in the key jurisdictions in which we operate.”*

(London Stock Exchange, 2020 (website))

*“We do, however, have a responsibility to our shareholders, employees and third-party hotel owners to ensure that we do not incur unnecessary or unintended tax liabilities which would damage our business. This means that we will engage in reasonable tax planning to ensure we are not taxed multiple times on the same profits or transactions, and that we don’t fall into any unintended tax traps such as exposing ourselves to taxes higher than those intended by legislation. Likewise, we will take advantage of tax incentives, exemptions or claims and elections that are provided for in a jurisdiction’s legislation or customary practice, where we are able to do so.”*

(Intercontinental, 2019, p. 1)

*“The Board does not set objectives that target particular effective tax rates but sees the tax rate as a consequence of the commercial activities undertaken in the various jurisdictions. In summary, the objective is to pay the right amount of tax at the right time in each relevant jurisdiction based on the commercial activities undertaken and in accordance with the letter and the spirit of the law in each jurisdiction. In support of this objective a country by country report of the activities of the Group has been published on the website.”*

(St James Place, 2020 (website))

Most tax advisors interviewed acknowledged that the organisation considered tax to be a direct cost. P5 explains:

*“Yes, some organisations do recognise that tax is a cost to the business and may make tax planning decisions which may help their competitiveness; for example, setting up in a different country which has low tax rates. However, it does not happen often. Many want to be seen as a good taxpayer. Some organisations have voluntarily paid more tax than they might have*

*otherwise needed. For example, Starbucks went through it a couple of years ago, voluntarily paying more tax than was due in the UK.”*

(Interview P5)

Although there is consensus that tax is a cost, several participants do not believe tax planning is part of a cost leadership strategy. The organisation cannot control the tax rate (P15) or want to be an outlier in its industry and attract HMRC's attention (P11). However, there are two examples where large organisations focus on keeping their effective tax rate within a specific range rather than low. P11 states:

*“Again, going back to when I was in the industry. One of the major impacts of our effective tax rate was the proportion of business that we expected to come from different countries; so, we were in UK US business at the time, and the UK tax rate was significantly less than the US tax rate. We were growing more in the US than the UK, and that brought with it naturally increasing the tax rate because more of your profits were subject to a higher rate of taxes. Rather than setting an objective that your tax rate needed to go down every year, actually what you needed to do was to anticipate the fact that the natural pressure on your tax rates to go up slightly each year, and make sure that the market understood that and priced it in.”*

(Interview P11)

*“At [name of large retail bank], we had to play around with the numbers to try and present-not only current tax but also deferred taxes in a good light. On deferred taxes- there was a good bucket and a bad bucket for capital holding requirements. So, deferred taxes contributed to capital holdings. There was often work on how we could play with the deferred tax charge-it would result in the same payments to the treasury- but changing the deferred taxes from one bucket to another gave a commercial benefit obtained by playing around with reliefs.”*

(Interview P13)

Specifically, moving into a country with a low tax rate is justified by the commercial purpose.

P12 states:

*“If you've got a manufacturing and distribution business, you want a skilled workforce, reasonably priced and good infrastructure and the tax rates or tax breaks available in their country would only be relevant as a tie-breaker”.*

(Interview P12)

In generic strategies, the alternative to cost leadership is differentiation, providing a unique product or service. In tax planning, differentiation is where the organisation adopts an entirely different tax strategy from its competitors. However, from analysing the published documents, the only evidence of differentiation is again in a commercial context. For example:

*“The Antofagasta Group creates value for its stakeholders through the discovery, development and operation of copper mining assets. The Antofagasta Group is committed to generating value in a safe and sustainable way throughout the commodity cycle.”*

(Antofagasta, 2020 (website))

*“However, it is not the objective of the company to avoid all tax risks as that would imply an unduly cautious approach which is unlikely to be in line with the Group's main objective of enhancing shareholder value.”*

(Rentokil, 2020, p. 3)

Again, tax advisers' central theme is that organisations do not want to be an outlier and therefore, differentiation is not something they pursue. For example:

*“Certainly, from my experience, the strategy was keeping a safe and middle ground rather than differentiation.”*

(Interview P4)

*“I think it's more about being part of a peer group rather than differentiation. I think you might well want to be very innovative in your product range or the way you serve customers, but you wouldn't necessarily want to be innovative in your tax strategy in the same way. So, I don't see it as part of a key component of an overall differentiation strategy.”*

(Interview P11)

*“Again, it's partly to do with the public perceptions that have come about in the last few years around what tax planning means. It has been given its own personality, and it has this moral element to it. Particular stories have been reported in the press; so, if you look at it through that lens, say, for example, you know a customer makes the decision between buying their coffee from Costa, Starbucks, Cafe Nero or from an independent coffee shop based on what[organisation] has been described as a bad taxpayer, in quotation marks. So, if businesses are concerned about the impact of that, they will take steps towards making sure their tax strategies are publicly known. I think they want to manage their consumer-facing profile. However, other businesses - I mean - they may just not have any option - so it's not really differentiated because there's no opportunity for them to save costs.”*

(Interview P5)

*“I don't think you should be [using tax as a differentiator]. You should be operating a business model to make a profit, and obviously, tax is a cost. You need to manage it, but if you are, in my view, using tax as your differentiator, or you're it's a key component of your bottom line, then there is something wrong with the [tax] model.”*

(Interview P7)

### Findings on Generic Strategies

Evidence from the published tax strategy documents and interviews shows that organisations will focus on a cost leadership strategy for tax planning. However, the decision to reduce costs is made based on the commercial rationale rather than driven by tax savings. There is little

appetite to pursue a tax strategy of differentiation as it may result in bad publicity and ultimately more tax to pay to the authorities.

### Value Chain

The value chain model helps the organisation analyse its primary and secondary activities to ensure that it gains value as each product passes through the activity. The tax function will be a support activity in a traditional business structure. For a service level business, where clients pay for tax advice, it becomes a primary activity.

There is little evidence of the value chain in the published tax strategy documents. Centrica and Rio Tinto refer to their support activities within the broader tax context; however, this only highlights how the different departments work together.

*“Our procurement teams work with our assets and operations to help deliver their business objectives, procuring the majority of the goods and services necessary for the company’s operations. Procurement maximises value by maintaining a focus on cost reduction, including through improved productivity. Global category teams (mining equipment and raw materials) are located close to relevant assets, with non-asset specific global categories (global services) located in Singapore. Regional sourcing teams are located in regional hubs – mostly Montreal and Perth – partnering with local businesses co-located at key sites.”*

(Rio Tinto, 2019, p. 25)

*“We also help people around our business (such as Commercial, Strategy, Treasury, HR, Finance and Legal) understand the Tax department’s approach to tax risk management. By adopting this Business partnering approach and pro-actively engaging with internal stakeholders, we ensure we have comprehensive knowledge of their activities, and that tax is always considered when undertaking business decisions. This process, therefore, allows us to capture any legislative or operational driven changes or transactions and consider the tax*

*impact.”*

(Centrica, 2019, p. 8)

### *Findings on the Value Chain*

The value chain helps the organisation improve its business functions and processes. Evidence from Centrica (2019) shows that this aligns with co-opetition as the tax function collaborates with other departments to ensure they understand the business's tax implications. However, there is little evidence of this model in the published tax strategy documents or interviews. The omission supports Calabrese (2019) criticisms of the traditional value chain model. For example, it traditionally looks at domestic markets and tangible goods, whereas the sample of documents and participants focus on global markets and providing tax advice, an intangible asset. Calabrese (2019) shows that the value chain helps review tax planning in new industries such as digitalisation; however, it is still not a model used by most tax practitioners in formulating and implementing tax strategy.



## **Chapter 8: Empirical Research for the Resource Based-View and Dynamic Capabilities with Creative Action**

### **8.1 Introduction**

Chapter 8 follows chapter 7 and sets out the primary research results for the resource-based view and dynamic capabilities with creative action. Section 8.2 shows the data for the resource-based view and section 8.3 for dynamic capabilities with creative action.

### **8.2 Resource-Based View**

Barney (1995) VRIO framework establishes if the components of the resource-based view are in tax strategy. The resource-based view creates or sustains a competitive advantage if resources are valuable, rare, inimitable, and organisable. In tax strategy, these conditions are considered in human resources, specifically the organisation's tax advisors. The below table highlights the number of documents where one or more components of the VRIO framework are identified.

Table 11: Evidence of the resource-based view in tax strategy documents

Name	Number of documents referring to the Resource-Based View	Reference to themes in documents
Resource-Based View		
Inimitable	8	8
Organisable	51	58
Rare	73	88
Value	50	55

Three of the four components in the VRIO framework, organisable (29 per cent), rare (42 per cent) and valuable (22 per cent), are evident in tax strategy. The documents highlight that organisations do consider their resources to be rare through their experience and qualifications.

Barney (1995) argues that resources must fulfil all four components for the resource-based view to create a competitive advantage. Participants were, therefore, asked if they agreed with the following statement:

*Resources are of significant value to an organisation in setting its tax strategy as they are rare with few substitutes and easy to organise.*

The tax strategy documents and interviews may not refer to all four components of the VRIO framework. For interpreting the empirical data, the sample is seen as a whole; the resource-based view is present if there is enough evidence across all the sources.

During the interview process, several participants asked for more context. The author provided examples from Barney (1991) that resources can be either human, physical or organisational capital. Human capital resources are training, experience, and judgment of the organisation’s tax advisers in tax planning. Physical capital resources use technology such as tax software to prepare tax computations and file with HMRC. Organisational capital resources are the formal reporting structures such as how the tax department reports to the board.

The diagram below shows the responses from each participant. All but one participant scored the question on the resource-based view four and above, highlighting that the majority could identify with the VRIO framework in the context of tax planning.

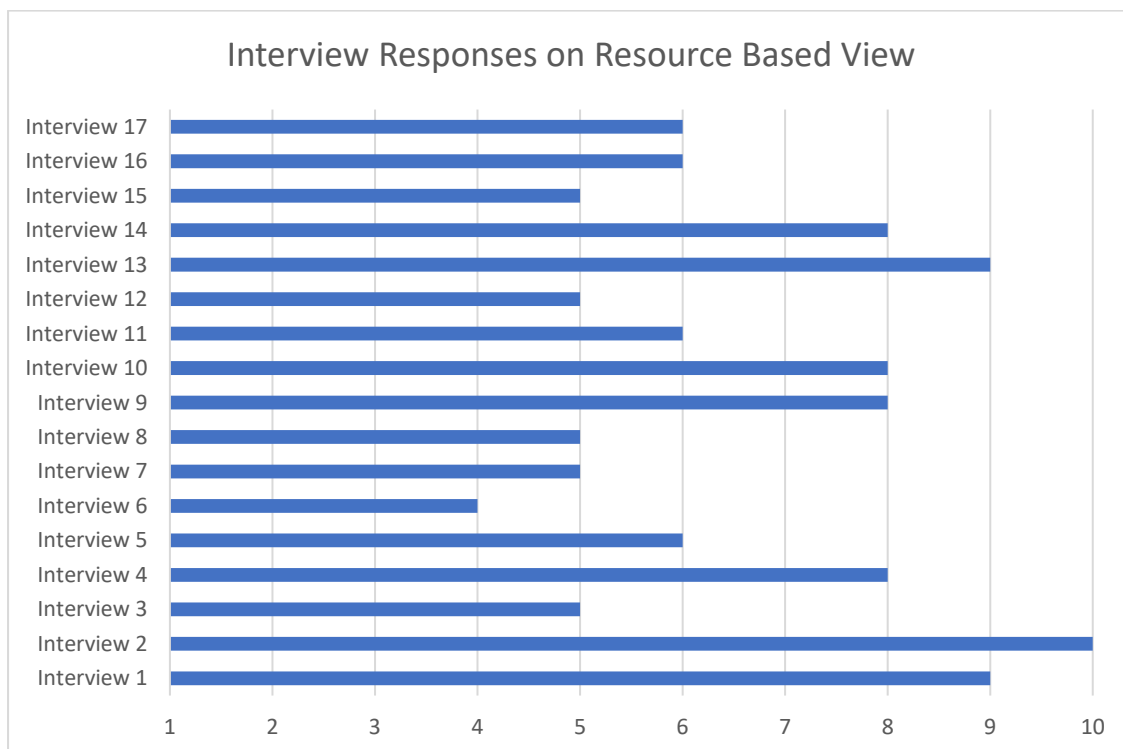


Figure 16: Interview responses on the resource-based view

Barney (1991) argues that resources must be valuable in that an organisation can seize opportunities and counter threats in the market. It allows the organisation to “conceive or

implement strategies that improve its efficiency and effectiveness” (Barney, 1991, p. 107). Most organisations highlight the value of their tax function and external advisers in formulating and implementing tax strategy.

*“Day to day delivery of the Strategy rests with the Group Tax team, which supports our worldwide business operations in their tax matters and works closely with our external advisors and HMRC.”*

(Halma, 2020 (Website))

*“Investment Committee, of which the Finance Director is a member, ensures that tax is one of the factors considered in investment and significant business decisions. In-house tax team assisted by high-quality external advisors, as required, are involved in investment and business decisions.”*

(3i, 2019, p. 3)

*“Tax risk management and compliance are carried out by an internal team of qualified accounting and tax professionals. They combine this subject matter expertise with industry and business knowledge.”*

(Land Securities, 2018, p. 5)

*“The Group’s tax risks are managed by having suitably well-trained colleagues to ensure compliance with the tax rules and manage tax risks. Colleagues will be provided with the training and tools to do their job and meet their compliance responsibilities. The Group tax department will oversee the management of tax risks. Where there is uncertainty, and the issue merits it, external advice shall be sought.”*

(Rentokil, 2018, p. 3)

*“It is acknowledged that the global taxation landscape is complex and constantly evolving. To reflect this, we actively monitor, with the assistance of professional advisors, local and international developments and aim to manage the tax costs and tax risks associated with all*

*commercial transactions in the same way as for other commercial costs. This includes considering how changes in tax legislation in the U.K. and overseas will impact on our effective and cash tax rates. Where appropriate we also consider participating in consultation on future tax law change where we believe it is in the Group's best interests to do so."*

(Spirax-Sarco, 2019, p. 3)

*"WPP Tax is made up of a team of tax professionals based predominantly in London and New York. In addition to an oversight role, they provide advice on tax related issues, undertake or assist with tax filings, manage relationships with tax authorities and assist with various forms of tax and financial reporting."*

(WPP, 2018, p. 1)

The resources of the organisation must also be rare. Throughout the tax strategy documents, this is identified as recruiting skilled tax advisers. For example, several organisations refer to their qualified tax team and engaging external advisers for specific tax areas.

*"We ensure that all tax returns and correspondence are prepared and reviewed by qualified and trained staff, acting under appropriate delegated authorities."*

(Aviva, 2018, p. 11)

*"Our tax team are experienced and qualified tax professionals who are subject to the rules on Professional Conduct in Relation to Tax. The tax team engage with development of tax legislation by responding to Government consultations and through membership of relevant committees of the British Property Federation, CBI and Chartered Institute of Taxation. The tax team are responsible for considering the tax impacts of our business transactions, their inclusion in tax returns and liaising with HMRC as necessary."*

(British Land. 2019, p. 2)

*"We hire suitably qualified professionals globally and we ensure that they act ethically and*

*with integrity. We also ensure they comply with continuing professional development requirements of the professional bodies to which they belong, and our learning and development policies.”*

(BT, 2020, p. 7)

*“The Group Head of Tax is supported by a team of appropriately qualified in-house tax professionals based principally in the UK, and the United States. The Group’s tax teams identify, manage and, where possible, eliminate tax risk across all taxes.”*

(Centrica, 2020, p. 1)

*“The Group ensures that the team comprises staff with the relevant qualifications and training to manage the Group’s tax position. Where there is significant uncertainty or complexity in relation to a transaction or risk, advice is sought from third party advisors.”*

(Flutter, 2020, p. 1)

*“Day to day responsibility for the conduct of the Group’s tax affairs is delegated to a dedicated and highly qualified team of tax professionals, whose primary purpose is to ensure we meet our compliance obligations in every jurisdiction in which we operate. They are also committed to active dialogue with the Group’s underlying businesses to ensure that they both understand the obligations we face, and the steps required to ensure compliance with them.”*

(Whitbread, 2019, p. 1)

The themes of value and rarity are peppered throughout many of the tax strategy documents.

However, there is less support for these themes from the interviews. P7 argues:

*“From my background, when I was in the Big Four, in just looking at that sphere, tax advisers are not rare; you can get one wherever! Yeah, if you can't work well with them [the external adviser], you can easily go off to a law firm. [However] I can see that if you're not working in that environment and you are mainly working in a different jurisdiction or a different region,*

*then yes, I can see the right kind of tax advisors would be rare with few substitutes. So that would be a harder task to come up with a tax strategy in which you are able to access to those things.”*

(Interview P7)

P5 echoes this view but distinguishes writing the tax strategy for publication and implementing it.

*“The people aspect of it is definitely important when you’re a people-based organisation. This is going to have an impact on your tax strategy because if you have people in the wrong location, that’s going to mean they are not aligned. But I am not sure that they are rare. I think if you speak to any colleague, it would be relatively easy to get hold of some information too to help you define what tax strategy should be. You know it’s a fairly kind of well-understood component. You know what’s needed, I could go to two colleagues and say can you give me some examples of good work, what tax strategy looks like, and they would all be able to produce something- its publicly available information. So, I’m not sure it’s that rare.”*

(Interview P5)

*“Well, yes, you need some resources for a tax strategy as it is part of the tax directors’ job if you’re in house, and as an adviser, it would be relatively routine. I didn’t see that is something which is specific, and which required specific resource. You need the resources to implement it but not set it. It’s not a huge task because there are pretty clear guidelines as to what your tax strategy must contain. A number of confirmations you have to give. It’s not a huge task for a well-run business.”*

(Interview P10)

Barney (1991) argues that resources can only be valuable and rare if their competitors cannot copy it. Resources can be inimitable because of historical conditions; competitors are not clear about what resources create the advantage or are very complex. Aligning these three conditions

to tax strategy is difficult as all organisations are free to structure their tax planning. As it is transparent, no organisations should be able to have an advantage over another. Therefore, any advantage of the human capital resource is in the tax team's skills and external advisers and how they understand its intricacies. Experience and qualifications are, therefore, not just rare but will also derive value if inimitable. P13 asserts:

*“There are lots of advisers out there, with the scale and experience and critical mass and reach to provide a large corporate need across all the different territories. I think the key limiting factor is the in house tax resource. I see them as the front line of defence within an organisation. How good an organisation is from a tax strategy perspective -is driven by how good the tax team is and how embedded they are within the organisation. I think the guys that do that, well, they are a scarce resource rather than, say, external tax advisors.”*

(Interview P13)

The last condition in Barney's framework (1995) is that organisations must organise their resources to create value. Applying this condition to tax strategy, the tax advisors will work together and with other departments and external advisers to formulate and implement tax strategy. Therefore, the structure of the organisation is critical to ensure that the tax function is well organised.

*“This Strategy applies to all Directors, associates and third parties whose actions impact the management of Ferguson’s tax affairs. This includes, but is not limited to:*

- *The Directors and Executive Committee of Ferguson plc*
- *All members of the Global Tax team*
- *All regional and local Finance Directors and HR Directors and their reports that have responsibility for managing or supporting tax matters*
- *All regional and local Chief Executive Officers*



- *Any other associate that has responsibility for managing or supporting tax matters*
- *External advisors who support on tax matters.”*

(Ferguson, 2020, p. 1)

Many organisations highlight the use of policies and procedures, guidelines, and codes to organise their tax resources.

*“Throughout the Group, we have dedicated internal tax resources, supported by a centralised Group tax department, who take day-to-day responsibility for management of the Group’s tax affairs. We maintain a detailed set of operational guidelines aimed at ensuring a robust tax control environment. In addition, we seek regular professional advice to ensure that we remain up to date with changes in tax legislation, disclosure requirements and best practices.”*

(Mondi, 2019, p. 1)

*“Our group tax affairs are managed by a team of tax professionals. We have a central Group Tax function, and in addition, some personnel are embedded in our underlying businesses. We realise the potential of our tax team by ensuring that they have sufficient skills and equipment to meet the needs of the business and provide the necessary support to aid their continued professional development.*

*When the need arises, the expertise of our tax team is supplemented by the use of suitably qualified external advisors. All material external advice is provided in writing and retained as part of our tax documentation.”*

(DS Smith, 2020, p. 2)

*“The execution of the Tax Strategy is the responsibility of the Chief Financial Officer, who delegates authority to divisional Finance Directors, the Group Financial Controller and the Head of the Global Tax Organisation (the “GTO”). Accountability for tax affairs is clearly defined, and decisions are taken at an appropriate level, determined by formal corporate approvals or by documented delegation of authority to appropriate individuals. The Audit &*

*Risk Committee of Smiths monitors and reviews compliance with the Tax Strategy.*

*The GTO is responsible for ensuring that the Smiths Group's corporate income tax compliance and risk management are conducted efficiently and accurately and in compliance with applicable laws. The GTO ensures that tax policies and procedures are adopted and followed consistently across the Smiths Group. Responsibility for managing other taxes, including VAT, sales and employment taxes rests with the Group Financial Controller and the relevant divisional Finance Directors at corporate centre and divisional level (as applicable)."*

(Smith Group, 2020, p. 2)

*"You certainly have those who are organised and have the right governance procedures in place, and that follows their strategy. Others, probably those that are not required to legally publish tax strategies, those at the smaller end, again they don't have internal sign-off and governance in place. Certainly, many, many, companies haven't thought about a CCA. We talked to them, and they haven't heard of it. [They] just have not trained their staff or looked into it."*

(Interview P10)

The importance of processes provides a direct link to creative action. The organisation's ritual and routines are vital components of dynamic capabilities with creative action.

P9 highlights that the tax strategy requirement has resulted in the tax function, becoming a more critical resource in the organisation. It is an "opportunity for the tax function to get involved in senior management" (Interview P9). Whereas P14 explains how they are far more comfortable advising an organisation if there is a skilled in-house tax function:

*"I guess in my experience if the team knows about tax 85% to 90% and know what we are talking about, it allows us to have a more detailed conversation. If we have an hour call with them [the client], we will not spend most of it explaining the fundamentals."*

(Interview P14)

### *Findings on the Resource-Based View*

The resource-based view components of value and rare are evident in the tax strategy documents applied to human resource capital in the tax function and the organisation's tax advisers. Resources are valuable when they enable a “firm to conceive of or implement strategies that improve its efficiency and effectiveness” (Barney, 1991, p. 106). As highlighted in Section 6.5 on planning, tax advisers are clearly valuable to the organisation by defining the tax strategy. They are also rare in that their qualifications and experience take years to obtain. Implicitly, if the tax advisers are rare due to their experience, they will also be inimitable. Although difficult to obtain, professional qualifications such as the CTA designation are open to anyone with the inclination to study. On the other hand, experience takes years to gain and is challenging to imitate. Embodied expressions, discussed in Section 6.8, highlight the direct link between the resource-based view and creative action.

Similarly, dynamic capabilities focus on processes linked to the resource-based view by reviewing how easy the tax function is to organise. The tax function's reporting structure in the organisation, collaborated by the interview's, highlights that the tax function is organisable. The direct link between the resource-based view and creative action is through the organisation's processes to ensure the tax strategy is formulated, communicated and implemented effectively.

### **8.3 Dynamic Capabilities with Creative Action**

Dynamic capabilities are the organisation's processes, positions, and paths (Teece et al., 1997). The key themes identified in the tax strategy documents are the organisation's routines and practices (processes), the uses of assets, such as technology and research to complement one

another (positions) and strategic alternatives (paths). There is also evidence of creative action; for example, tax strategy emerges from actions (emerging intentions) based on tax advisers and management's previous experience (embodied expressions) and how they interact and socialise with others.

The table below highlights the number of documents that have the components of dynamic capabilities or creative action. Dynamic capabilities (61 per cent of the total) are evident across the published documents. From these documents, there are one hundred and sixty-nine references to the components of processes, paths and routines, highlighting that some organisations refer to this theme more than once. In contrast, there are very few references to the components of creative action.

Table 12: Evidence of dynamic capabilities and creative action in tax strategy documents

Name	Number of documents referring to Dynamic Capabilities with Creative Action	Reference to themes in documents
Dynamic Capabilities		
Processes, paths, and routines	106	169
Creative Action		
Embodied expressions	13	13
Emerging intentions	2	3
Identity formation	10	10

The figure below shows the average score per interview from dynamic capabilities with creative action.

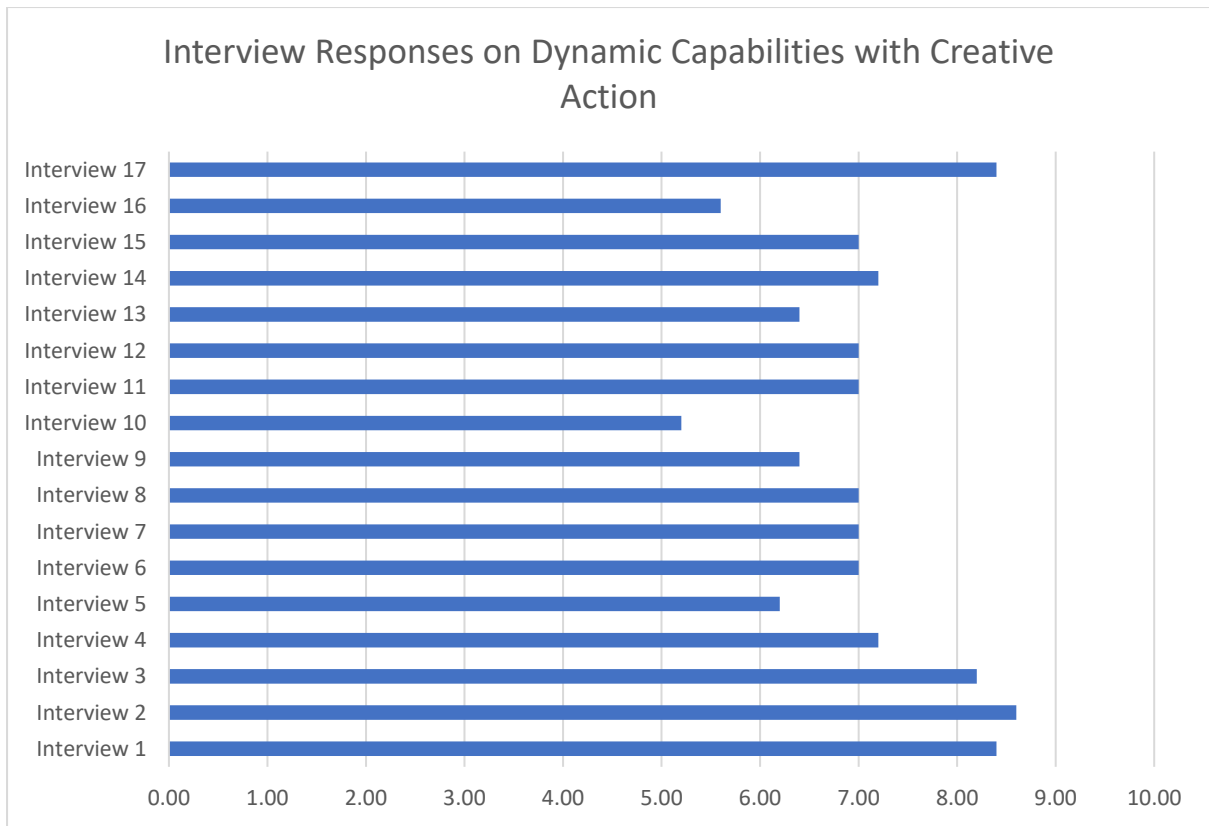


Figure 17: Interview responses on dynamic capabilities and creative action

Only one participant (P10) scored an average of close to five, suggesting that most tax advisers identify with dynamic capabilities with creative action.

Dynamic Capabilities

FA 2016 states that an organisation must set out:

*“The approach of the group to risk management and governance arrangements in relation to UK taxation” (FA 2016 17(1) b)*

Therefore, the tax strategy documents address dynamic capabilities components of processes and paths in the context of risk management. For example:

*“The identification and management of risk are central to achieving our corporate purpose of creating long-term shareholder value. Risk management is embedded in all of our critical business activities, functions, processes, and systems through the following mechanisms:*

- *Risk assessments – we regularly assess known, new and emerging risks.*
- *Risk controls – we put controls in place over material risks, and periodically assess the effectiveness of those controls.”*

(Barclays, 2019, p. 7)

*“The Group adopts formal processes to identify and manage risks. Material risks are reported to the Board Audit Committee.”*

(Rio Tinto, 2018, p20)

*“Our internal tax risk governance processes do not define rigid levels of acceptable tax risk, noting, however, we at all times adhere to our Tax Principles. Our processes do define rigid approval and escalation points that ensure the appropriate decisions makers, up to and including the Board of BHP, make any decision to tolerate tax risk.”*

(BHP, 2018, p. 1)

*“We use standard processes and procedures to assess tax risk before a significant transaction is undertaken and to monitor the position until final resolution. In considering tax risk associated with such a transaction, we assess:*

- *If it is aligned to the Tax Principles*
- *Internal and/or external advice from suitably qualified advisors*
- *Whether the tax treatment applied is more likely than not to be sustained on examination by tax authorities.”*

(RELX, 2020, (Website))

The tax strategy documents suggest that establishing processes ensure adherence to relevant tax legislation and reduce the risk of non-compliance.

*“As part of the Group’s commitment to ongoing compliance, the group legal and tax teams have implemented processes and controls and provide guidance and training to the businesses*

*on a periodic basis to assist them in identifying any potential facilitation of tax evasion concerns that may give rise to legal or reputational risks to the Group in line with the new corporate criminal offence of failing to prevent the facilitation of tax evasion.”*

(ABF, 2019, p. 2)

*“SSE’s Group Tax Policy specifies the principles by which SSE approaches its tax affairs. This policy is supported by a Tax Code of Conduct that outlines the responsibilities and conduct expected of SSE employees and associates when dealing with all tax matters for the Group. These principles are approved by the SSE Board. They apply across the Group and enforce SSE’s approach to tax transparency, with the objective of being a low risk and responsible taxpayer.”*

(SSE, 2019, p. 19)

*“AstraZeneca’s processes, policies and governance operate to ensure compliance with tax laws and regulations in the territories where we operate and are designed to identify and mitigate material tax risks. In the event that applicable laws and regulations are subject to interpretation, we seek appropriate assurance regarding the position taken (e.g., in relation to transfer pricing matters through advance pricing agreements or intra-government mutual agreement procedures).”*

(AstraZeneca, 2019, p. 2)

Based on the above evidence, processes are the prominent theme from dynamic capabilities found in the tax strategy documents; organisations use processes to address their tax risks. The role of processes in setting tax strategy was explored in more detail in the interviews. Although several participants agreed that processes are essential, not all agreed that organisations are using them correctly.

*“So again. I don’t know if it’s a trick question, but this just seemed to be to be a no brainer*

*and a given. You need to have a coherently thought out approach when you are setting strategy. So, you got to be able to deliver what you think. This just seems like a given to me.”*

(Interview P7)

*“Yes, if you don’t have coherent processes, you will not have a coherent tax strategy. For example, the new Business Risk Review that all large organisations need to follow requires the business to disclose specific processes. Similarly, the Criminal Finances Act on the prevention of tax evasion also requires set processes. All these processes have been established to discourage business from doing specific things with their tax planning.”*

(Interview P5)

In some circumstances, such as writing the tax strategy document, organisations need to improve their processes.

*“To me, it is still part of a journey. If you think about tax digital for VAT or bringing it in for CT [Corporation Tax], there are still a number of people that survive on non-documented processes. Many organisations now maintain tax risk registers. [But] tax strategy itself is still relatively new.”*

(Interview P6)

*“There are some organisations that perhaps let themselves down in their processes and controls in finance and tax. I always think this stuff needs to be dealt with bottom-up. Some organisations start with, here’s a tax strategy, right let’s go build our processes and procedural maps. I always think it is better to think, what are our processes and procedures, our process risks and then how does that play into our strategy.”*

(Interview P13)

*“I have seen boilerplate tax strategies where it is answering the question legally. But there is no real process behind it.”*



(Interview P14)

*“I think we still have an issue in terms of what drives what. I'm not sure that the strategy would drive the process and procedure, but perhaps they would inform the tax strategy.”*

(Interview P9)

Positions and paths are the two other components in dynamic capabilities. The tax strategy documents provide less evidence of organisations using either. Linked to processes, by assessing the tax risk, the organisation may change its path and look for alternative strategies if necessary.

*“Internal controls and escalation procedures are put in place with the aim of identifying, quantifying, and managing key tax risks as well as ensuring compliance with the UK Senior Accounting Officer rules. These key risks are then monitored for business, policy, and legislative changes and, as a result, tax processes or controls are updated where required.”*

*(Sage, 2020, p1)*

*“We look to manage tax risk in a similar way to any area of operational risk across the Group. Business heads will generally take the lead role in identifying, managing, and monitoring tax risks within the business. Line management is then supplemented by oversight functions, including Group Tax, Group Risk and Group Internal Audit.”*

*(Schroders, 2020 (Website))*

### Findings on Dynamic Capabilities

Dynamic capabilities are evident in an organisation when they can improve internal and external competencies (Teece et al., 1997). The critical component from the published tax strategy documents is processes, as many organisations adopt various routines and practice to address tax risk. In some instances, there is evidence of the organisation looking at alternative

paths if the risk is too significant. The document analysis produces less evidence of positions and paths. The evidence from the interviews supports the conclusion that dynamic capabilities are prominent through the establishment of processes. Most agreed processes are essential to an organisations tax strategy. However, some did differentiate between what happens in a large business and those at the smaller end that do not need to publish a tax strategy.

### Creative Action

Emerging intentions is a variation of Mintzberg's emerging strategy. The theory is that intentions emerge from actions. As the action progresses, there may be a change in how the strategist perceives the outcome, which results in a revision of the original strategy. Like dynamic capabilities, organisations consider their tax actions based on their perception of risk. As many FTSE 100 organisations trade in different countries, there is a higher risk of tax legislation changing. For example:

*“The global tax environment is rapidly evolving, and so the tax strategy will be subject to regular review and developed if necessary.”*

(ITV, 2020, p. 2)

*“We do not engage in high risk or aggressive tax planning. However, as a multinational corporation, we accept a certain level of tax risk due to uncertainties in tax legislation and the increasing complexity of the international tax environment, particularly with regard to transactions between our affiliated companies. We seek to mitigate and manage this tax risk through our approach to tax compliance, tax planning and tax risk management.”*

(Smith & Nephew, 2020, p. 2)

From the tax strategy documents, it is not clear that organisations do regularly change their tax strategy. Participants did not believe the tax strategy of the organisation changes regularly. For

example, monitoring for changes in legislation does not translate into a shift in strategy. For example:

*“Everybody should review their strategy year on year, but that review is generally about, has anything in the business changed which may impact the strategy, rather than do we want to take a different approach to the strategy.”*

(Interview P 14)

*“No. No. I am not conscious of that. It evolves very slowly.”*

(Interview P15)

*“I think the tax strategy tends to fit with the overall ethos of an organisation. So, if you got an organisation with a particular risk appetite, the tax strategy will generally be consistent with proactively changing unless there is a sizeable transformation or transaction. It takes 50% of the organisation's existing business, which means the supply chain might fundamentally change. I think this is probably linked to the pace of change within an organisation. A lot of the clients I see - businesses are mature and established, and it might be that operational changes are structural changes. Minor flexes rather than big boom-type activities.”*

(Interview P13)

*“It doesn't change! It's all about the way we behave, which doesn't change. It would not change until you know the culture of the company changed. It is pretty much defined by the culture of the company. I don't think you do anything different in tax [to elsewhere in the organisation].”*

(Interview P17)

The size of the organisation makes a difference in how often strategy changes, as does the owner.

*“Yeah. I would say so. I mean, you don't see big changes every year. What you tend to see is a gradual evolution. So, let's say you've got a relatively kind of new start-up business, and it's*

*having to formulate its tax strategy for the first time. It will be sitting there, saying, well, this is what my business forecast is looking like in five years. These are all the countries I want to be in those five years. How will I set my operating model and my overall tax strategy to make sure I'm compliant in all of the countries that I need to be compliant in?*

*I'm not paying tax unnecessarily, and I'm not being inefficient. Once that's set, unless the business itself goes down a different road. You know, it changes the way it is operating or completely changes direction in terms of its products, or suddenly expands into a completely new area in terms of diversification, unless any of those things happen, there is nothing really to push the overall tax strategy changes."*

(Interview P5)

*"Generally, unless a new owner that had a massively different perspective on how the strategy should be run, I think it's rare that you would kind of suddenly become a super aggressive or a super sort of cautious. Companies [tax strategies] seem fairly stable."*

(Interview P 10)

The embodied expressions will influence the emerging intention, suggesting an organisation's management previous experience will shape how they react to implementing a current tax strategy. Most participants agreed that previous experience is vital in setting tax strategy. For example:

*"Yeah, I mean again, one of those that sounds like an obvious [answer to the question] given you can't bring your past experienced to bear when you are being asked to define a tax strategy. It is obvious."*

(Interview P7)

*"From an adviser side -from the management side - that is why these organisations buy into these advisers- these particular management individuals is because they got an objective to*

*fulfil and the people, they bring in can help him do it, and it is all based on past experiences and past understanding.”*

(Interview P13)

*“I cannot think when they would not use their experience”.*

(Interview P5)

*“This struck me as a no brainer! Doesn't everybody do that all the time! The standard thing that you weren't paying Rembrandt 30 guilders for sitting still for two hours while he sketched you, [rather you] were paying him 30 guilders for his 35 years of learning how to sketch you.”*

(Interview P12)

One participant highlighted that the organisation changed the individual responsible for the tax due to his previous experience.

*“One example I can think of is where an organisation had followed a particular business and tax strategy for quite a long time, and then the business changed the tax [strategy] and got rid of the Head of Tax. They wanted someone with different experience because they wanted to change how they did the tax [strategy]. It had been a business that was heavily transaction-driven. They were very good at planning and executing transactions. [Once] they finished that growth phase, coming into a period of stability, it was more important to build relationships across the organisation. They got rid of the transaction group Head of Tax and brought in somebody whose main skills were managing people[and] relationships. That was a real shift! They brought in someone with different sort of experience to change the tax strategy.”*

(Interview P11)

One participant did highlight that experience is not the only component when setting a tax strategy.

*“Yes, I'm sure they do, but it's not the only thing, but they do use it. I think they set tax strategy according to changes in-laws- for example, facilitation of tax evasion in the Criminal Finance Act to change risk direct to tax.”*

(Interview P15)

Risk management again was the central theme in tax strategy documents. Organisations focus on ensuring they have a strong reputation with all their stakeholders on tax compliance and reducing the risk of adopting aggressive tax planning.

*“The Group believes it has a corporate responsibility to act with integrity in all tax matters. It is the Group's policy to comply with all relevant tax laws, regulations and obligations including claiming available tax incentives and reliefs.”*

(Ashtead, 2020, p. 1)

*“Our values, experience and history tell us that we must work in a way that delivers real, lasting benefits for the owners of our company as well as the wider communities in which we operate. We must care for our employees, respect, and care for the environment when we explore, build and operate, and repurpose or rehabilitate the land when our operations come to an end. We must contribute our fair share to local and national economies, including through the payment of taxes and royalties, and do so transparently.”*

(Rio Tinto, 2019, p. 5)

*“RSA seeks to act with integrity and have a positive impact on society. In this context, RSA's overall tax strategy is to manage its tax affairs in a responsible and proactive manner that is consistent with our Corporate Responsibility Strategy and in line with Group Risk Strategy and Appetite.”*

(RSA, 2019, p. 2)

*“Our reputation, corporate social responsibilities and brand are crucial considerations when*

*dealing with tax matters. We will not enter into arrangements that could have a negative effect on the Group's reputation, brand, corporate and social responsibilities, or relationships with stakeholders such as HMRC and OFGEM. Additionally, when making decisions on tax matters, we follow the CBI's Statement of Tax Principles."*

(National Grid, 2019, p. 9)

Identity formation highlights how those formulating the strategy interact with others and how they react to decisions and events both in the internal and external environment. Like evidence on collaboration in the positioning school, tax advisers interact with HMRC and other tax authorities is vital in setting tax strategy.

*"The Group interprets relevant tax laws in a reasonable way and ensures that transactions are structured in a way that is consistent with a relationship of co-operative compliance with tax authorities. It also actively considers the implications of any planning for the Group's wider corporate reputation."*

(BAE, 2020, p. 5)

*"We welcome the opportunity to work with others in areas of shared interest. Our approach to tax considers the interests of relevant stakeholders, including our investors who expect us to behave prudently by seeking long-term value rather than only short-term gain."*

(Shell, 2020 (Website))

*"The commercial needs of the Group are paramount, and we will work with the business as an equal partner in providing clear, timely and relevant business-focused advice across all aspects of tax. Where alternative routes exist to achieve the same commercial results, the most tax efficient approach in compliance with all relevant laws should be recommended. Vodafone follows "the more likely than not" principle for making decisions on tax matters. Although there may be materiality considerations, all Group and local Tax function members should use*

*this principle in their day-to-day roles to guide their decision making. For example, when concluding on the tax treatment of a transaction, we would not undertake it unless it is at least more likely than not that our proposed treatment would stand up to examination by tax authorities. This principle can be applied to different types of decisions. Further definition of the components for interpreting and assessing risk are available in supporting documents.”*

(Vodafone, 2019, p. 4)

Understandably, organisations refer to their interaction with HMRC as this is a requirement of the FA 2016. Participants highlighted this as an essential part of formulating a tax strategy.

*“Certainly, the interaction between authorities, through a collaborative basis, will certainly drive the tax function rather than the tax strategy.”*

(Interview P9)

*“In the context of my own experience in a larger business, you have access to a tax team and tax director that has the experience. You would be setting that strategy in consultation with the tax team; by reference to what your competitors are doing, what local tax authorities in the jurisdiction are expecting. What your relationship with the tax authority might be like, and your relationship might vary across different jurisdictions. Yeah, it's quite a lot of factors that will go into formulating your tax strategy. It may well have to be flexible in terms of approach and maybe that you want to be completely open and transparent and cooperative with authorities with the tax authorities -as a general principle – but there may be some that just have a different approach or attitude to the industry that you operate in. The classic example is that all jurisdictions view private equity as a good thing. They might look at you and say you are just in the business of avoiding tax all the time, and therefore we going to be as aggressive against you answer as much as possible.”*

(Interview P7)



More recently, there has been a change in how organisations interact with others when defining their tax strategy.

*“So, if you go back maybe a decade, we used to joke that Monday mornings [we would be] always on the phone because we would have clients that would say I was at the golf club or the bar and heard of this – tell me about it -and a lot of times - they just wanted to be able to talk to their peers about what was going on to look knowledgeable. Other times they did not want to miss a trick. It happens to a less degree, but it does still happen a bit, so you might see things happening in a sector - for example -that might happen elsewhere -but this spread out from you know - what organisations are doing in another sector that must be to do with peers.”*

(Interview P15)

*“I think this is linked to other questions – in some sectors- we as tax advisors whether its institute driven, discussion forums and stuff. We have that platform to share insights, share experiences always on a no-names basis, but it's there to ensure that we can help our clients benefit from wider collective expertise.”*

(Interview P13)

The theme of identity formation is how tax advisors interact with one another and how they perceive their decisions to be received in the external environment. Participants highlighted how meeting their peers in industry forums allowed them to share ideas and find out what others are doing in tax planning.

*“Yes. I think that's maybe going to things like the [name of industry forum] to find out a bit about what other advisors are doing. If there is something that comes out that's major, then*

*often a group of people would get together, and you find out what each other are doing. So, I think there is some collaboration around certain things.”*

(Interview P8)

Many participants highlighted that stakeholder’s perception is a significant consideration for organisations in their tax planning. In creative action, interactive identity formation is, therefore, at the core of formulating tax strategy.

*“Yes. Very much so! Particularly quoted companies or companies that are in the public eye. They are very much keen to have transparency. They’re very keen to have a transparent tax strategy that their customers will think, yes, this company is paying their fair share of tax. So, I think anyone in the public eye or quoted [on the stock exchange] is very concerned about their public image in relation to tax. [however] I think very small companies that are out of the public eye there is less consideration as you are just very unlikely to get in the news.”*

(Interview P8)

*“I think that's become increasingly important. It does depend on the industry because some are well below the radar. People do not notice what the tax strategy is but any organisation that is going to be in public view definitely has a strong awareness of how their tax strategy is likely to be perceived.”*

(Interview P15)

*“I can see that can swing either way. Do we write the tax strategy to impress other [competitors]? Honestly, to some extent, Yes! We have been one of the [organisations in our industry] highlighting that we should have a strategy when many still don’t. On the other hand, laying down where we think we’re going and what we are doing. Does that really matter? I’m not sure of the answer. To some extent, it is both. We would have our strategy regardless, but to some extent, it helps us persuade others they should do the same.”*

(Interview P9)

*“I think for everyone, every Google or Yahoo, or whatever that gets mentioned in the press, there are probably hundreds of large multinational groups who are doing all this stuff, and nobody has ever heard of them.”*

*“I think the vast majority of people are simply saying we want to keep our heads below the parapet as far as HMRC is concerned, and that's probably true of everyone from the current market of owner-managed businesses up to a large number of the large majority of multinationals because even though the public hasn't heard of them.”*

(Interview P12)

### Findings on Creative Action

Creative action does form part of the formulation of tax strategy. Although there is little evidence from the tax strategy documents, substantive data from the interviews shows that embodied expressions and interactive identity formation influence tax advisors decisions. Contrary to Mintzberg's learning school that strategies develop over time, there is no evidence to suggest this applies to tax and therefore emerging intentions. Organisations such as ITV and Smith & Nephew highlight that tax can evolve rapidly and will be regularly monitored as part of their risk management. However, the tax strategy does not change because there is no commercial change for the organisation. As the participants highlighted, the tax strategy will not change for larger organisations unless there is a significant structural change. It is, therefore, prescriptive rather than emergent.

Evidence from interviews highlight that embodied expressions and interactive identity formation are very much part of the fabric of an organisations tax strategy. Tax advisers and senior management will consider their experience when formulating tax plans. Any new

strategy is based on how their stakeholder will receive it. The preference is for tax advisers to formulate a tax strategy that shows the organisation as a good citizen, willing to pay the correct amount of tax it owes rather than adopt aggressive avoidance schemes.

## **Chapter 9: Interpretation of Results and Literature Reappraisal**

### **9.1 Introduction**

The literature review in Chapter 2 shows the limited research on the relationship between strategic management and corporation tax. Strategic management consists of multiple disciplines that inevitably result in many concepts that the strategist can use to achieve a competitive advantage. This results in fragmentation with disagreement on the best approach for any given issue. Elfring and Volberda (2001) believe it is better to embrace fragmentation than group theories and concepts. However, the empirical data presented in Chapter 6, 7 and 8 shows that the integrated framework of strategic management will allow for a more comprehensive review.

It is necessary to consider multiple different theories in examining the nature of the relationship between strategic management and tax planning. For example, it would not be helpful to conclude that tax practitioners do not consider strategic management by only investigating it from the perspective of resources. There is a necessity to define a framework incorporating many of the common themes of strategic management. This has been done following a comprehensive review of the literature and using the five critical themes in the design, planning, positioning schools (the prescriptive schools), the resource-based view and dynamic capabilities with creative action. The framework of strategic management supports the data collection and analysis that provides answers to the three research questions from Chapter 4.

## 9.2 Relationship between strategic management and corporate tax planning

*Research Question One: Is there a relationship between strategic management and corporate tax planning?*

There is clear evidence of a relationship between strategic management and corporate tax planning. Document analysis of the one hundred largest UK listed organisations tax strategies shows that strategic management is part of their tax planning. Furthermore, the seventeen interviews show that tax practitioners consider many strategic management themes when advising organisations on their tax strategy. Chapter 6 presents the average score per theme. A summary of the results are:

Table 13: Average score per the theme

Design School	5.91
Planning School	7.29
Positioning School	4.92
Resource-Based View	6.65
Dynamic Capabilities with Creative Action	7.05

As illustrated, participants scored the planning school the highest and the positioning school the lowest. The following colour-coded matrix shows the relationship between the themes.

Table 14: Colour code illustrating average score per theme per participant

Theme	Interview 1	Interview 2	Interview 3	Interview 4	Interview 5	Interview 6	Interview 7	Interview 8	Interview 9	Interview 10	Interview 11	Interview 12	Interview 13	Interview 14	Interview 15	Average
Design School	M	M	M	M	M	N	Y	Y	Y	M	Y	Y	Y	Y	Y	Y
Planning School	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	M	Y	Y	Y	Y
Positioning School	Y	M	N	N	Y	Y	M	M	N	M	N	M	M	M	M	M
Resource-Based View	Y	Y	M	Y	M	M	M	M	Y	Y	Y	M	Y	Y	M	Y
Dynamic Capabilities and Creative Action	Y	Y	Y	Y	Y	Y	Y	Y	Y	M	M	Y	M	Y	Y	Y

Score	Mark	Code
0 to 3	No	
4-5	Maybe	
6 to 10	Yes	

The questionnaire results show that the tax practitioner considers all five themes when defining its tax strategy. Only the positioning school scores below five; however, although this is below the average, it highlights that the participants recognise some critical components. Similarly, a score slightly above for the design school shows that some of the components are used in tax strategy. The other themes scored above six, which is considered high, given the variety of questions.

In the primary research, the design school's critical components examine leadership, board approval and structure. Mintzberg et al. (1998) argue that the CEO sets the strategy in the

design school. In contrast, evidence from the tax strategy documents, supported by the interviews, show that the CFO is responsible for tax strategy. Although the CFO reports tax strategy to the board, they are very dependent on the Tax Director. This supports Mulligan et al. (2016) assertion that the Tax Director is most influential when there is a direct reporting line to the CFO. However, in contrast to Mulligan et al. (2016) research, the empirical data shows that the board has a significant role in approving the tax strategy.

Ultimately formulation and implementation depend on the structure of the tax function in the organisation. Chandler's (1962) maxim that structure follows strategy is evident in tax strategy both from an internal and external perspective. However, the tax strategy is more akin to Mintzberg et al. (1998, p. 37) statement that structure follows strategy “the way the left foot follows the right foot”. In some circumstances, the structure will follow the tax strategy, such as when the organisation's strategy uses a particular legal vehicle, such as REIT. In other cases, the tax strategy follows the structure, such as when the organisation moves into a new organisation to improve its supply chain. In both cases, the tax strategy requires direction from the centre; there is a clear corporate strategy.

The planning school follows Ansoff's (1965) development of corporate strategy by identifying formulation to implementation. The tax strategy documents show that large organisations follow set objectives; however, the smaller the business, the more chance that the tax strategy becomes an administration exercise. The nature of the organisation and size also determines if they adopt a corporate or business tax strategy. Large organisations will follow Anand's (2012) description of portfolio management through successful tax planning by all business units. There are outliers, such as banking, where the UK retail banks operate by divisions due to



government regulation. Nevertheless, organisations do consider the elements of the planning school in their tax strategy.

The integrated framework of strategic management includes the five forces, generic strategies, value chain and co-opetition to define the positioning school. The tax strategy documents show that organisations consider industry rivalry and the threat of entry when formulating tax strategy. However, neither force allows an organisation to achieve a competitive advantage in tax. Evans (2013) believes that complements should be the sixth force to five forces, yet there is no evidence from the empirical data to support this statement. In contrast, there are many examples of collaboration and cooperation, especially between the organisation and the tax authorities. Similarly, although the organisation focuses on cost leadership strategy, this is driven by the commercial rather than tax purpose. Therefore, the generic strategies model is not prevalent in tax strategy, with differentiation, in particular, considered not relevant.

The resource-based view focuses on internal competencies rather than the external environment. Human resource capital is directly referred to in many of the interviews and the tax strategy documents. Collectively the data shows that the components of Barney's (1995) VRIO model is in tax strategy. Tax advisors are valuable as they create and maintain value for the organisation. Although not generally recognised by the participants, the tax strategy documents highlight that they are rare due to their qualifications and experience; two elements that they agreed are critical to ensure a useful internal tax function. The organisation's structure and internal processes are two reasons why the tax function is easy to organise. It also helps provide the link between the resource-based view, planning school, dynamic capabilities, and creative action.

The components of dynamic capabilities with creative action are evident in setting tax strategy. Arend and Bromiley (2009) argue that it is not clear if dynamic capabilities create value more than other strategic concepts. However, the empirical data shows that tax advisers create value for their organisation through processes, positions and paths. The tax strategy documents highlight those processes are a critical component in tax strategy as they allow the organisation to meet their defined objectives. The interviews support this statement with the consensus that tax strategy cannot be formulated without coherent processes. The creative action components of embodied expressions and interactive identity formation are also evident as tax advisers use their experience and knowledge of stakeholder's perception when defining the tax strategy.

### **9.3 The integrated strategic management framework**

*Research Question 2: Does an integrated strategic management framework show a relationship between strategic management and corporate taxation?*

Research question 2 is addressed by initially defining the integrated framework of strategic management from the literature. As acknowledged, there are other integrated frameworks available such as Zolla et al. (2017), Nham and Hong (2011) and Mintzberg et al. (1998) configuration school, which could all potentially establish if there is integration in strategic management by analysing tax strategy. However, none of these concepts fully encompass traditional and contemporary theories. The configuration school (Mintzberg et al., 1998) is perhaps the most favourable for this research from the existing theories. As highlighted in Chapter 3, using the resource based-view and dynamic capabilities with creative action is more relevant than following Mintzberg et al. (1998) descriptive schools.

The empirical data shows how themes connect using the integrated framework of strategic management.

Table 15: Matrix of integration of strategic management themes

	Design School	Planning School	Positioning School	Resource-Based View	Dynamic Capabilities with Creative Action
Design School		Y	N	N	N
Planning School	Y		Y	Y	Y
Positioning School	N	Y		Y	N
Resource-Based View	N	Y	Y		Y
Dynamic Capabilities with Creative Action	N	Y	N	Y	

Score	Mark	Code
0 to 3	No	
4-5	Maybe	
6 to 10	Yes	

The table above shows that many of the themes from the integrated framework of strategic management are linked. From a possible twenty-five, twelve are connected. The table below shows examples of how the themes are connected.

Table 16: Examples of integration of strategic management themes

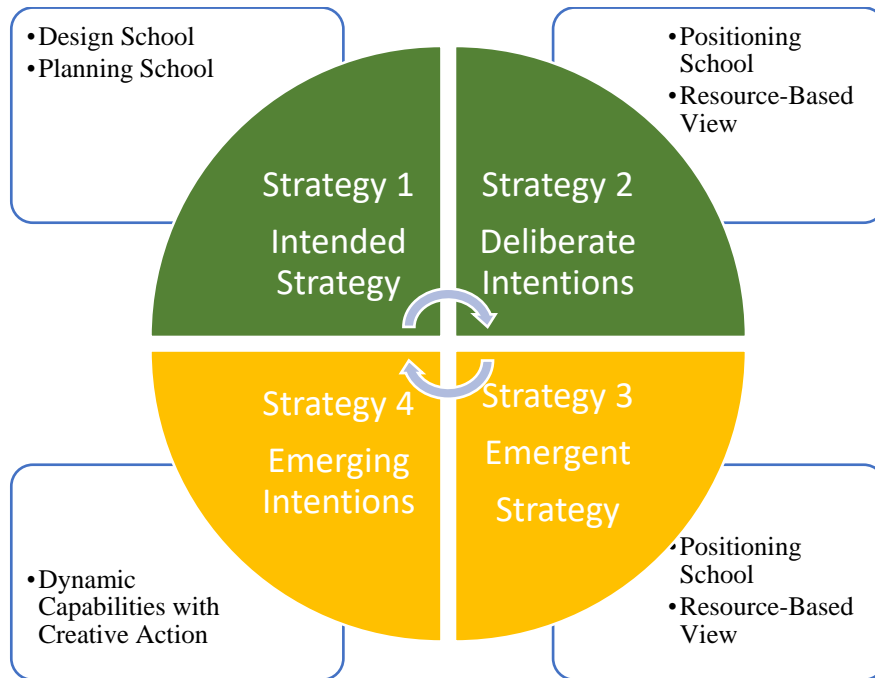
	<u>Design School</u>	<u>Planning School</u>	<u>Positioning School</u>	<u>Resource-Based View</u>	<u>Dynamic Capabilities with Creative Action</u>
<u>Design School</u>		The structure follows strategy. Tax strategy defined centrally (design and planning schools)			
<u>Planning School</u>	The structure follows strategy. Tax strategy defined centrally (design and planning schools)		Organisations will set up subsidiaries if commercially viable and enjoy the tax benefits as a by-product- corporate tax strategy complements commercial strategy (positioning and planning schools)	Tax advisers formulate tax strategy and establish set objectives- tax advisers are valuable as they formulate the tax strategy for the organisation (planning and RBV)	Processes allow the organisation to formulate a coherent tax strategy and set objectives. The strategy is typically formulated and does not emerge (planning and dynamic capabilities)
<u>Positioning School</u>		Organisations will set up subsidiaries if commercially viable and enjoy the tax benefits as a by-product- corporate tax strategy complements commercial strategy (positioning and planning schools)		The tax strategy complements the commercial strategy. Tax advisers set the tax strategy through collaboration and cooperation (positioning school and RBV)	
<u>Resource-Based View</u>		Tax advisers formulate tax strategy and establish set objectives- tax advisers are valuable as they formulate the tax strategy for the organisation (planning and RBV)	The tax strategy complements the commercial strategy. Tax advisers set the tax strategy through collaboration and cooperation (positioning school and RBV)		Organisations, through their tax advisers, focus on processes to organise their tax function and reporting lines (RBV and Dynamic Capabilities)
<u>Dynamic Capabilities with Creative Action</u>		Processes allow the organisation to formulate a coherent tax strategy and set objectives. The strategy is typically formulated and does not emerge (planning and dynamic capabilities)		Organisations, through their tax advisers, focus on processes to organise their tax function and reporting lines (RBV and Dynamic Capabilities)	

In many respects, there is an expectation that the themes will be related. Mintzberg et al. (1998) conclude that mapping the ten schools to three approaches will enable the organisation to understand the strategy better. For example, use the schools separately, in sequence or as an integrated process. However, the empirical data shows that the integrated framework of strategic management, based on Mintzberg et al. (1998) prescriptive schools with contemporary concepts that complement their descriptive schools, is most appropriate for analysing tax strategy. Formulation and implementation of tax strategy use several strategic management concepts concurrently. Only by using an integrated framework of strategic management is it possible to analyse tax strategy comprehensively.

Porter (1996) believes that strategy is deliberate. Glaister and Frecknall-Hughes (2008) research found that most tax strategies are intentional and deliberate. In contrast, Mintzberg et al. (1998, p. 381) believe that some strategies will be “more rationally deliberate” whilst “others tend to be more adaptively emergent”. Joas (1996) supports the view of emergence, arguing that intentional behaviour is an emergent part of human action. The strategist's emotion and awareness are fundamental to new actions, which become intentional as the identity, experience and network impact on action.

Chapter 3 advocates that the integrated framework of strategic management should encompass a feedback loop of intended and emergent strategy. The empirical data supports this premise as the organisation often uses this feedback loop when defining its tax strategy. For example, revisiting the figure from Chapter 3, the intended and deliberate strategies (strategy 1 and 2) are critical parts of the tax strategy. It will not change unless there is a fundamental shift in the organisation's structure or nature. However, the tax strategy rarely follows Mintzberg et al.

(1998) learning school, emerging (strategy 3 and 4) only as the organisation receives new tax information such as a change in legislation.



No	
Maybe	
Yes	

Figure 18: Four areas of the integrated strategic management framework in tax planning

The colour coding in the above figure illustrates that an emergent tax strategy does not happen often but is possible. For example, components of the positioning school, such as the threat of entry from Porter’s five forces model, may be suited to an emerging as well as a deliberate strategy in the context of tax planning. This statement is demonstrated by an organisation buying a new company in a country with a low tax rate. As the commercial strategy is to trade in this country, the tax strategy will be updated for this new development. The tax practitioner

did not formulate this strategy, and instead, it emerged based on a change in the business model. Therefore, tax strategy can be intended, deliberate, emergent and have emerging intentions based on how the commercial strategy develops.

#### **9.4 The tax practitioner**

*Research Question 3: Does the tax practitioner act strategically in corporate tax planning?*

This research question is addressed using the defined integrated framework of strategic management based on the literature's critical themes. The framework facilitates collecting empirical data as it provides a research tool to map the tax practitioner's behaviour to strategic management. From the framework, there is conclusive evidence that there is a relationship between strategic management and corporate tax planning using an integrated framework of strategic management. The tax strategy documents, questionnaires and interviews show that the five themes from the defined framework on strategic management are directly or indirectly linked. Therefore, tax practitioners follow Rumelt's (2017, p. 85) definition of strategy by formulating the organisations' tax strategy based on 'what', 'why' and 'how' they are doing it. For example:

*What is the tax strategy?*

Tax practitioners formulate a tax strategy to add value to the organisation by ensuring tax complements the commercial strategy.

*Why is there a tax strategy?*

In contrast to the commercial strategy, organisations do not seek to achieve a competitive advantage through their tax strategy. Instead, tax practitioners aim to align the tax strategy with

the commercial strategy of the organisation. Consequently, if the commercial strategy achieves a competitive advantage, so too will the tax strategy.

#### *How is the tax strategy achieved?*

The tax strategy is achieved in the same way as the commercial strategy by organisations using the themes in the integrated framework of strategic management. Which themes are used depends on the size and type of the organisation. The typical structure in a large organisation is for the Tax Director (also defined as the Head of Tax in some documents and interviews) to formulate the tax strategy. This is reported to the board via their line manager, typically the Chief Financial Officer (CFO). As the CFO does not typically understand every detail of corporate taxation, implicitly, the Tax Director is acting strategically by writing the plan. In contrast, smaller organisations may allow their tax strategy to emerge as the business develops.

### **9.5 Literature Reappraisal**

The research contributes to the related literature on strategic management and corporate tax in the following ways:

#### *Addresses the gap in the literature*

The literature review (Chapter 2) highlights the limited published research on the relationship between strategic management and corporate taxation. Periodic searches for new material using the Heriot-Watt University online library database, 'Discovery', and Google Scholar ensured a continuous review up to the date of submitting this thesis. All the prominent relevant publications are, therefore, included in the literature review.

The research addresses the current gap in the literature on strategic management and corporate tax. Several academics investigating these fields have stated that more work is needed to



understand the relationship. For example, Glaister and Frecknall-Hughes (2008, p. 44) state that:

*“New empirical studies that examine the interaction between taxation and strategy decisions are plainly identified as areas for future research”.*

Mulligan et al. (2016, p. 240) concluded that the alignment between tax and organisational strategy is weak but that *“further empirical investigation at the business unit and corporate levels is necessary”.*

Cooper (2016, p. 288) goes further by highlighting the need for more research, stating:

*“Work could usefully investigate the processes within the firm: who set tax policy and how it is implemented. New qualitative research is needed as the basis for the generation of new theory addressing tax”.*

The empirical data and findings contribute to the literature as it closes the knowledge gap on strategic management and corporate tax.

#### *Identification of critical strategic management themes in corporate tax*

The research contributes to the literature by identifying which strategic management themes are used in tax planning. This literature synthesis (Chapter 3) sets out the defined integrated framework of strategic management and highlights the importance of adopting a comprehensive research instrument that collectively covers the critical themes. The primary research (Chapter 6,7 and 8) and the subsequent interpretation (Chapter 9) demonstrate a relationship between strategic management and corporate tax.

Mulligan et al. (2016) argue that the alignment between tax and organisational strategy is weak. In contrast, the empirical data shows that there is a strong relationship. An explanation for the difference in the findings is using the integrated framework of strategic management

established from the literature that focuses on the five critical themes. Therefore, the research contributes to the literature as it highlights the importance of the design, planning and positioning schools, and the resource-based view and dynamic capabilities with creative action.

It is sensible to reassess if the critical themes identified and adopted for the integrated framework of strategic management are appropriate. Components of the design school are used in tax strategy. Chandler's (1962) mantra that structure follows strategy is evident in that organisations build their tax function based on where their subsidiaries are located and their tax adviser's expertise. Examining the internal and external environment is also relevant with structure-based not only on reporting lines but also on centralisation, location and type of legal vehicle (Andrews, 1965, 1971). However, a tax strategy is not simple and informal and nor is it communicated to everyone. The CEO usually is two steps removed from the formulation as the Tax Director writes the strategy and reports to the CFO.

The planning school also addresses the structure of the organisation. Evidence from the interviews supports Anand (2012) assertion that organisations need to exploit synergies in their business units. Generally, this is by centralising the tax strategy. Therefore, a tax strategy is very much a corporate rather than a business strategy (Anand, 2012). However, the formulation is after the development of the commercial strategy. The structure of the organisation does, therefore, indeed follow strategy. Once established, the organisation develops specific processes to ensure successful implementation (Ansoff, 1965).

The positioning school is defined in the integrated framework of strategic management as the five forces, co-opetition, generic strategies and the value chain. Porter's (1980, 1985, 1996) work is of critical importance in strategic management, and therefore, unsurprisingly, is

identified throughout the empirical data. The five forces model covers many possibilities in the external environment that aligning with tax strategy is relatively easy. In contrast, the generic strategies are not as straightforward, as many organisations do not use tax for cost leadership or differentiation. Nalebuff and Brandenburger's (1996) co-opetition illustrates collaboration and cooperation, mainly with the tax authorities. In contrast, there is less evidence of the value chain (Porter, 1985). However, on reflection, the lack of empirical evidence for this model is because there is no question on the value chain to participants rather than any weakness in the integrated framework of strategic management.

The resource-based view (Barney, 1995) states that an organisation will only achieve a competitive advantage because its resources are valuable, rare, inimitable, and organisable. Although the resource-based view covers all types of resources, the tax strategy documents and the interviews gravitate to human resources. Indeed, each component in the VRIO model can be identified in the empirical data across the entire sample of tax strategy documents and interviews.

The criticisms of the resource-based view are apparent in tax strategy. Priem and Butler (2001) argue that it does not fulfil the criteria of being a theory with generalisable consequences. This research shows that the need to fulfil all the conditions of VRIO in tax strategy is, therefore, overly inclusive. There is evidence of temporal issues such as when to recruit the right type of individual for the Tax Director role (interview P11 creative action). These criticisms suggest that the resource-based view is not a suitable model to use in isolation; however, it is valuable as part of the integrated framework of strategic management where other theories cover its deficiencies.

Dynamic capabilities are a prominent part of the strategic management literature. Less is written on creative action in the context of strategy, with MacLean et al. (2015) the principal advocate of incorporating the concept into dynamic capabilities. The empirical data shows that both concepts are essential in tax strategy and that one complements the other. Both are critical in integration through building the bridge to the other theories in the framework. The theme of establishing coherent processes connects dynamic capabilities to the planning and positioning schools and the resource-based view. However, the empirical data support MacLean et al. (2015) assertion that dynamic capabilities need to be more comprehensive. Like the resource-based view, the concept does not work in isolation but rather as a comprehensive framework. The inclusion of creative action helps identify how tax strategy is influenced by human action and intentional behaviour. Although tax strategy rarely emerges, it is formulated based on the tax advisor's experience and their perception of how stakeholders will receive it. The framework, therefore, recognises that strategy is a social practice (Whittington, 1996).

Open strategy (Whittington et al., 2011) considers the social implications of formulating and implementing strategy. In contrast to the design and planning schools, it advocates that everyone in the organisation should be involved in the strategy rather than the top and middle managers. Although the tax strategy is not formulated at the top of the organisation, there is no evidence suggesting that it would help to include everyone in the implementation. If the technical detail is too much for many CFO's and CEOs to understand, there is little chance of this being embraced more holistically. Open strategy and its component, strategy in practice, is therefore correctly excluded from the framework.

Similarly, as noted in Chapter 3, the entrepreneurial formula is not included in the framework as it is not flexible. It adopts extremes when formulating strategy using a bundle of choices of

different theories. As shown from the empirical data and interpretation, the integrated framework of strategic management needs to be flexible, allowing any five themes to be adopted. This flexibility is the framework's essence; moving from one theory to another without looking for extremes allows a more in-depth analysis of strategic management in tax strategy.

## Chapter 10: Conclusion

### 10.1 Implications of Findings

The research examines the nature of the relationship between strategic management and corporate tax planning. Chapter 4 states three research questions.

- *Research Question One:* Is there a relationship between strategic management and corporate tax planning?
- *Research Question 2:* Does an integrated strategic management framework show a relationship between strategic management and corporate taxation?
- *Research Question 3:* Does the tax practitioner act strategically in corporate tax planning?

The literature review in Chapter 2 describes the main themes, highlighting the multidisciplinary nature of strategic management and corporate taxation. The starting point is Mintzberg et al. (1998) ten schools with complementary modern theories added to the defined integrated framework of strategic management. Ultimately five themes are used from an extensive list built up since the 1960s with the design, planning and positioning schools included alongside the resource-based view and dynamic capabilities with creative action.

The empirical data presented in Chapter 6, 7 and 8 shows the importance of strategic management in tax strategy and identifies the critical themes from the defined framework on strategic management used in corporate tax planning. Evidence from the interviews shows that sometimes tax advisors are not familiar with the terminology in strategic management. For example, the tax advisors interviewed did not recognise the VRIO model's components from the resource-based view yet agreed that the components are used, to some extent, in tax planning. This is supported by the tax strategy documents where organisations refer to the tax

practitioner's importance in formulating and implementing the tax strategy. For example, the Tax Director (Head of Tax in the organisation) will formulate the tax strategy's and explain it to the CFO, who will report it to the board.

Commerciality is a common theme throughout the empirical data. The goal is for the tax strategy to follow the commercial strategy. However, there is no evidence of the tax function being involved at the commercial level. The CFO acts as the intermediary on the tax strategy, ensuring that the organisation's commercial objectives are communicated to the tax function. For the tax function to grow and, ultimately, the Tax Director to have a more strategic role in the organisation, they must understand and contribute to the commercial rationale. If the tax practitioner can learn to recognise strategic management concepts, they will contribute more to the commercial objectives and expand their role in the organisation.

## **10.2 Contribution to Theory**

The research contributes to theory by demonstrating a close relationship between strategic management and corporate taxation. It answers the call in the current literature for more empirical work in examining strategic management in corporate taxation. Following a synthesis of the literature and initial exploration in a pilot study, the final belief statement that informs the primary research is:

*Organisations are strategic when defining their corporate tax strategy when reviewed using an integrated framework of strategic management.*

The integrated framework of strategic management developed from the literature is the critical research instrument in understanding tax practitioners' behaviour in tax strategy. It facilitates collecting empirical data as strategic management's critical themes can be mapped to the organisation's tax strategy using document analysis, questionnaires, and interviews.

The research contributes to theory by addressing the argument in strategic management between fragmentation and integration. Elfring and Volberda (2001) believe that fragmentation in strategic management should be accepted. In contrast, Durand et al. (2017) argue that integration is possible if it encompasses a broad range of theories. The research demonstrates that using an integrated framework of strategic management is a superior approach to identifying strategy than using one specific concept. For example, the integrated framework of strategic management helps collect empirical data that shows organisations use several themes to formulate tax strategy. This goes further than Mintzberg et al. (1998) thesis that organisations should change between using distinct approaches to applying them in sequences to an integrated framework. Organisations will continuously combine different strategic management themes when formulating and implementing the tax strategy.

The intersection between the contribution to theory and practice is exploring the role of the tax practitioner. The empirical data shows that those that formulate tax strategy are strategists in their own right. They may not use the same terminology as those responsible for the commercial strategy, but they consider the same themes. Their interaction with other tax practitioners through industry forums will help shape the organisation's tax strategy. Although this supports Whittington's (1996) argument that strategy is a social practice dependent on how strategists interact, the empirical data does not support his open strategy thesis. For example, tax strategy formulation does not involve everyone in the organisation, with the Tax Director and CFO the main protagonists.

The empirical data supports the theory that organisations favour corporate rather than business strategy in tax planning. The tax strategy is formulated centrally in many large traditional



organisations. However, the organisation's tax function's structure depends on its size and nature. For example, smaller organisations or those operating in multiple jurisdictions may formulate the tax strategy without any input from the head office. The organisation's size and external forces such as the supply chain and regulation influence strategic decisions. This goes further than the current literature, with Ruggles et al. (2017) stating that the tax function is most ineffective when practitioners work in a silo. Mulligan et al. (2016) state that the tax practitioner will be most influential when tax decisions are centralised. Therefore, the research expands the theory of centralised decision-making in corporate strategy to consider the organisation's size and nature.

Overall, the contribution to theory is that the research demonstrates that strategic management and corporate tax are aligned. This conclusion is only possible by analysing tax strategy using a variety of interconnected strategic management concepts. The themes in the defined framework presented in this paper are not absolute. Further research may show that other strategic management concepts can also be identified in tax strategy. However, what will not change is the need to use an integrated framework of strategic management to analyse tax strategy in organisations comprehensively.

### **10.3 Contribution to Practice**

The research contributes to practice by providing a practical tool for tax practitioners and management strategists to understand each other's role. Chapter 3 identified the critical questions that the tax practitioner should ask when considering each theme. The below figure is a valuable tool that every tax practitioner can use when considering the organisation's tax strategy formulation and implementation.

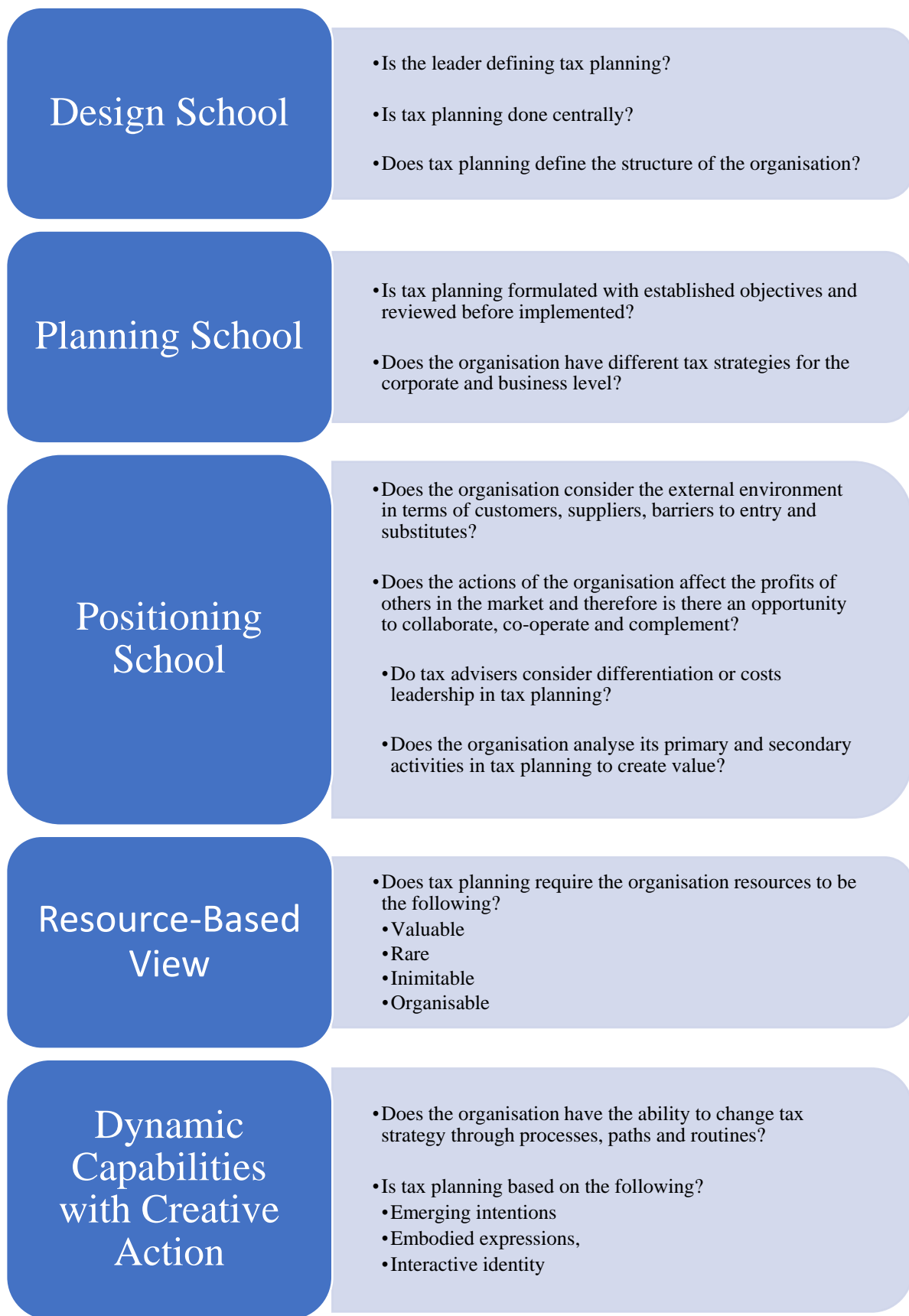


Figure 19: Critical questions on the key themes from the integrated framework of strategic management

The tax practitioner should consider how tax planning develops in the organisation and the connection to the central themes in strategic management. The integrated framework of strategic management builds a bridge between those responsible for the organisations broader commercial strategy and those that formulate the tax strategy. The tax practitioner can use the framework of strategic management to understand how a broader corporate and business strategy is formulated. The below figure is another helpful tool for the tax practitioner. It should be used in conjunction with the critical questions to consider the integrated framework's critical themes on strategic management. It helps the tax practitioner map tax planning to the type of strategy (intended, deliberate, emergent or emerging intentions) and the integrated framework.

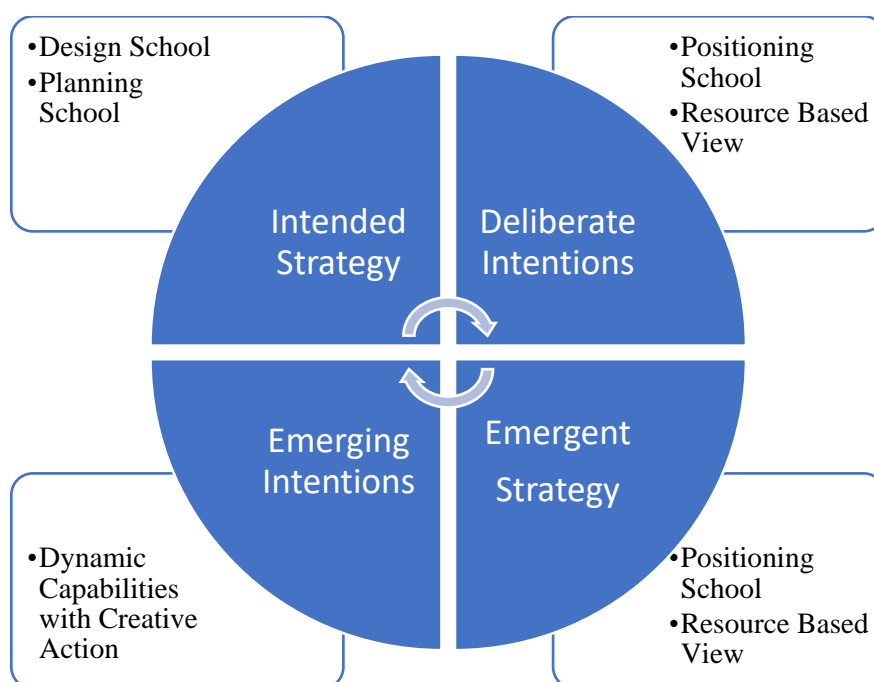


Figure 20: Integrated strategic management framework in tax planning

The integrated framework of strategic management contributes to practice as it provides a platform for the tax practitioner to improve their knowledge of strategic management. The tax practitioner can use this framework as a checklist to consider some of the critical themes in strategic management. It helps formulate the tax strategy, ensuring it aligns with the terminology used by those in commercial strategy. The benefit of using the framework to the tax practitioner is that they can demonstrate to those outside the tax function that they understand strategic management and can help on broader commercial issues in the organisation.

The research shows that tax practitioners have limited knowledge of the terminology of critical strategic management concepts. UK qualifying bodies in tax can help their members improve their strategic management knowledge by introducing the integrated framework into their academic syllabus. The framework can be part of the training for qualifying as a tax practitioner. Alternatively, the UK qualifying bodies in tax could develop strategic management courses for Continuing Professional Development (CPD) for their members.

The research informs those tax practitioners involved in tax strategy that they should be responsible for its formulation and implementation. It explains why some tax strategies are effective whilst others are not known outside of the tax function. In large organisations, the relationship between the Tax Director and the CFO is critical for an effective tax strategy. Although the Tax Director will formulate the tax strategy, the CFO will generally communicate the tax strategy to the board. Therefore, the tax practitioner should consider how they communicate the technical detail to the CFO and ensure the tax strategy aligns with the organisation's commercial objectives by using critical concepts in strategic management.

The research contributes to tax practice by illustrating the importance of writing a tax strategy that represents what the organisation is doing in practice. The document analysis shows that many organisations are very prescriptive in defining their tax strategy, only addressing HMRC's points in FA 2016. It is more helpful for all stakeholders if the tax strategy document is far more extensive and details what is happening in practice. There are also broader policy implications for HMRC, as it is clear that some organisations do not provide a comprehensive description of their tax planning.

To ensure that this paper is communicated to tax practitioners and contributes to practice, all participants will receive a summary of the research, conclusions and recommendations. Even if one participant acts on the findings, this research will have made a small contribution to practice. The Tax Research Network, a global group of tax researchers, educators and practitioners who work together to develop all aspects of taxation, has invited the author to present these findings at its research conference in September 2021.

#### **10.4 Limitations and recommendations for further research**

The research has five notable limitations.

##### *Location of sample*

The first is the geographic sample of the interviews and document analysis. The research focussed on the UK, with all participants interviewed qualified tax advisors through either the ICAEW, CIOT or as an inspector with HMRC. Similarly, the document analysis focussed on the one hundred largest listed organisations on the London Stock Exchange. Although multinationals, most are headquartered in the UK. Therefore, the research is a representation of the relationship between strategic management and tax in the UK. For a more comprehensive study, research should be done in several different countries.

### *Size of sample*

The research could be extended to a larger sample. For example, future research could analyse the documents for organisations in the FTSE 250 as this consists of the two hundred and fifty largest listed companies after the FTSE 100. Furthermore, another interesting approach is to explore how smaller non listed organisations define their tax strategy. Using this alternative sample allows a comparison between large and small organisations and those not listed on the stock exchange.

### *Lack of statistical analysis*

The research design is based on a qualitative approach interviewing seventeen participants. The quantitative data from the questionnaire supports the findings of the rich data from the semi-structured interviews. A small sample does not allow any verifiable statistical analysis. Although this is not the purpose of the research, statistical analysis in strategic management and tax planning is undoubtedly an area for further research.

### *Validation of the tax strategy*

The analysis of tax strategy documents allows for the identification of critical concepts in strategic management. Although there is evidence that the tax strategy is formulated using a similar approach to other strategies, the research does not verify if the organisation has implemented the strategy effectively. An area for further investigation is to review the documented tax strategy and align it to organisation performance. For example, analysing the annual reports and investor notes will provide more context to the implementation of tax strategies.

### *The subjectivity of the researcher*

The research adopts a pragmatic paradigm which allows the adoption of qualitative and quantitative research, be it subjective and objective, at different times. Qualitative research relies on the judgement and subjectivity of the researcher. Pragmatism accepts subjectivity and allows for more flexibility in the research. The research is rigorous but inevitably lack the objectivity of a quantitative approach.

### *Education of Tax Practitioner*

The research contributes to practice as tax practitioners can use the defined integrated framework of strategic management to formulate tax strategy. A recommendation is that the syllabus to qualify as a tax adviser in the UK, from any of the qualifying bodies, is reviewed to incorporate strategic management. Such a review is out with this research's parameters but is necessary if this recommendation is to be adopted.

Another area for further research is investigating the alignment between tax practitioners in a broader role in the organisation and their education. For example, how many tax practitioners have a formal qualification focusing on strategic management, such as an MBA or Doctorate? From this sample, what is their role in the organisation?

This research will help those tax professionals aspiring to become a board member and ultimately lead the organisation. For example, none of the participants interviewed has a formal qualification focusing on strategy. Consideration of structure, resources, competencies and processes is not prominent in tax qualifications. For the tax practitioner to understand strategic management terminology, they need exposure to the critical concepts during their training, both formally through professional exams and CPD.

## Appendix I: List of FTSE 100 Companies for Document Analysis

<u>No</u>	<u>Company</u>	<u>Description</u>	<u>Year of publication</u>
1	3i Group plc	A leading international investor focused on mid-market Private Equity and Infrastructure.	2019 & 2020
2	Associated British Foods plc	Associated British Foods is a diversified international food, ingredients and retail group operating in 53 countries.	2019
3	Admiral Group plc	Admiral Group is one of the largest car insurance providers in the UK, with businesses worldwide.	2019 & 2020
4	Anglo American plc	Anglo American is a British multinational mining company. It is the world's largest platinum producer, as being a significant producer of diamonds, copper, nickel, iron ore and metallurgical and thermal coal.	2018 & 2020
5	Antofagasta plc	Antofagasta is a British multinational. It is one of Chile's most influential conglomerates with equity participation in Antofagasta Minerals, the railroad from Antofagasta to Bolivia, Twin Metals in Minnesota and other exploration joint ventures in different parts of the world.	2019 & 2020



6	Ashtead Group plc	Ashtead Group is a British industrial equipment rental company.	2019 & 2020
7	AstraZeneca plc	AstraZeneca is a British-Swedish multinational pharmaceutical and biopharmaceutical company	2018 & 2019
8	Auto Trader Group plc	Auto Trader Group is a British automotive classified advertising business. It specialises in new and second-hand automotive sales, including cars sold by private sellers and trade dealers	2019 & 2020
9	Aveva Group plc	Aveva Group plc is a British multinational information technology company.	2020
10	Aviva plc	Aviva is a British multinational insurance company. It is the largest general insurer and a leading life and pensions provider in the UK.	2019 & 2020
11	BAE Systems plc	BAE Systems is a British multinational defence, security, and aerospace company.	2018 & 2019
12	Barclays plc	Barclays is a British multinational investment bank and financial services company.	2018 & 2019
13	Barratt Developments plc	Barratt Developments is one of the largest residential property development companies in the United Kingdom, operating a network of over 30 divisions.	2018 & 2019

14	British American Tobacco plc	British American Tobacco is an American British multinational company that manufactures and sells cigarettes, tobacco and other nicotine products.	2018 & 2020
15	Berkeley Group Holdings plc	The Berkeley Group Holdings is a British property developer.	2019 & 2020
16	BHP Group plc	Anglo-Australian multinational mining, metals and petroleum dual-listed public company headquartered in Melbourne, Victoria, Australia.	2019 & 2020
17	BP plc	BP is a British multinational oil and gas company.	2018 & 2019
18	British Land Company plc	The British Land Company is one of the largest property development and investment companies in the United Kingdom. The firm became a real estate investment trust when REITs were introduced in the UK in January 2007.	2019 & 2020
19	BT Group plc	BT Group is a British multinational telecommunication holding company. It has operations in around 180 countries and is the largest provider of fixed-line, broadband and mobile services in the UK and provides subscription television and IT services.	2019 & 2020

20	Bunzl plc	Bunzl is a British multinational distribution and outsourcing company.	2019 & 2020
21	Burberry plc	Burberry is a British luxury fashion house designing and distributing clothes, footwear, fashion accessories, eyewear, fragrances, and cosmetics.	2019 & 2020
22	Carnival Corporation & plc	Carnival Corporation is a British-American cruise operator, currently the world's largest travel leisure company, with a combined fleet of over one hundred vessels across ten cruise line brands.	2018 & 2019
23	Centrica plc	Centrica is a British multinational energy and services company. It supplies electricity and gas to consumers in the United Kingdom and Ireland and energy solutions to businesses worldwide	2019 & 2020
24	Coca Cola HBC AG	Coca Cola HBC AG is a Switzerland-based bottler of Coca-Cola products. The Company markets Coca-Cola, Coca-Cola Zero, Coca-Cola Light, Fanta and Sprite, water, juice and energy drinks.	2019 & 2020
25	Compass Group plc	Compass Group provides food and support services. The Company's segments include North America, Europe, the Rest of the World and	2018 & 2019

		Central activities. The Europe segment includes Turkey and Russia.	
26	CRH plc	CRH plc operates a building materials business in North America and heavy side materials business in Europe.	2019 & 2020
27	Croda International plc	Croda International is a United Kingdom-based speciality chemical company.	2020
28	DCC plc	DCC is an international sales, marketing and support service company. The Company operates in Retail and Oil, Technology and Healthcare.	2018
29	Diageo plc	Diageo is an alcoholic beverage company. The Company operates in various categories, including spirits and beer.	2019 & 2020
30	DS Smith Plc	DS Smith is a United Kingdom-based packaging company.	2019 & 2020
31	Evrax plc	Evrax is a steel, mining and vanadium business with operations in the Russian Federation, the United States, Canada, the Czech Republic and Kazakhstan.	2019
32	Experian plc	Experian is a global technology company. The Company provides data and analytics solutions.	2019 & 2020

33	Ferguson plc	Ferguson is a distributor of plumbing and heating products to professional contractors.	2020
34	Flutter Entertainment plc	Flutter Entertainment, formerly Paddy Power Betfair Plc, is a United Kingdom-based global sports betting and gaming operator.	2019 & 2020
35	Fresnillo plc	Fresnillo plc is a holding company. Through its subsidiaries, the Company is engaged in the mining and beneficiating non-ferrous minerals and the sale of related production.	2019 & 2020
36	Glencore plc	Glencore is a Switzerland-based company that produces and markets commodities.	2019
37	GlaxoSmith-Kline plc	GlaxoSmithKline is a global healthcare company. The Company operates through two segments: Pharmaceuticals and Vaccines. The Company focuses on its research across six areas: Respiratory diseases, human immunodeficiency virus (HIV)/infectious diseases, Vaccines, Immuno-inflammation, Oncology and Rare diseases. The Company makes a range of prescription medicines and vaccines products.	2019
38	Halma plc	Halma is involved in the manufacture of a range of products that protect and improve people's quality of life. The Company operates through	2019 & 2020

		four segments: Process Safety, Infrastructure Safety, Medical, and Environmental & Analysis.	
39	Hargreaves Lansdown plc	Hargreaves Lansdown is a United Kingdom-based company that provides direct to investor investment service.	2019 & 2020
40	Hikma Pharmaceuticals plc	Hikma Pharmaceuticals is a pharmaceutical company. The company focuses on developing, manufacturing and marketing a range of branded and non-branded generic and in-licensed products.	2019 & 2020
41	Hiscox Group	Hiscox is a diversified international insurance group with a powerful brand, strong balance sheet and plenty of room to grow.	2019 & 2020
42	HSBC Holdings plc	HSBC Holdings (HSBC) is a banking and financial services company. The company manages its products and services through four businesses: Retail Banking and Wealth Management (RBWM), Commercial Banking (CMB), Global Banking and Markets (GB&M), and Global Private Banking (GPB).	2019 & 2020

43	Imperial Brands plc	Imperial Brands is a fast-moving consumer goods company. It offers a range of cigarettes, fine cut and smokeless tobaccos and papers.	2019 & 2020
44	Informa plc	Informa is an international event, intelligence and scholarly research company	2019 & 2020
45	InterContinental Hotels Group plc	InterContinental Hotels Group is a hotel company. The company franchises its brands and manages hotels on behalf of third-party hotel owners.	2019 & 2020
46	International Consolidated Airlines Group, S. A	International Consolidated Airlines Group, S.A. is an airline company that holds the airline and ancillary operations interests. Its segments include British Airways, Iberia, Vueling, Aer Lingus and Other Group companies.	2019
47	Intertek Group plc	Intertek Group offers quality assurance services. The company's segments include Products, Trade and Resources.	2019 & 2020
48	ITV Global plc	ITV is a British free-to-air television channel. Previously a network of separate uniquely identifiable regional television channels, ITV currently operates in England, Wales, southern	2019 & 2020

		Scotland, the Isle of Man, and the Channel Islands.	
49	J Sainsbury's Group plc	J Sainsbury is a general merchandise retailer in the United Kingdom. The company operates through its segments: Retail, Financial Services and Property Investment.	2018 & 2019
50	Johnson Matthey plc	Johnson Matthey is a provider of catalysts and catalyst systems to reduce emissions from vehicles and industry.	2019 & 2020
51	Just Eat Takeaway.com NV	Just Eat Takeaway.com NV, formerly Takeaway.com NV is based in the Netherlands that operates an online food delivery marketplace. The company focuses on connecting consumers and restaurants and allows users to order food from nearby restaurants and have the food delivered to their homes.	2019 & 2020
52	JD Sports Fashion plc	JD Sports Fashion is a multichannel retailer of fashionable branded and own brand sports and casual wear	2019 & 2020
53	Kingfisher plc	Kingfisher is a home improvement company. The company is engaged in the supply of home	2019 & 2020



		improvement products and services through a network of retail stores and other channels,	
54	Land Securities Group plc	Land Securities Group is a holding company. The company buys, sells and manages commercial properties. It operates through three segments: office, retail and specialist segments.	2019 & 2020
55	Legal and General Group plc	Legal & General Group is a holding company. The company transacts life assurance and long-term savings business, investment management, and general insurance and health business with its subsidiaries.	2018 & 2019
56	Lloyds Banking Group plc	Lloyds Banking Group financial services company, which provides a range of banking and financial services, focused on personal and commercial customers.	2019 & 2020
57	London Stock Exchange Group plc	London Stock Exchange Group (LSEG) is a United Kingdom-based global financial markets infrastructure business.	2019 & 2020
58	Meggitt Group plc	Meggitt is a British international company specialising in components and sub-systems for the aerospace, defence and selected energy markets.	2019 & 2020

59	Melrose Industries plc	Melrose Industries is focused on acquiring manufacturing businesses. The company's segments include Aerospace, Automotive, Powder Metallurgy, NortekAir & Security, and their businesses.	2019 & 2020
60	Mondi Group plc	Mondi is a United Kingdom-based packaging and paper company. The company provides packaging and paper solutions. It manages forests, produces pulp, paper and plastic films, and develops and manufactures industrial and consumer packaging solutions.	2019 & 2020
61	National Grid plc	National Grid is an energy company. The company provides electricity and gas to customers.	2019 & 2020
62	NatWest Group plc	NatWest Group, formerly Royal Bank of Scotland Group plc, is a financial services company. The company provides banking products and related financial services.	2018 & 2019
63	Next plc	NEXT is a United Kingdom-based retailer offering clothing, footwear, accessories, beauty and home products.	2018 & 2020
64	NMC Health Plc	NMC Health is a healthcare chain and distribution business in the United Arab Emirates. The	2020

		company is headquartered in Abu Dhabi and has branch offices in Dubai, Ajman, Al Ain and the Northern Emirates. The Company operates and manages over 200 facilities in 19 countries.	
65	Ocado Group plc	Ocado Group is an online grocery retailer. The company's principal activities are grocery retailing and the development and monetization of Intellectual Property (IP) and technology used for the online retailing, logistics and distribution of grocery and consumer goods derived from the United Kingdom.	2018
66	Pearson plc	Pearson is a learning company. The company delivers learning by providing a range of educational products and services to institutions, governments, professional bodies and individual learners.	2019 & 2020
67	Persimmon plc	Persimmon is a United Kingdom-based holding company. The company is engaged in house building within the United Kingdom. The Company trades under the brand names of Persimmon Homes, Charles Church and Westbury Partnerships.	2019 & 2020

68	Phoenix Group Holdings plc	Phoenix Group Holdings is a United Kingdom-based company specialising in acquiring and managing closed life insurance and pension funds.	2019
69	Polymetal International plc	Polymetal International is a Cyprus-based precious metal mining group. The Group has nine producing gold and silver mines and three development projects across Russia and Kazakhstan.	2018 & 2019
70	Prudential plc	Prudential is an international financial services company. The company offers a range of retail financial products and services and asset management services throughout these territories.	2018 & 2019
71	Reckitt Benckiser Group plc	Reckitt Benckiser Group plc is a manufacturer and marketer of health, hygiene, post-natal and home products.	2019 & 2020
72	RELX plc	RELX Group is a global provider of information and analytics for professional and business customers across industries.	2019 & 2020
73	Rentokil Initial plc	Rentokil Initial plc is a commercial pest control company.	2019 & 2020

74	Rightmove plc	Rightmove plc (Rightmove) is a United Kingdom-based company, which operates as a property portal. The company's principal business is the operation of the rightmove.co.uk Website.	2020
75	Rio Tinto plc	Rio Tinto plc is a mining and metals company. The company's business is finding, mining and processing mineral resources. The company's segments include Iron Ore, Aluminium, Copper & Diamonds, Energy & Minerals and Other Operations.	2018 & 2019
76	Rolls-Royce Holdings plc	Rolls-Royce Holdings plc is an engineering company. The company is focused on power and propulsion systems.	2020
77	Royal Dutch Shell plc	The Royal Dutch Shell plc is a company based in the Netherlands exploring crude oil and natural gas worldwide, both in conventional fields and sources, such as tight rock, shale and coal formations.	2019 & 2020
78	RSA Insurance Group plc	RSA Insurance Group plc is a general international insurer. The company provides personal, commercial and speciality insurance products and services direct-to-customers.	2019 & 2020

79	Sage Group plc	Sage Group plc is a United Kingdom-based company that provides business software and solutions.	2019 & 2020
80	Schroders plc	Schroders plc is a United Kingdom-based asset management company. The company operates through three business segments: Asset Management, Wealth Management and the Group segment.	2019 & 2020
81	Scottish Mortgage Investment Trust plc	Scottish Mortgage Investment Trust is an investment trust managed by the fund manager Baillie & Co.	2019 & 2020
82	SEGRO plc	SEGRO is a United Kingdom-based real estate investment trust. The company owns, develops and manages warehouse properties in the United Kingdom and Continental Europe.	2019
83	Severn Trent plc	Severn Trent treats and provides water and removes wastewater in the United Kingdom and internationally.	2019 & 2020
84	Smith & Nephew plc	Smith & Nephew is a medical technology company. The company is engaged in developing,	2018 & 2019

		manufacturing, marketing and selling medical devices and services.	
85	Smith's Group plc	Smith's Group is a technology company. The company operates in five divisions: John Crane, Smiths Medical, Smiths Detection, Smiths Interconnect and Flex-Tek.	2019
86	Smurfit Kappa Group plc	Smurfit Kappa Group is a provider of paper-based packaging products. The company manufactures, distributes and sells containerboard, corrugated containers and other paper-based packaging products, such as solid board, graphic board and bag-in-box.	2019 & 2020
87	Spirax-Sarco Engineering plc	Spirax-Sarco Engineering is a United Kingdom-based global industrial engineering company.	2019 & 2020
88	SSE plc	SSE is an energy company. The company is engaged in the generation, transmission, distribution and supply of electricity in the production, storage, distribution and supply of gas and other energy services.	2019
89	St James Place plc	St. James's Place is a United Kingdom-based financial services company that provides wealth	2019

		management services to business and individuals across the United Kingdom.	
90	Standard Chartered plc	Standard Chartered is an international banking company.	2019 & 2020
91	Standard Life Aberdeen plc	Standard Life Aberdeen is a United Kingdom-based global investment company. The company's operating segments include Asset management and platforms, and Insurance associates and joint ventures.	2020
92	Taylor Wimpey plc	Taylor Wimpey is a residential developer. The Company operates at a local level from 24 regional businesses across the United Kingdom, and it has operations in Spain.	2019 & 2020
93	Tesco plc	Tesco is a retail company. The company is engaged in Retailing and associated activities (Retail) and Retail banking and insurance services.	2020
94	TUI AG	TUI AG is a Germany-based integrated tourism group. It operates through the following segments: Hotels & Resorts, Cruises, Destination Experiences, Markets & Airlines.	2020



95	Unilever plc	Unilever is a fast-moving consumer goods (FMCG) company. The Company's segments include Personal Care, Foods, Home Care, and Refreshment.	2019 & 2020
96	United Utilities plc	United Utilities Group is a water and wastewater company. The company, through its subsidiary, United Utilities Water Limited (United Utilities Water), manages the regulated water and wastewater network in the North West of England, providing services to around seven million people and businesses	2019 & 2020
97	Vodafone Group plc	Vodafone Group is a telecommunications company.	2019 & 2020
98	Whitbread Group plc	Whitbread is a United Kingdom-based company, which owns and operates hotels and restaurants	2018 & 2019
99	Wm Morrison Supermarkets plc	Wm Morrison Supermarkets is engaged in the operation of retail supermarket stores under the Morrisons brand and associated activities.	2019 & 2020
100	WPP plc	WPP is a holding company engaged in providing communications services. The company comprises companies in various disciplines, including advertising, media investment management, data investment management,	2018 & 2019

		public relations and public affairs; branding and identity; healthcare communications; direct, digital, promotion and relationship marketing; and specialist communications.	
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## Appendix II: Background of participants interviewed

### Interviewed for Pilot Study

<u>Interviewee Code</u>	<u>Date of Interview</u>	<u>Qualifications</u>	<u>Year of Experience</u>	<u>Description of current employer</u>	<u>Location of current employer</u>	<u>Worked or advised large multinationals?</u>	<u>Worked or advised large SMEs?</u>
P1	4 May 2020	Chartered Accountant (ICAEW) & Chartered Tax Adviser (CIOT) – No Degree	40	SME	Edinburgh, Scotland	Yes - Fast Moving Consumer Goods (FMCG) for an American Multinational in their UK off	Yes consultancy
P2	6 May 2020	Chartered Accountant (ICAEW) & Chartered Tax Adviser (CIOT) – BA (Hons) Accounting and Finance	10	Big Four	Edinburgh, Scotland	Yes- consultancy	Yes- consultancy

P3	21 May 2020	Chartered Accountant (ICAS) & Chartered Tax Adviser (CIOT) – MA (Hons) Economics and Politics	15	Big Four	Edinburgh, Scotland	Yes- consultancy and worked for large FTSE 100 financial services organisation	Yes- consultancy
P4	25 May 2020	Chartered Accountant (ICAEW) & Chartered Tax Adviser (CIOT) – MEng Civil Engineering	15	Big Four	Edinburgh, Scotland	Yes- consultancy and worked for large FTSE 100 financial services organisation	Yes- consultancy

Interviewed for the main study

<u>Interviewee Code</u>	<u>Date of Interview</u>	<u>Qualifications</u>	<u>Years of Experience</u>	<u>Description of current employer</u>	<u>Location of current employer</u>	<u>Worked or advised large multinationals?</u>	<u>Worked or advised large SMEs?</u>
P5	1 October 2020	Chartered Accountant (ICAEW) & Chartered Tax Adviser (CIOT)  BA (Hons) English Literature	15	Big Four	Glasgow, Scotland	Yes- consultancy and worked for large FTSE 100 financial services organisation	Yes- consultancy
P6	8 October 2020	HMRC Tax Specialist Programme  Advanced Diploma in	16	Big Four	Glasgow, Scotland	Yes- consultancy and worked for large FTSE 100 financial services organisation	Yes- consultancy

		International Tax (CIOT)  B.Eng. (Hons) Electronic and Electrical Engineering					
P7	9 October 2020	Associate of Institute of Tax Technicians (ATT)  Chartered Tax Adviser (CIOT)  BA (Hons) Accountancy	20	FTSE 100 Company	London, England	Yes- consultancy	Yes- consultancy
P8	12 October 2020	Chartered Accountant (ICAEW) &	20	SME consultancy advising	London, England	Yes- consultancy	Yes- consultancy

		Chartered Tax Adviser (CIOT)  BA (Hons) Anglo Saxon Studies		large organisations			
P9	12 October 2020	Associate of Institute of Tax Technicians (ATT)  Chartered Tax Adviser (CIOT)  BA (Hons) Accountancy	40	Public sector	Leicester, England	Yes, private and public sector	Yes-consultancy
P10	14 October 2020	Chartered Accountant (ICAEW) & Chartered Tax Adviser (CIOT)	19	Big Four	Reading, England	Yes- consultancy	Yes-consultancy

		BA (Hons) Management Studies					
P11	19 October 2020	Chartered Accountant (ICAEW) & Chartered Tax Adviser (CIOT)  MA Mathematics	40	Independent Firm of Chartered Accountants and Tax Advisers	London, England	Yes- consultancy and worked for FTSE 100 company	Yes- consultancy
P12	18 November 2020	Chartered Accountant (ICAEW) & Chartered Tax Adviser (CIOT)  BA (Hons) Biochemistry	38	Independent Firm of Chartered Accountants and Tax Advisers	Leicester, England	Yes- consultancy and worked for FTSE 100 company	Yes- consultancy



P13	26 November 2020	Chartered Accountant (ICAEW) & Chartered Tax Adviser (CIOT)  LLB, Law and Accounting	21	Top ten UK Accountancy Firm	Edinburgh, Scotland	Yes- consultancy and worked for FTSE 100 company	Yes- consultancy
P14	14 December 2020	HMRC Tax Specialist Programme  LLB (Hons) Law	24	Independent Consultant	Glasgow, Scotland	Yes- consultancy and FTSE 100 company	Yes- consultancy
P15	7 December 2020	Chartered Accountant (ICAEW)  B Com (Hons) Accountancy and Finance	35	Global Law Firm	Glasgow, Scotland	Yes- consultancy and FTSE 100 company	Yes- consultancy

P16	10 February 2021	Chartered Accountant (ICAEW) & Associate of Corporate Treasurers (ACT) & Chartered Tax Adviser (CIOT)  BA (Hons) French and German	28	FTSE 100	London, England	Yes- consultancy and FTSE 100 company	Yes- consultancy
P17	11 February 2021	Solicitor (Qualified England and Wales)Chartered Tax Adviser (CIOT)	24	Big Four	Edinburgh, Scotland	Yes- consultancy and FTSE 100 company	Yes- consultancy

		LLB (Hons) Law					
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### Appendix III: Pilot study questionnaire completed by participant 1 and 2

Question Number	Question
1	The CEO sets the tax strategy of the organisation
2	Tax decisions for an organisation are made by the board of directors
3	A tax strategy is formulated with established objectives and reviewed before implemented
4	For large organisations with multiple business units, setting the tax strategy is done centrally rather than by each business unit
5	Organisations make a conscious decision to use tax planning to be competitive in their markets
6	The tax strategy of an organisation is a key component of following a wider strategy of differentiation
7	Tax planning helps the organisation follow a cost leadership strategy
8	Organisations use complements, collaboration, and cooperation in tax planning
9	Resources are important in tax planning
10	Establishing coherent processes are important in setting a tax strategy
11	Tax planning changes regularly
12	Tax advisers and senior management use their previous experience when defining the organisation's tax strategy
13	Tax strategy is influenced by how tax advisers and senior management interact with their peers from other organisations
14	Organisations define their tax planning based on how they believe it will be perceived by their stakeholders and the wider public

#### Appendix IV: Pilot study questionnaire completed by participant 3 and 4

Question Number	Question
1	The CEO sets the tax strategy of the organisation
2	<i>The strategic tax decisions of an organisation are made by the board of directors*</i>
3	A tax strategy is formulated with established objectives and reviewed before implemented
4	For large organisations with multiple business units, setting the tax strategy is done centrally rather than by each business unit
5	Organisations make a conscious decision to use tax planning to be competitive in their markets
6	<i>The tax strategy of an organisation is a key component of following a wider strategy of differentiation*</i>
7	<i>The tax strategy of an organisation is a key component of following an overall cost leadership strategy*</i>
8	<p><i>Organisations will consider the following three components when defining their tax strategy:</i></p> <ul style="list-style-type: none"> <li>• <i>Complements (where the sale of their product or service complements the product or service of another company by adding value to mutual customers)</i></li> <li>• <i>Collaboration (where working together will produce a better outcome for both parties)</i></li> <li>• <i>Cooperation (where they share information to produce a better outcome for both parties)*</i></li> </ul>
9	<i>Resources are of significant value to an organisation in setting its tax strategy as they are rare with few substitutes and easy to organise*</i>
10	Establishing coherent processes are important in setting a tax strategy
11	<i>The tax strategy of an organisation changes regularly*</i>
12	Tax advisers and senior management use their previous experience when defining the organisation's tax strategy
13	Tax strategy is influenced by how tax advisers and senior management interact with their peers from other organisations
14	Organisations define their tax planning based on how they believe it will be perceived by their stakeholders and the wider public

\*Wording of question changed from interviews with P1 and P2

## Appendix V: Questionnaire completed by participants

Question Number	Question
1	The CEO sets the tax strategy of the organisation
2	The strategic tax decisions of an organisation are approved by the board of directors
3	A tax strategy is formulated with established objectives and reviewed before implemented
4	For large organisations with multiple business units, setting the tax strategy is done centrally rather than by each business unit
5	Organisations make a conscious decision to use tax planning to be competitive in their markets
6	The tax strategy of an organisation is a key component of following a wider strategy of differentiation
7	The tax strategy of an organisation is a key component of following an overall cost leadership strategy
8	Organisations will consider the following components when defining their tax strategy: <ul style="list-style-type: none"> <li>• Collaboration (where working together will produce a better outcome for both parties)</li> <li>• Cooperation (where they share information to produce a better outcome for both parties)</li> </ul>
9	Organisations consider complementary products and services when defining their tax strategy. A complement is where the sale of a product or service complements the product or service of another company by adding value to mutual customers
10	Resources are of significant value to an organisation in setting its tax strategy as they are rare with few substitutes and easy to organise
11	Establishing coherent processes are important in setting a tax strategy
12	The tax strategy of an organisation changes regularly
13	Tax advisers and senior management use their previous experience when defining the organisation's tax strategy
14	Tax strategy is influenced by how tax advisers and senior management interact with their peers from other organisations
15	Organisations define their tax planning based on how they believe it will be perceived by their stakeholders and the wider public

## **Appendix VI: Interview schedule with potential probes to participants**

### *Introduction with participant*

- Thank participant for completing the questionnaire and agreeing to the interview.
- Outline the primary purpose of the interview
- Request permission to tape the interview.
- In line with the consent form, emphasise that everything will be confidential
- Remind participant to consider the questions/ statements in the context of BEPS
- Highlight that the questions are not just about the organisation's written tax strategy per FA 2016 but also what is happening in practice!

### *Points to cover during the interview*

- The call is to discuss the answers to the questions and statement from the questionnaire.
- Provide the participant's score for each question/ statements and prompt them to explain. If the answer provided is not in line with the questionnaire's score, ask the participant if they would revise their score.
- If not obvious- confirm precisely whom the participants advise, for example, listed clients, large and small organisations
- If not apparent from their LinkedIn profile, ask if they have worked for a large organisation in the FTSE 100
- Are they responsible for writing the tax strategy? Is this what is happening in practice?
- Do they advise clients outside the UK? If they do, remind them to consider their answer in the context of UK tax
- Where appropriate, ask for examples in the answers to their questions

Q1: The CEO sets the tax strategy of the organisation

### Sub points and questions

- Highlight that questions one and two are connected
- Is it a rubber stamp exercise for the CEO to agree on the tax strategy?
- Do you think the CEO understands the tax strategy?
- If the participant refers to the CFO- ask if they understand the tax strategy

Q2: The strategic tax decisions of an organisation are approved by the board of directors

### Sub points and questions

- Is the board defining the tax strategy or just signing it off?
- Do the board fully understand the strategy?

Q3: A tax strategy is formulated with established objectives and reviewed before implemented

### Sub points and questions

- Explain the difference between intended deliberate strategy and emergent. For example, Starbucks offers to pay more tax in the UK after negative publicity is emergent and reactive!
- Does the participant have experience of it being reactive?

Q4: For large organisations with multiple business units, setting the tax strategy is done centrally rather than by each business unit

### Sub points and questions

- Do they advise the head office or a local office? How often for both?
- Connect to decision making done centrally
- Who is it that their advising? Division unit of central office



Q5: Organisations make a conscious decision to use tax planning to be competitive in their markets

Sub points and questions

- If the answer is no- are organisations moving away from being competitive?  
Historically were organisations more aggressive with their tax planning?
- Does reputation risk a reason why they do not appear to be competitive?

Q6: The tax strategy of an organisation is a key component of following a wider strategy of differentiation

Sub points and questions

- Have you heard of Generic Strategies by Michael Porter? If not, provide a description.
- It may be necessary to describe differentiation in tax strategy. What organisations have done it? For example, Enron, Barclays – Financial Sector, smaller companies that are not in the public eye

Q7: The tax strategy of an organisation is a key component of following an overall cost leadership strategy

Sub points and questions

- Are organisations striving to pay more tax now- re Starbucks?
- Are organisations striving for an effective tax rate?

Q8: Organisations will consider the following components when defining their tax strategy:

- Collaboration (where working together will produce a better outcome for both parties)
- Cooperation (where they share information to produce a better outcome for both parties)

Sub points and questions

- Provide an example of collaboration and cooperation- competitors coming together and lobbying HMRC on new legislation. Sharing confidential information and collectively engaging the big four to represent them

Q9 Organisations consider complementary products and services when defining their tax strategy.

A complement is where the sale of a product or service complements the product or service of another company by adding value to mutual customers

Sub points and questions

- Explain what complements are – Apple i-phone and microprocessors, the car industry in North Italy
- Provide an example in a service context-tax advisers working together for the mutual benefit of the client, perhaps offering tax advice in different countries for M & A

Q10 Resources are of significant value to an organisation in setting its tax strategy as they are rare with few substitutes and easy to organise

Sub points and questions

May need to provide an example of human resources, for example, tax advisors.

- Value- add value to the organisation
- Rare- due to their qualifications
- Inimitable – experience and qualifications not easy to copy
- Organisable – work with other department and with other business

An example of physical capital is a tax database.

Q11: Establishing coherent processes are important in setting a tax strategy

Sub points and questions

- If the answer is no- do they think the strategy emerges? Is this applicable only for smaller organisations?

Q12: The tax strategy of an organisation changes regularly

Sub points and questions

- Provide an example of when legislation may change –BEPS Corporate Interest Restriction legislation- is this a deliberate change?
- Why do you think there is no change?

Q13: Tax advisers and senior management use their previous experience when defining the organisation's tax strategy

Sub points and questions

- Do senior management say that they want to introduce a tax plan as they heard their competitors are doing it?
- Has the participant experience of an organisation that adopted a tax plan, yet no one has any experience of such a plan?

Q14: Tax strategy is influenced by how tax advisers and senior management interact with their peers from other organisations

Sub points and questions

- Do they network with other advisors?
- Has senior management asked the participant to establish specific tax planning?

Q15: Organisations define their tax planning based on how they believe it will be perceived by their stakeholders and the wider public

### Sub points and questions

- Highlight in the context of aggressive tax planning
- Reference reputation risk
- Could this be sector-specific?
- Is it business-specific?

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