

Tax risk management and the importance of a good reputation: a case study approach

Abstract

Having a good reputation has been shown to be of increasing importance for multi-national companies (Mulligan & Oats, 2009; Lavermicocca & Buchan, 2014). The framework used in this study is based on reputation having the capacity to “sum up” an organisation (Schultz et al 2000), that it can be evidence of strategic differentiation (Ciborra, 2000) and is affected by a range of influences (Balmar, 1995; Dutton & Dulerich, 1991; Ollins,1995).

In order to provide an in depth review a case study methodology has been used. We consider the responses over time of multi-national organisations based in a wide range of sectors and assess how concerns about reputation have impacted on their tax risk management strategies.

Competition amongst countries to attract inward investment that brings much needed jobs and capital is fierce (Devereux & Lorentz, 2013) and so the reputation of the countries involved also needs to be considered carefully. Domestic governments can often use the tax system to attract investors by offering a corporate tax regime which is more attractive than that offered by competitor nations. In this situation, the multi-national company is in the role of consumer and will assess the tax cost of doing business in a number of locations in order to finalise its tax planning decisions.

The analysis confirms that multi-national organizations are now subject to much greater scrutiny and by a wider range of stakeholders. The reputation of some countries is suffering as investors do not believe the legal system is stable and so it cannot be relied upon, confirming the findings from previous research (Scott and Walsham, 2005). There is evidence that multi-national organisations now take a much more conservative approach. As a result they are operating on an ad hoc ‘law plus’ basis to counter damaging investigations that not only are costly, but could result in damaging their reputations. In the extreme this can mean deciding not to do business in particular jurisdictions unless the returns are such as to cover any such adverse consequences.

The pendulum has swung away from tax planning assumptions of only 5 years ago and concern about damaging reputation is more effective in changing corporate behaviour than changes in the tax legislation. We reflect upon the impact that this new sanction of reputational damage will have on tax planning.