


PwC and tax transparency

A case of institutional entrepreneurship in tax reporting

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MSc in International Business and Politics

14 May 2014

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Tap Count: 180 190

Pages: 75

Copenhagen Business School – Master Thesis

ABSTRACT

In a context of increasing attention to corporate tax avoidance, PwC faces on the one hand, the claims of government and advocates to report tax payments. On the other hand, clients show resistance to adopt suggested reporting measures. This thesis analyzes this tension and the strategies PwC UK and Denmark follow in light of institutional and organizational legitimacy theory.

The main findings of this case study are firstly, that PwC UK has maintained a role of institutional entrepreneur in the areas of tax control and tax transparency. The firm has offered their clients tools to communicate with their key audiences and to engage into the public debate of corporations' tax contribution to society. Secondly, PwC Denmark's institutional environment limits the space for institutional entrepreneurship in the area of tax transparency.

Table of acronyms

AABA- Association for Business and Accounting Affairs
BEPS- Base Erosions and Profit Shifting
BIBF- Thailand's Bangkok International Banking Facilities
BPTA- Building Public Trust Awards
CIAT- Inter-American Center of Tax Administration
CoCo- Criteria of Control Board
COSO- Committee of Sponsoring Organizations of the Tread Way Commission
CSR- Corporate Social responsibility
CSI- Corporate Social Irresponsibility
DCCA- Danish Commerce and Company Agency
DI- Dansk Industri
DOTAS- Disclosure of Tax Avoidance Schemes
DTAs- Double Tax Agreements
EC- European Commission
EITI- Extractive Industries Transparency Initiative
ERM- Enterprise Risk Management
FAFT- Financial Action Task Force
FDI- Foreign Direct Investment
FSF- Financial Stability Forum
G7- Group of 7
G8- Group of 8
G20- Group of 20
GAAR- General Anti-Avoidance Rules
GDP- Gross Domestic Product
GRI- Global Reporting Initiative
HMRC- Her Majesty Revenue & Customs
IDB- Inter-American Development Bank
IFC- International Finance Corporation
IHG- Intercontinental Hotel Groups
IIRC- Integrated Reporting Council
IMF- International Monetary Fund
IRIS- Impact Reporting and Investment Standard
ITD- International Tax Dialogue
NGO- Non Governmental Organization
OLT- Organizational Legitimacy Theory
OECD- Organization for Economic Co-operation and Development
OFCs- Offshore Finance Centers
PwCIL- Price Waterhouse Coopers International Limited
PWYP- Publish What You Pay
SASB- Accounting Standards Board
SEC- Securities and Exchange Commission
SPEs- Special Purpose Entities
TIEAs- Tax Information Exchange Agreements
TJN- Tax Justice Network
TAAR- Targeted Anti-Avoidance Rules
TFC- Tax Control Framework
TTF- Tax Transparency Framework
TTC- Total Tax Contribution
TIMM- Total Impact Measure and Management
UK- United Kingdom
UNCTAD- United Nations Conference on Trade and Development

UNEP- United Nations Environment Program
US-United States of America
VAT- Value Added Tax
WB- World Bank

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1. Introduction

In the last few years there has been a change in corporate environment where corporate taxation has recently attracted the attention of media, governments and NGOs. This change goes from understanding tax avoidance and off-shore countries as an issue related to money laundering and financing of terrorism, to understanding tax avoidance as an anti-democratic behavior and a 'irresponsible' act of corporations (Christiansen & Murphy 2004; Li-Hi & Müller 2013). In the late 1900s the governmental policy focus was international initiatives that named the shame and seek agreements of information exchange with low-taxation countries that defended banking secrecy. Some of these initiatives are for instance the efforts of the OECD (2000), the FAFT or the UN Office of Drug Control of Crime prevention. IN the last 7 years there has been a shift of attention towards the corporation, that has resulted into several court cases and fierce advocacy campaigns against known firms such as Vodafone, Unilever or IHG. In the last two years, we have seen regulatory reforms that included the introduction of General Anti Avoidance Rules in India, UK or the EU initiative to introduce a compulsory country-by-country reporting in 2017. This political change is not always welcomed by firms as reflected in communiqués from corporate unions such as the British Confederation of British Industry or the French Medef (Bergin, 2013), where they declare their concerns against new reporting policies. In addition, the discussion over corporate taxation is more complex when considering that tax planning is acknowledged as a legal activity in many regulatory frameworks.

In this context, professional service companies such as PwC find themselves in the situation of both offering consulting services in cost reduction to their clients (including tax) and also complying with this new environment around tax avoidance if it threatens their legitimacy to do business. PwC and its direct competitor (known as the Big Four) have been also under scrutiny of advocates (Sikka, 2003) and government agents such as UK's Public Accountants Committee Chair Margaret Hodge (Syal, Browers, Wintour & Jones, 2013). Furthermore, professional service companies such as PwC also have an additional demand from their clients to advice in reputation management through CSR consulting services. There is an increasing public demand to report tax strategies in CSR publications, but companies show some resistance to it. Given this situation, my main research questions are:

- ***How does PwC react to a changing environment with an increasing societal attention towards corporate tax avoidance in the UK and Denmark?***

- *How does PwC manage their legitimacy in these countries?*

1.2 Scope and delimitation

I have decided to set my time frame between the 1990 and 2014 because a preliminary exploratory research showed that this period concentrates the most relevant policies towards international tax. I choose PwC for several reasons. Firstly, I the firms is a part one of the Big Four, meaning that they are the market leaders so they have the chance to change industry practices. Additionally, their consulting services can influence the strategies of other corporate actors in the areas of tax and CSR. During the time of this thesis, PwC was the largest of the Big Four in terms of revenue both globally and in the UK (Jones, 2013 & IAB, 2013), making them more suitable for my thesis. Furthermore, PwC Denmark accepted to collaborate with this thesis project by providing me access to their partners (name given to their members) for interviews in Denmark. The country choice is motivated on the one hand, by the fact that PwC UK is the central headquarters of the network of firms that compose the PwC Network where many of the general and global strategies originate. In addition, activist action and political changes have been more acute in this country. On the other hand, Denmark and the UK share the goal of being the world frontrunners of CSR to give a global competitive advantage to their industries. On the other hand, they are also characterized for different CSR systems (Matten & Moon, 2008). These similarities and differences represent a good context to observe the relation between CSR and tax transparency.

1.3 Structure of the thesis

This thesis will be presented as follows: Chapter 2 will introduce the methodology I will follow throughout the project including my philosophy of science, the approach and strategy of the research, and what data has been collected. Chapter 3 will expose the theoretical framework employed in my analysis. Chapter 4 will be subdivided in three sections where I will analyze the generation and spread of new normative claims against corporate tax avoidance globally, including the UK and Denmark; the second subsection will cover the legitimacy strategies followed by PwC in the UK and the third subsection will focus on comparing the results with Denmark. The fifth and final chapter will conclude my research findings and future research possibilities. Conclusions after each section will be included to facilitate the reading of the thesis.

2. Methodology

2.1 Philosophy of science

The approach used in this paper in the study of the PwC's legitimacy strategies is constructivist. According to Neuman's (2011) typology of approaches in social research, constructivism is part of the interpretative or hermeneutical vision of science. Accordingly, human action cannot be apprehended without understanding the meaning given to it. The way constructivism understands reality (ontology) is that is socially constructed (Neuman, 2011: 92). This means that individuals create intentional social reality with their purposeful actions and interaction as social beings. Social reality is bound to perception, to human experience that assigns meaning to it (Neuman 2011: 102). This approach is radically different to the objectivist approach, where reality is external to actors and their knowledge (Grix 2010).

The epistemology relates to what is regarded as acceptable knowledge in the field of study, including the tools necessary to produce and identify it (Saunders, 2009: 112). In this thesis epistemologically interpretivist, because it focuses on legitimacy understood as the general perception of an organization as desirable or appropriate. Humans in their social behavior, have shared understandings of what constitutes habits and routines, or categorize new actions. Interpretivist concerns with 'subjectivity', with 'understandings' and with 'agency' and the way people construct their social world. Thus in this thesis I am going to observe how PwC manages their legitimacy in an environment where the constructed normative understanding of corporate behavior regarding tax avoidance is changing.

2.2 Research approach & design

I approach my thesis project in an inductive fashion. This is to say that I make use move from theoretical framework and assumptions to data collection to answer my research question. (Saunders, 2009: 61). Legitimacy theory, Institutional theory and the Norm Life-Cycle Model are my theoretical choices to analyze PwC's normative and institutional environment, and their strategies regarding tax avoidance within this context.

The design of my research is going to be a descripto-explanatory study (Saunders, 2009: 140) meaning that the descriptive aspect of the thesis regarding the explanation of the legal conception of tax avoidance, its definition, and the spread of new normative claims that turn this practice inappropriate or national business systems; are precursors

to an explanatory analysis of PwC strategies in UK and Denmark presenting casual relations between them and the described phenomenon.

2.3 Research strategy - case study

Case study suits my research because it helps “explain the causal links in real-life interventions that are too complex for the surveys or experimental strategies” (Yin, 2003: 15), and this is the case of my thesis. Tax avoidance is a new phenomenon that has been recently introduced in politics, corporate governance and responsibility; it is an evolving phenomenon with several actors, and thus case study is suitable to address this issue because it is an “empirical investigation of a particular contemporary phenomenon within its real life context involving several sources of evidence” (Robson, 2002 in Saunders, 2009: 145). Using a variety of sources helps researchers gain a broader view of the topic and increase the validity and credibility of the results; with regard to generalizability, this study does not aim to be generalizable outside of the object of study, meaning that the results might not be applicable to other research settings, such as any other of the Big 4 accountancy firms (Saunders, 2009: 158).

The unit of analysis is going to be a holistic multiple case study (Yin, 2003: 40) of PwC UK and PwC Denmark. This choice is due to PwC UK is the central headquarters of the PwC Network where most of the knowledge generation takes place, and the Danish PwC adopts frameworks from the UK such as Total Tax contribution of Total Impact Measurement & Management for their own clients. Moreover, even though both countries have had lately political attention and government policies towards tax avoidance and they share transnational advocacy networks, it is in the UK where there has been mayor political turmoil around the topic. In addition, many of the initiators of the advocacy networks come from the UK. For these reason, I am going to use the UK as the case unit to contrast with Denmark. Using both cases is aimed at observing whether the frameworks of PwC UK yield similar results in Denmark, given the different business systems and local institutions and common international institutions and advocacy networks.

2.4 Data collection

The most common data collection technique in social constructivism consist of in-depth qualitative investigations of small samples (Saunders, 2009: 119). The main source of data in my thesis is secondary, in the form of documentation. This Data ranges from organizations websites, reports and minutes of committees, to journals or newspapers. On the one hand, the advantages of documentation are that the data is stable, it can be

reviewed repeatedly and it is exact, containing names, dates and details of events. Documentation also allows for a broad coverage, in terms of time, events or settings. On the other hand documentations has its limits; there can be low biased selectivity if information is incomplete. Reporting bias can take place stemming from the author's bias. Finally there can be a deliberate blockade of information limiting the accessibility of it (Yin, 2003: 86). In addition I have to acknowledge the limitation of language; my data collection has been mostly sought in English limiting my access to information in the Danish PwC case. Even though PwC Denmark and most of the largest companies publish their annual reports in English, offer English version of their web pages and communiqués, and there are Danish newspapers in English (e.g. Copenhagen Post), there might be some inaccessible data for me due to my limited knowledge of Danish.

In order to overcome this last limitation, and to triangulate the overall documentation, I supplement the secondary data with primary data. Primary data is in form of semi-structured interviews to company representatives in the area of tax and CSR from PwC Denmark and the responsible members for CSR and Tax of DI, the biggest Danish union of employers. In the interviews, I will have a list of topics and questions to cover during the interview and my intervention will vary depending on the flow of the conversation (Saunders, 2006: 320). Suiting the case study strategy, the interviews will be of an open-ended nature, meaning that questions will range from focusing on facts around a specific matter to directly asking about the opinion of the interviewee on some events. This allows using the interviewee as informants and respondents at the same time (Yin, 2003: 90). The advantages of collecting data through interviews is that data is focused and insightful, even though the risk of bias of construction and response, or the fact that the interviewee can give the interviewer that he or she wants, are still present (Yin, 2003: 86).

The profile of the interviewee is: Søren Jesper Hansen, Head of Tax in PwC Denmark – called Tax partner-. He is interviewed to contrast the information found through other data sets, to explore the current state of affairs regarding tax avoidance in Denmark, and to explore the challenges and opportunities in the PwC's area of tax advisory. Anne-Louise Thon Schur, Head of CSR in PwC Denmark –CSR partner- interviewed to see the perception of Tax related issues from the CSR professionals, the legitimacy challenges of the PwC Denmark and its clients and the related challenges and opportunities. The questions to both partners were in some cases aimed to cover the

same topics to contrast their views, in other cases were aimed at exploring topics that were of exclusive knowledge of their expertise. Finally, Jacob Bræstrup and Dorte Gram Nybroe were interviewed in a group interview. Both are working members of Dansk Industri, the largest Danish union of employers in Denmark, many of them being clients or potential clients of PwC. Bræstrup is the responsible of Tax issues, whereas Dorte is responsible of the area of CSR. In addition, DI has a representation in the board of the Danish Council for CSR, and other organism. Interviewing these members of DI was aimed at contrasting PwC Denmark's vision with the union that represents some of their clients to regarding legitimacy, reputational and taxation issues from a corporate perspective.

The interviews were recorded through different recording devices and transcribed afterwards, and the interviewees were given the option of reviewing the transcription and offered the possibility to make the interviews confidential in order to not feel constrained in answering to my questions during the interview. I find relevant remarking that the group interview was subject of a technical problem and the interview was not recorded. In order to ensure the validity of data, right after the interview I elaborate a summary of the interviews and immediately forwarded them to the interviewees. Both Bræstrup and Dorte sent me a written agreement with the content of the summary I made and made notes in the parts that they thought necessary.

Finally this Thesis project is aware of the limitations of a case study strategy: tendency towards biased results and provision of little basis for generalization Yin (2003: 10). On the one hand, to minimize the possible bias, I have triangulated different data sets of events with interviews and various sources of documentation to achieve a 'truer' description of events (Saunders, 2009: 146). The triangulation could have been stronger by running interviews to members of PwC UK, but data of this kind was not available. On the other hand, with regard to generalizability, the aim of this thesis is not to generalize results but to look at the particular strategies of one case company within the chosen context.

2.5 Introducing the case company

PwC was formed in 1998 from the merge between Price Waterhouse and Coopers & Lybrand, two London accounting firms during the mid 1800s. Today PwC is considered one of the 'Big Four', name given to the world biggest service providers firms along with KPMG, EY (former Ernst & Young), and Deloitte (Corporate History and

Milestones, 2013a) Their international structure is genuine due to how accounting firms are regulated in the majority of the countries in the world; these types of firms are generally required by law to be locally owned and independent. Thus PwC cannot be declared as a single firm, global partnership or multinational corporation. They formally conceive themselves as a network of separate legal entities, the 'PwC Network'. All the members of the network are related to Price Waterhouse Coopers International Limited (PwCIL), and English private company limited by guarantee, which indeed does not work as a consultancy company but serves as a coordinating entity focused on the areas of strategy, brand, risk and quality –including consultancy services in areas such as CSR. The Network Leadership Team and the board of PwCIL are bodies that develop and implement policies and initiatives to reach a coordinated approach among individual firms when appropriate (Corporate Governance: How we are structure. What is PwC?, 2013b).

The Danish PwC is a small PwC company in relative terms within the PwC Network; it has no Danish representative in the Leadership team of the board of the PwCIL, and the revenue stream is USD 0,34billion out of USD 32,1billion the Global Network, representing the 0,95% of the entire revenue of the company (PwC, 2013a & PwC, 2013b).

3. Theoretical Framework

In this section is to explain the suppositions and systems of ideas that I will use to explain the subject of my research.

3.1 Institutional environment

When analyzing PwC strategies towards a changing environment, I will not only look at how the firm responds to societal demands but also how these strategies relate to its institutional context. Institutional theory understands organizations' activities embedded in social norms that are taken for granted, and thus understood as appropriate conduct (DiMaggio 1998 & Scott 2001). This approach fell short in understanding how agents – individuals or organizations- could change the institutions they are embedded in, so new research studied how these can have the role of actors that picture new institutions that are not in the current social logic as means to achieve their interests (DiMaggio, 1988). This embedded agency (Seo & Creed, 2002 in Greenwood and Suddaby, 2006: 29) allows for highly socialized actors to act as institutional entrepreneurs (Hwang & Powell, 2005).

I will analyze PwC's strategies within its institutional field. Institutional fields are clusters of organizations with common institutional logics -taken-for-granted social prescriptions generally codified in laws- that define their boundaries and interactions (Scott, 2001). Within these organizational fields, there can be central and peripheral organizations, and there can be a dominance hierarchy among the fields (DiMaggio, 1983 & Shils, 1975). Different research tries to identify the dynamics within the fields. On the one hand, some researchers understand that resource-rich center players are heavily embedded in social processes periphery organizations are less embedded and thus more prone to look for alternative institutional practices, (DiMaggio & Powell 1983) even more if there is interest dissatisfaction within these peripheral organizations (Seo & Creed, 2002 in Greenwood and Suddaby, 2006). On the other hand, other research shows that central organizations can also act as institutional entrepreneurs (Greenwood et al., 2002, Phillips & Zuckerman, 2001; Sherer & Lee, 2002 in Greenwood and Suddaby, 2006: 30). Furthermore, firms tend to mimic other exemplary firms and thus it is likely that will share responsibility for initiating institutional entrepreneurship (Greenwood and Suddaby 2006: 30). Finally, Abrahamson and Fairchild (2001 in Hwang & Powell, 2005: 187) notice that even though both standards and standardization are a common aspect of an increasingly globalized society, various stages of standardization involve moments of institutional entrepreneurship, specially in the case of knowledge industry and ideas entrepreneurs. As a wrap-up, I am going to see whether PwC passively acquires institutional practices or looks for alternative ones in the context of its institutional field.

3.2 Organizational Legitimacy Theory

To observe the legitimacy strategies of PwC UK and Denmark I will make use of choice the organizational legitimacy theory (from now on, I will refer to it as OLT). OLT finds its grounds in sociology and political studies of legitimacy with the famous works of Max Weber and Talcott Parsons (Suchman, 1995: 571). These authors set the grounds for understanding the relation of the individual and the society based on shared conceptions or values. These works reflect on the relation between the state and its citizens, and how rules and norms are spread not only by means of the state's monopoly of violence. Max Weber founds the basis of legitimacy research tradition by identifying different types of legitimacy, being the legal-rational representative of modern western societies. Talcott Parsons defines legitimacy as "the appraisal of action in terms of

shared or common values in the context of the involvement of the action in the social system” (Parsons; 1960: 175).

Legitimacy theory centers on the study of organizations, it is indeed composed by two traditions or perspectives, two different ways of explaining the relation between the organization and its societal ‘container’. These two perspectives are, on the one hand, one macro perspective or institutional perspective (Tilling, 2004; Suchman, 1995). This perspective sees legitimacy as a synonymous of institutionalization, where the societal context gives meaning to the organization and it generally focuses on the adaptation of the organization to this societal structure, values and norms, etc., These features are generally understood as given and static (Tilling, 2004: 2). This institutional perspective tends to view the legitimation process as a mimic of structures and practices commonly accepted to appeal rational to society, to seem natural and meaningful. The relation between access to resources and legitimacy of the organization is a by-product of this institutionalization process (DiMaggio & Powell, 1983 in Schuman, 1995: 573; Scott, 2005). On the other hand, the other perspective has a more ‘micro’ focus and it is generally known as the strategic perspective (Dowling & Pfeffer, 1975; Ashford & Gibbs, 1990 in Schuman, 1995: 573). This perspective understands legitimacy as a process by which the organization seeks approval or avoids sanction by different groups in society, aiming at dissipating the disparity between the values associated with its activities and the values shared by the key audiences of society. Contrary to the institutional perspective, the strategic perspective acknowledges the possibility of conflict between the organization and the societal claims, and managers can manipulate symbols in order to gain societal support. Legitimation then is seen as an operational resource.

The reason why these two perspectives are considered one OLT is due to the work of Suchman (1995) that merged both of them creating a unified set of ideas to explain the legitimation process of the organization. In Suchman’s own words:

“Because real-world organizations face both strategic operational challenges and institutional constitutive pressures, it is important to incorporate this duality into a larger picture that highlights both the ways in which legitimacy acts like a manipulable resource and the ways in which it acts like a taken-for-granted belief system”. (1995: 577)

In this merge of perspectives, Suchman offers a compelling definition of legitimacy, the typifications of different kinds of legitimacy, and the stages of legitimacy of an

organization: “Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate with some socially constructed system of norms, values, beliefs and definitions”. (Suchman 1995: 574). Legitimacy can take three different forms that coexist in most real world settings: first, the author talks about pragmatic legitimacy, understood as based on the calculation of the most immediate audiences interests –seen as constituents-, and often involves direct exchange between both parties. Different constituents can see the company as responsible of their immediate interests or larger ones, and some even value the organizations as individuals, and expect them to have shared values such as trustworthiness, honesty, etc. Second, moral legitimacy; this kind is it is grounded on the positive normative evaluation of the organization and its activities; it is not based on whether the audience values organization’s activity according to their interests, but rather whether the audience thinks the organization is doing ‘the right thing’. This right thing is generally related to what audience shares as societal welfare. It normally takes three forms: evaluation of outputs and consequences, and evaluation of techniques and procedures, or evaluating categories or structures, and these valuations are socially constructed and not empirically discoverable properties. Finally there is Cognitive legitimacy, which, unlike the two others, does not rely on societal valuation but in social understanding and perception, and it can take two forms. The first one is comprehensibility, where legitimacy derives from cultural models that explain the organization and its activities. However not all explanations are equally viable; the explanation that succeed must take into account large belief systems and experienced reality of the audiences. The second one is ‘taken-for-grantedness’, which is a subtle but powerful concept. Institutions render disorder manageable and transform it into a set of givens that limit the possibilities for audiences’ opposition (1995: 577-585). This type of legitimacy is in some case identified with cognitive exteriority and objectivity, or in other words, with the removal of social structure from the actors that created the legitimacy.

An organization can see itself immersed in different processes: *Gaining legitimacy*, when an organization engages in a new line of activity where there are no precedents in the social order. The strategies might be: conforming to environment –current audiences and their beliefs-, selecting environment –pursuit and audience that will support the organization practices- and manipulating environment –creating new audiences and new legitimacy beliefs, including taking the role of institutional entrepreneur-. In addition, organizations may engage in *maintaining legitimacy*; it is a fairly easier process, and the

strategies are centered round (1) maintaining a preemptive conformity by perceiving change in the claims of an heterogeneous set of audiences, and (2) guarding against unforeseen challenges by invoking legitimate authority, manipulating language or waiting for demographic processes to replace critics with new generation of supporters.

Finally we have the strategy of *repairing legitimacy*, and it generally represents a reactive response to an unforeseen crisis of meaning. The strategies often used here are similar to the ones for gaining legitimacy, even though first organizations must construct a kind of “firewall” (1995: 597) between the assessment of the key audiences of the actions that led to loss of legitimacy and the assessment of the general ongoing essences of the organization. Specific strategies to regain legitimacy are (1) offer a normalizing account –separating the incident of a larger assessment of the organization as a whole by denying, excusing or justifying the disruption-, (2) restructuring –by creating monitors and watchdogs and disassociating-, and finally (3) not panicking. These stages are the classic stages gathered by Suchman in 1995, and they have been widely accepted until today. Some refinements made by Tilling (2004: 9) include an extra phase, denominated ‘loss’. This phase is characterized by when the ‘incident’ that leads to the need of regaining legitimacy is sustained or of such nature that it is perceived as a systemic issue of the organization. This phase is likely to be preceded by sustained media and NGO scrutiny, and accompanied by increasing government regulation. Tilling’s work predicts an increase of social and environmental reporting in this phase.

As a graphical conclusion, I will make use of an excellent figure that represents OLT made by Tilling (2004):

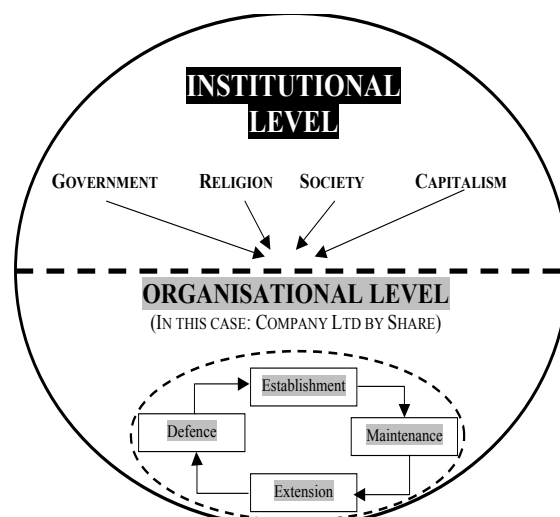


Illustration 1: Organizational Legitimacy Theory; Tilling (2004)

3.3 Audiences

Organizational legitimacy theory has similitudes and differences with stakeholder theory (Freeman, 2001). Stakeholder theory addresses morals and values of organizational management. It defines a set of individuals or groups (stakeholders) that are affected by the activities organizations, with no distinction about whether it is a positive or negative impact, and whose rights are violated or respected by such activities (Freeman, 2001: 41). The task of the modern management is to act taking into consideration a balanced relation with all its stakeholders (Freeman, 2001: 44). The Organizational legitimacy theory however takes a sociological study of the organization and how it responds to the groups or individuals in the social environment that constrain, construct and empower organizations: audiences (Suchman, 1995: 571). This distinction is important, especially considering that different theorist give different name to these audiences, sometimes mixing them with stakeholders. Hybels (1995) will refer to them as *relevant organizational constituencies* (1995: 243), whereas Tilling (2004) will talk about *Critical organizational Stakeholders* (Tilling, 2004).

Legitimacy depends on the socially constructed congruence between the behavior of the organizations and the shared beliefs of some social groups (Suchman, 1995: 574). Again, Hybels' work identifies critical constituencies of organization's legitimacy (1995: 244): the state, the public, the financial community and the media. Hybels' approach to legitimacy is strategic, and sees stakeholders as key influencers of the access to resources of the company. Quite importantly, he understands the interrelatedness off stakeholders, meaning for instance that people influence government by voting or lobbying, how media influences financial community by presenting information and giving meaning to organization activity. Media can also be a fuel for pressure from any of the constituencies (Tilling, 2004).

The limits of Hybels' work are that takes a local nation-based context, and it does not explicitly address all the other states and non-state actors that interact with government, with each other and with international organizations. Moreover, the concept of 'the public' is too generic and simplifying so I will consider other actors than influence politics and regulation such as non-governmental organizations and transnational, regional and domestic network of activists with common values and ideas (Keck & Sikkink, 1999: 99). Lastly, there as well influential networks of scientist and

professionals that shape regulation but also the way we understand the organization and its activities (1999: 89). Accordingly, this paper is going to look at the international academic community as a audience of the organization's activities relating to tax avoidance in order to have a bigger understanding of the society's shared understanding of appropriate tax behavior.

3.4 Audiences' evaluations

Legitimation is not measurable, “ (...) it has no material form (and) it exists only as a symbolic representation of the collective evaluation of an institution (...)” (Hybels 1995: 243). My next step in the analysis will be to cover this collective evaluation among audiences or constituencies. To do so I will make use of the Norm Life-Cycle Model (Finnemore & Sikkink, 1998), which explains the creation and spread of normative share conceptions, identifying mechanisms and actors both national and internationally. With the model I will be able to see how the interaction between audiences derives into corporate tax avoidance turning into a ‘hot topic’, creating a shared evaluation of it as a negative activity that will reflect into regulatory action. The strength of the model is that it includes the socio-economic context in which the interaction of audiences takes place.

Norm Life-Cycle Model

To understand the model first there is a need to define a norm: “a norm is a (shared) standard of appropriate behavior actors with a given identity” (1998: 891, added word). The model was elaborated to understand how norms are created, their origin and how do they change. Most importantly, it understands a relation between international and national both up- and down-stream. International norms influence directly national frames but at the same time, domestic norms can become international norms due to the efforts of norm entrepreneurs of various kinds (1998: 893). The ‘Cycle’ of the model is divided in three stages: norm emergence, norm cascade and internalization:

- Stage 1: according to Finnemore & Sikkink, there are two common elements in every norm creation: norm entrepreneurs and the organizational platforms they act from. Firstly, Norm entrepreneurs focus attention or create issues by using language that name, interpret, and dramatize them - process known as “framing” (1998: 897): creating new ways of appropriateness or inappropriateness and new collective interests. Secondly, the organizational platforms are channels through which norm entrepreneurs promote their norms. These can range from NGOs to transnational advocacy networks.

- Tipping point or threshold point: this is when the norm entrepreneurs have persuaded a critical mass of states to become norm leaders and adopt the new norm. There is no consensus about the number of countries or the reasons for this tipping point (1998: 901), even though it is accepted that some countries are crucial for the norm cascade and others are not; what constitutes a critical country is related to the issue itself.
- Stage 2: The *norm cascade* could be understood as a ‘contagion’ effect where more and more countries start adopting the norm, and influencing international and transnational norms becomes more important than domestic. This contagion can happen due to direct diplomatic pressure from other governments and international agents or simply due to a process of international institutionalization process –legitimation process-.
- Stage 3: The *internalization* of a norm is characterized by a wide acceptance of a norm to the point that it achieves a “taken-for-granted” (1998: 904) quality that makes conformance with it almost automatic. Two mechanisms to achieve this internalization are professionalization and iterated behavior and habit.

Finally, Finnemore & Sikkink (1998: 906-908) reflect on the fact that some factors inherent to the norm might influence its spread. On the one hand, intrinsic characteristics of the norm such as its formulation or content –universalistic claims, prevention of bodily harm vulnerable individuals, etc.-. On the other hand, the context can also influence the adoption of a norm, such as domestic turmoil where legitimacy of elites is threatened.

4.5 Legitimation and CSR

Legitimacy and corporate responsibility, in a western context, are directly connected both from a strategic perspective (Wood, 1991; Bansal & Roth, 2000; O’Dwyer 2002;) and an institutional perspective (Teegen, 2004; den Hond & de Bakker, 2007; Matten & Moon 2008; Gjolberg 2010). EU Commission defines CSR as “*a concept whereby companies integrate social and environmental concerns in their business*” (EU Commission, 2011), where companies take actions taken beyond the legal obligation towards society, environment and the economic welfare. The concept has been discussed and conceptualized both in academia and policy areas since 1960, and it has changed and evolved from social responsibility, to social responsiveness, social corporate performance (Carroll, 1991), corporate citizenship and even political CSR (Scherer & Palazzo, 2006).

Within the institutional literature, there are interesting works that look at the link between domestic institutions and CSR. Matten & Moon (2008) conclude liberal market economies, such as the US and UK, are characterized for an explicit CSR where corporate activities are assumed to take responsibilities for the interests of society, rely in corporate voluntary activity and the incentives and opportunities for CSR are motivated for by the stakeholder expectations. Conversely, Coordinated market economies, represented by most of Europe's continental systems, have an implicit CSR; implicit CSR means that the corporation rules are described through wider formal and informal institutions for broad societal interests and concerns. It consists of values and norms that often turn into a formal demand for corporations, and the motivation for CSR comes from an institutional delimitation on how organizations contribute to society. National institutional frameworks -political, financial, education, labor and cultural systems- shape differently the shared view of an organization: on the one hand, liberal market economies promote individualism, discretionary agency, liberalism, network governance, policies providing discretion and they envision isolated actors. On the other hand, coordinated market economies support collectivism, systemic agency, solidarity, partnership governance, policies providing obligations and actors are seen as associated actors. (2008: 5-10).

Gjølberg (2010) refines Matten & Moon's work by looking specifically at the Nordic countries and researching what they come to call 'The Nordic Model' of CSR, or the 'Nordicization of CSR' (2010: 204). The Norwegian author finds that Danish CSR is somewhat different to its Scandinavian counterparts, Norway and Sweden. Denmark represents the most instrumental approach to CSR. First, up until 1993-2000 Danish CSR was understood as a state relief for the upcoming immigration and its consequent impact on the labor market; then it turned as a competitive advantage due to some internal pressures from the liberal party, and some external pressures in Danish corporations in the global supply chain. Due to some scandals such as the 'cartoon crisis' among others (A Danish Magazine publishing some drawings of The Prophet Mohammed, causing an international conflict) in the late 2000s, led to an international disadvantage position to Danish industry. Consequently, the Danish Ministry of Foreign Affairs and the Danish Commerce and Company Agency (DCCA) ideated Danish's CSR as a country competitive advantage –even the policy makers made use of the

collaboration of Michael Porter in the elaboration of Denmark of the 'First CSR nation'- (2010: 217-218).

The UK has followed a similar path changing from 2004 the orientation of their CSR government policies from local focus around reputation and recruitment, eliminating social exclusion and promoting communities, to international focus in order to promote the competitiveness and image of UK global businesses. The policies take a form of encouraging best practice, increase awareness of the trending CSR areas to UK companies, and encourage and facilitate processes (Brown & Knudsen, 2012).

3.6 Definitions

In this section I will make a brief explanation of the technical issues related to tax avoidance defining the mayor elements that define this practice. Tax avoidance is a legal concept that has a difficult conceptualization, and sometimes it is too similar to other activities such as tax evasion. The following section aims setting the basic terms that compose this practice in order to get a full understanding of where the current debate is.

Tax avoidance definition

Tax avoidance is a complex issue, and the myriad of academic and professional work is a proof of this. Even though I will go more in depth later, as some examples we can find: academics (e.g., Barker, 2009; Freedman, 2008a), tax administrations (HMRC, 2011; OECD, 2008, 2011) and even judges (Hoffman, 2005). In general terms, tax avoidance, as well as tax evasion, is a legal term. Both terms define categories of behavior that actors can choose from. The conceptual division between tax avoidance and tax evasion, albeit being delimited, it turns blurred in practice and many times lawyers and similar experts –tax advisors, tax administration officials, etc.- are required in providing the content or explain the definition. These terms depend on the tax code of each sovereign state, which has the functions of imposing the liability to tax payers and create tax reliefs at the same time. Opting for this or that event, the actor will produce a state of affairs different from the other possible events. (Hasseldine & Morris, 2013)

Generally speaking, tax avoidance refers to the legal reduction in taxes, whereas tax evasion is all the other kind of practices that are considered illegal by the tax code (Gravelle, 2013). In other words, tax avoidance is the action of choosing between different courses of action while satisfying all democratically agreed taxes imposed by society (Hoffmann, 2005). Often corporate tax planning is associated with tax

avoidance and tax planning by individuals is considered tax evasion, even though this distinction is difficult to make in all cases. This classification is due to the fact in many regulations, selling or buying assets among subsidiaries within the same corporation is legal, whereas individuals often have to create artificial entities to be able to transfer income –considered fraud by many jurisdictions (Gravelle, 2013).

What is ‘fair amount of tax’

The current discussion on tax planning is focusing around the result of corporate transactions, meaning that the tax liability that these result is considered ‘too small’. The ethical behavior expected in the attitude of tax planning is the payment of the ‘fair share’ of tax (mentioned by different campaigning groups that I will describe later). The morality or ethical value of corporate behavior is recognizable in cases of exploitation of workers, suppliers, customers or environmental aspects. However, with tax-related behavior, where a tax code of a judicial system and the tax administration give the choice of choosing an event rather than other with beneficial tax consequences, recognizing the morality of the action is more problematic (Hasseldine & Morris, 2013). This leaves a big question of determining the fairness of that share (Williams, 2007). For companies would argue that in democracy is perfectly fair to organize economic transactions in such a way to pay the minimum determined by the law, where for campaigning groups with a wider vision of ‘fairness’ either would have an anti-business agenda where companies should pay more than whatever they are paying, or they find hard to find unanimity of what is fair. Ultimately, it could be argued that fair is paying what is reflected in the intention of the legislature, but this is equally difficult to determined; extrapolating the words of the lawmakers to apply in other circumstances to apply ‘the spirit of the law’ can turn into a quite difficult task for companies, even if they were completely willing to follow a highly way of managing their tax liability. Furthermore, if one takes into consideration that firms operate in different countries and thus are related to different ‘spirits of the law’, the fair amount of tax to pay becomes a quite complex matter to address. (Muller & Kolk, 2012; Williams, 2007).

Methods of tax avoidance

As far as the aim of this paper is not to get into deep technical exploration, the following section is just an introduction to the methods international companies can choose to use in order to engage into tax avoidance. Tax avoidance relies heavily in intangibles such as intellectual property. The most common methods are the allocation of debt and earning stripping. The former consists in borrowing more in high-tax jurisdiction and less in low-tax jurisdiction, without changing the overall exposure to

debt of the company. The later is the action of associating debt to either to related firms or unrelated debt is not subject to tax by the recipient. As a result, companies could operate their subsidiaries with all equity finance in low-tax countries and take the overall firm's debt as a deduction (Gravelle, 2013: 19)

The second most common practice is transfer pricing in good and services between affiliates of a company. Selling good and services at a low price in high-tax countries and buying them overpriced in low-tax countries, it can be declared a lower income to tax in the former country. This practice are easily done intangible assets, for instance inventory of drug patents, where the actual physical transfer of assets does not imply delivery costs or operations. These practices can produce an effective low, zero or negative tax rate, and it has gather the attention of the public due to scandals in most known companies such as Google, Apple, Amazon, Adobe or Starbucks in the UK and US (Needham 2013: 4). However this way of profit shifting can bring a problem to the firm because the country with tax heaven jurisdiction might not have the resources (including labor) needed to develop the intangible assets. To overcome this 'unproductiveness' of profit shifting transactions, firms have developed strategies such as the ones called 'double Irish or Dutch Sandwich'. These consist of a complex distribution of operations (intangibles development, marketing services, etc.) between Ireland and other country of operations and then use a Dutch company as a 'sandwich' between the Irish holding company and the Irish sales. This way even the quite low Irish taxing rate can be avoided. (Needham 2013: 3 & Gravelle 2013: 6)

Other common practice is contract manufacturing. This is used when the subsidiary in the low-tax jurisdiction contracts manufacturing services to other subsidiary from higher-tax, because maybe the desired market might be in the later country and it might be better to manufacture in this country. The production will be sold for cost plus a fixed markup. Other mechanism related to tax avoidance is the check-the-box clauses or provisions, where corporations can treat subsidiaries as separate entities at their will. Even though these clauses were created to simplify questions about firms were partnerships or corporations, they have led to the expansion of 'hybrid entities' (Needham 2013: 4) that are recognized by some jurisdictions and not by others. Finally there is cross crediting and sourcing rules for foreign tax credits. This refers to the use of the amount of foreign taxes paid in excess in one jurisdiction or type of income to offset taxes from the home jurisdiction that would be due to another income.

Tax heavens

All the tax avoidance schemes would not be possible without different tax jurisdictions, specially without those from countries called tax heavens, tax shelters or off-shore finance centers –OFCs- (Preuss, 2012: 1).

These OFCs are partly clusters of small island economies located around the European periphery (Channel Islands, Isle of Man, Malta, Cyprus), in the Caribbean (Cayman Islands, British Virgin Islands, The Bahamas, Bermuda) and the Pacific (Vanuatu, Cook Islands) and Indian Oceans (Mauritius, Seychelles). These islands have become highly dependent on the off-shoring investments, up until employing 20% of the population and originating 90% of the government revenue (Hampton & Christensen, 2002: 1657). Other tax heavens are outside these clusters, such as Ireland, Switzerland, Liechtenstein or the US State of Delaware. Depending on who defines tax heaven, this or other countries are included. The OECD considers tax heavens those countries with no taxes or just nominal taxes, lack of transparency and Exchange of information and no substantial activities. Since OECD's Fiscal Affairs Committee started reporting on tax competition and identifying 35 tax heavens (OECD, 2000), the international organization has issued guidelines and agreements (TIEAs –tax information exchange agreement- and DTAs -double tax agreements-) to qualify some countries to go out of the tax heavens blacklist. Some of these are Gibraltar, Monaco, Liechtenstein, Guernsey, Jersey, Isle of Man and San Marino. Yet the definition of tax heavens is subject of discussion, and one can find some extreme positions where even Denmark is questioned to be a tax heaven (Murphy, 2009).

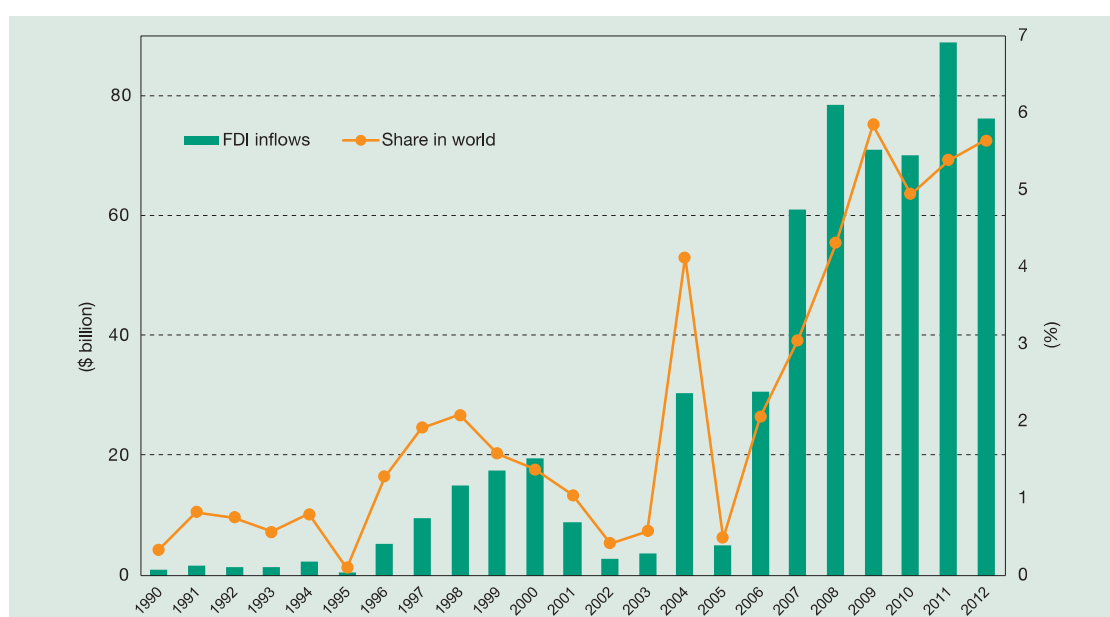
Tax heavens are the result of a development model for small island economies (Hampton & Christensen, 2002) and they have turned into strong world competitors of Foreign Direct Investment. Given this competition other countries have provided the legal and regulatory environment to transform into heavens for some parts of the global markets. That is, they have created niches in this world competition for FDI. The City of London hosts the offshore Eurobond Market; Belgium has turned into a heaven for corporate head quarters; Thailand's Bangkok international Banking Facilities (BIBF) was the channel for short-term capital flows into East Asia before the financial crisis in East Asia (Oxfam, 2000). The tax competition battle is a tension between the legitimate tax reliefs of countries to attract real investment and the 'harmful tax competition'

identified by the OECD; this harmful competition poaches the tax base of other countries by lowering tax for companies to carry fictitious activities.

Impact of tax evasion

The stock of wealth that is held in offshore is estimated at USD 5 trillion, which is the equivalent of one third of the global GDP (The Edwards Report, 1998). According to the UNCTAD's World Investment Report 2013 (UNCTAD, 2013), the investment in OFCs and Special Purpose Entities (SPEs) has boomed since 2007, right at the beginning of the financial crisis. Despite the contraction of investment of -14% in 2012 compared to the previous year, the flow to OFCs is \$80 billion. The average annual FDI inflows during the period 2007-2012 is 5 times larger than in the period 2000-2006, and tax heaven economies account for the 6% of global FDI flows (see Table 1 below). According to the report, a significant part of those FDI flows are redirected to the original source countries. The accumulated wealth estimated in the OFCs is worth \$32 trillion (Henry, 2012).

Graph 1: Value and share of OFCs in global FDI flows, 1990-2012 (Billion of dollars and per cent)



Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

In addition, SPEs “Are playing a large and increasing role in a number of important investor countries” (UNCTAD, 2013: 16). Luxembourg and The Netherlands are historically ahead of the countries giving special tax treatment to SPEs, but this practice is extending to countries where it did not happen before, such as Portugal or Denmark. However, the estimations of the report are based on FDI flows and stocks, but it warns that it is likely that transfer pricing schemes in lower tax jurisdictions not listed as OFCs and not run through SPEs increases accounts for a bigger tax avoidance (2013: 17)

Despite the efforts to combat tax avoidance have not reflected yet into a decrease of FDI flows to OFCs because of two reasons. The first one is the level of overseas cash holdings by transnational companies that need to be 'put aside' and secondly because initiatives to reduce flows to OFCs is offset by the weight of new FDI players. However it is interesting to note how important FDI players such as the USA (Top FDI hosting and investing economy in the world) and Japan have decreased their OFCs flow to a third and a around a half, respectively (2013: 21)

3.7 Conclusion of the section

Organizational Legitimacy Theory (OLT) understands legitimacy as "generalized perception or assumption that the actions of an entity are desirable, proper or appropriate with some socially constructed systems of norms, values and definitions." (Suchman 1995: 577) and it has two perspectives; one institutional that understand legitimacy as socialization; and the other strategic, which understands legitimacy as a resource. In my analysis I will look at interconnected audiences' claims (Hybels 1995) through the Norm Life Cycle Model that allows me to draw casual relations for the origination and spread of norms, understood as "standards of appropriate behaviors" (Finnemore & Sikkink 1998: 981). I will look at PwC's legitimacy strategies within their institutional field, understood as clusters of organizations with common institutional logics or social prescriptions often codified by law (Scott, 2001). When looking at CSR strategy, I will take into consideration the country business systems of the UK and Denmark, as well as their different CSR types (Matten & Moon, 2008), even though both countries consider CSR as a national competitive advantage (Gjølberg 2010).

Tax avoidance is the lawful reduction of tax costs, and the public debate evolves around what is the fair amount of tax (Williams, 2007). Tax avoidance would not be possible with off-shore finance centers and banking secrecy (Hampton & Christiansen, 2002), and there has been a lot of political initiatives from international organizations such as the OECD, to typify and name the shame of off-shore countries. However, the inflow of FDI to OFCs has not stopped increasing (UNCTAD, 2013).

4. Analysis

A. Key Audiences' Claims

4.A.1 Norm entrepreneurs and framing process

“The characteristic mechanism of the first stage (of the Model), *norm emergence*, is *persuasion by norm entrepreneurs*” (Finnemore & Sikkink, 1998: 895. Added sentence). Thus, my first step in the analysis section is to identify the norm entrepreneurs or “agents that have strong notions about appropriate or desirable behavior in their community” (1998: 896) regarding corporate tax planning. I will focus as well in the way they “frame” (1998: 987) the appropriate activities of tax avoidance to analyze afterwards whether this framing spreads into public understanding and ultimately to convince critical mass states to embrace new norms (1998: 895). Furthermore, I will identify too the *organizational platforms* from which norm entrepreneurs from and which entrepreneurs promote their norm. They can take the form of NGOs, advocacy networks or international organizations that can include in their agenda the same norms as the ones promoted by the entrepreneurs (198: 899). As a note, advocacy networks are defined as forms of organization with voluntary, reciprocal, horizontal patterns of communication and exchange among committed and knowledgeable actors working in specialized issues where they plead the cause of others (Keck & Sikkink 1999: 91).

Early Norm Entrepreneurs- Oxfam's 'Tax heavens: Releasing the hidden bullions poverty eradication'

Oxfam is one of the first identified organizational platforms that advocate against tax avoidance. In this case it is not possible to make a strict separation between entrepreneur and platform because the NGO engage into activism as an organization, and their individuals do not take special character in their activities, or at least not in the area of tax avoidance. However their impact is outstanding and reflects in future works of research and advocates (e.g.: Hampton & Christensen, 2002; Christensen & Murphy, 2004; Snyckers, 2006; Williams, 2007; Sikka, 2010; Sikka & Hampton, 2005; Henry, 2012; Muller & Kolk, 2012; Preuss, 2012; Jenkins & Newell, 2013).

Oxfam published a briefing paper called *Tax heavens: Releasing the hidden bullions poverty eradication* (Oxfam, 2000) where light over tax avoidance and evasion was shed within a different perspective: tax losses and tax competition were not only a problem of revenue for sovereign developed states but most importantly a burden for developing countries. As the report reads, all the efforts made by the OECD, FATF, G7

and the FSF, despite being useful, only were taking a '*northern perspective*' (Oxfam, 2000: 1). Development and the eradication of poverty were elements that were not traditionally part of the discourse against tax avoidance. The lines of this argument were mainly three. Firstly, corporate tax avoidance hinders the tax revenue of developing countries from companies and individuals prevented these countries from having the necessary resources to invest in social welfare and economic infrastructure to develop human welfare and sustainable development. Oxfam (2000) estimated that the loss of revenue with tax dodging was bigger than the average amount of revenue perceived through aid in developing countries. Moreover, transnational companies that have the capacity to avoid taxes are engaging into unfair competition with local companies from the developing host countries due to the former do not bear the same tax costs than the latter companies. Secondly Oxfam (2000) related claimed that OFC provided opportunities for political corruption illicit drug, arms trading and globalized crime. Thus developing transparent national and international budget processes was hampered by these offshore centers. Finally tax heavens have had a role contributing to financial crises. The Instability of currency and global supply of money are definitely a direct impact of the chances of development of a country. Oxfam not only changed the focus in the discussion of tax avoidance, but also portrayed the OFCs as developing countries that had to become tax heavens due to lack of real chances of development or competition in the international market; the NGO claimed that to tackle tax heavens there must be real intention of rich countries to multilaterally address the problem but also not just removing competition from developing countries.

As we can see, Oxfam shapes or frame tax avoidance and evasion as 'inappropriate' in terms of negatively impacting not only developed countries but undeveloped countries, hindering their chances for development and supporting economic crises and trade of drugs, money and global crime. The power of their claims can be explained by Finnemore and Sikkink's work on what are the feature that helps norms spread. In their own words:

“(...) Norms involving (1) bodily integrity and prevention of bodily harm of vulnerable or “innocent” groups, specially when a short casual chain exists between cause and effect, and (2) legal equality of opportunity are particular effective transnationally and cross-culturally”. (1998: 907)

Relating drugs and crime to tax avoidance will for within the first case, and relating it to the jeopardizing of the development of other countries will fall into the second case.

This normative perspective will influence future research and advocacy against aggressive tax planning –tax evasion and avoidance-.

The birth of advocates and their organizational platforms- Prem Sikka, Richard Murphy, TJN, PWYP, AABA, EITI

During the early 2000s Richard Murphy, John Christiansen and Prem Sikka became some of the most known critical voices against tax avoidance, tax evasion, tax competition and tax heavens. They have had an important role in building new cognitive frames or alternative perceptions towards corporate tax activities and creating and leading organizational platforms to this end. Thus, we can talk here in this case of norm entrepreneurs (Finnemore & Sikkink, 1998: 899).

Sikka started raising awareness as a professor of Accounting of the University of Essex between 2002 and 2003. His research papers have been aimed since then at business and accounting controversial areas such as the politics of standard setting bodies (Sikka, 2002), the role of auditing (Sikka, 2003a), and OFCs and their role in globalization (2003b). Richard Murphy, despite being a professional accountant and economist and not a professor per se, had a great impact with his joint academic publication '*The Social Irresponsibility of Corporate Tax Avoidance: taking CSR to the bottom line*' (Christiansen and Murphy, 2004). The authors share with Oxfam (2000) the vision that tax harms developing countries, but they also bring the attention to the harm to democratic countries and the inconsistency of tax dodging practices and the current shared understanding of what is considered the appropriate behavior of companies: Corporate Social Responsibility. In addition, Christiansen & Murphy (2004) claimed that the scale of tax-avoidance is so pronounced that could be considered a global 'shadow economy' that affects all countries equally (2004: 39). This perspective represents a difference with Oxfam's harm of the weak towards a more 'universalistic' claim that affects equally developed and developing countries and it could be a reason for the spread of it (Finnemore and Sikkink 1994: 907). Most importantly, Christiansen and Murphy (2004) gain moral leverage (Keck & Sikkink 1999: 97) by identify the industries that involved in this shadow economy, by naming and shaming specific actors: the extractive industries, banking and finance, aviation, shipping, pharmaceuticals, media, traded commodities and weapon industry.

With regard to organizational platforms, Murphy took part of the launching of Tax Justice Network –TJN- (www.taxjustice.net) and Tax Research

(www.taxresearch.org.uk). The former is an international research and advocacy group with a wide network of partners around the world. The latter is a blog where Murphy critically discusses all the latest issues related to tax avoidance in order to keep an updated framing of tax behavior of both governments and companies. These two platforms have heavily promoted two claims of high spread today, in the shape of recommended policies: Country-by-country reporting and General Anti-Avoidance Rules. These claims demand procedural legitimacy (Schuman, 1995: 589) in the way that they propose a rationalized standard of action way for both governments and Multinational Corporations. The Generally Anti-Avoidance Rules proposes legal-rational measures for countries to implement to control tax-avoiding activities, and the country-by-country reporting was created by Richard Murphy and proposes report of the taxation paid in every country the MNCs operate in in their annual financial or sustainability statements. Even though proposing General Anti-Avoidance Rules is not an original or unique idea of TJN -it has been discussed by academics such as Judith Freedman et al. (2004, 2005, 2009, 2010 & 2012; Freedan & Vella, 2012)- they have a big role in introducing them as a new way of appropriate behavior. Around the same time Sikka and other University professors launched the Association for Business and Accounting Affairs (AABA), an organization with the aim to critically scrutiny current business and accounting affairs, shedding light onto major issues and propose policies and practices and to advocate for greater *'openness and democracy'* (<http://visar.csustan.edu/aaba/home.html>). AABA is also a part of TJN, and joined forces in the spread of the country-by-country reporting since 2003.

Finally, two other NGOs are part of the initial framing of tax avoidance at the beginning of the 21st Century. These are the Publish What You Pay (PWYP) and Extractive Industries Transparency Initiative (EITI), both with focus on oil companies operating in Angola. PWYP is a London-based NGO that works to tackle the 'resource curse' or 'paradox of plenty' (The paradox of plenty, 2005), understood as the paradox where countries with abundant natural resources have little economic growth. PWYP was born as a campaign launched by several NGOs after Global Witness' publication 'A Crude Awakening' in 1999. The report denounced mismanagement of oil in Angola in complicity with the biggest multinational oil and banking industries and called for a policy of full transparency and political accountability in this country and all other ones in similar situation. The strong campaign of PWYP resulted in corporate reporting of taxes paid but in turn governments reacted negatively (History of EITI, 2013). The UK

government intervened to ‘level the playing field’ and brought the development of the EITI, and initiative for transparency from both ends. EITI managed to sit together company, civil society and government representatives to develop a reporting standard jointly. 12 Principles were developed and signed by over 40 institutional investors. After this successful meeting, some countries explored how this principles could be applied –Nigeria, Azerbaijan, Ghana, Kyrgyz Republic, Peru, Republic of Congo, Sao Tome e Principe, Timor Leste, an Trinidad and Tobago.

What is important from the experience of PWYP and EITI is that they succeeded as norm entrepreneurs, the managed to secure the support of state actors –the UK- (Finnemore & Sikkink 1998: 900), and their principles became applied or ‘*institutionalized*’ (1998:901) by key countries. Even though EITI results are criticized by others advocates such as Richard Murphy (Global Witness, 2005), the initiative and PWYP have gained international support and spread their norms into different countries. They have managed to ‘normalize’ or to spread the appropriateness of being transparent in tax matters regarding the extractive industries in developing countries, and institutionalize a specific set of rules and organizations. Thus in the case of EITI we can talk of threshold or tipping point in the norm life cycle is achieved (Suchman, 1995: 900), even though is in the ‘niche’ of extractive industries, resulting in corporate tax strategies being still in the agenda of other advocates.

Third generation of advocates- Action Aid & Christian Aid

After the first half of the 2000s, other sound norm entrepreneurs and platforms have emerged, being Action Aid & Christian Aid two of the outstanding norm entrepreneurs among the myriad of new advocates or NGOs. Action Aid had two major big impacts of the framing towards tax avoidance. The first one, they tried to promote normative claims through the business audience, not only the public and governments. Secondly, they run a thorough investigation worldwide of what companies were domiciled in tax heavens, spreading the conception of tax avoidance being as an universalistic issue. Christian Aid has had quite a role through their campaigns to name the shame of tax avoiding entities and creating public awareness over the topic.

On the one hand, Action Aid is an NGO focus in the eradication of poverty, inequality and ‘injustice’ (<http://www.actionaid.org/who-we-are>). Among all their lines of work, they also cover tax avoidance and embrace the idea that tax avoidance is threat to development. In their advocacy, they have become members of the TJN. Their focus in

tax avoidance is relatively recent, dating from 2011, so they already counted with a stock of networks and ideas to work in their advocacy. To start with, Action Aid used ‘business language’ to address the issue of tax avoidance making business sense, a new way of talking about it compared to the former entrepreneurs. This ‘business sense’ not a genuine idea of Action Aid, it can be found in academic research and other social actors of the time, but it is this organization one of the firsts NGOs to take this approach in their campaigns. In their text *‘Tax Responsibility: the business case for making tax a corporate responsibility issue’* (Action Aid, 2011a) the NGO explains that there are financial and reputational risks involved in tax avoidance, and thus the tax policy should be present in the board meetings and it should be a part of the Corporate Responsibility reporting. The claiming of risks are illustrated by cases such as the UK Treasury forcing Barclays to disclose taxes paid and its impact into reputation (Evans, 2011). In their publication: *‘Tax Responsibility. An investors guide’* (Action Aid, 2011b) the NGO takes further action in constructing *cognitive frames* (Finnemore & Sikkink 1998: 987) including reasons for investors to care about the tax policies of their firms, stakeholders that hold a big power position in firms’ goal settings. Finally, the investor’s guide proposes as well processes or the management of the corporate tax policies, which includes creating awareness of the policy, elaborating a performance criteria and communication channels. These processes include recommendations for tax reporting that includes codes of conduct and complete and deep transparency.

In order to make tangible the reputational and financial risks that a company could face if their tax practices get to the media, Action Aid carried a campaign against a non-extractive company: SAB Miller, a known beer company original from South African. In their article *Calling Time* (Action Aid, 2010), Action Aid exposed how SABMiller (1) benefit from the *Dutch Sandwich* and had their holding company with address in the UK. (2) Used sister companies in tax heavens in Europe, such as Switzerland, contract overpriced management fees and avoid taxes in Africa (3) Shipped good from Mauritius because income tax is cheaper there (4) and they borrowed large amounts of money for a thin capitalization. The report shows how this tax avoided affects negatively the revenue of Ghana, Uganda, Angola, Zambia, Malawi Tanzania or Mozambique, the developing countries SABMiller operates in, damaging the needed resources to carry development policies. This campaign was another advocator policy that sought moral leverage by mobilizing the shame of targeted actors (Keck & Sikkink 1999: 97), and it was important for three main reasons: firstly, they managed to show that tax dodging

practices was an activity outside of the extractive industries, bringing a more universalistic feature to their claims (Finnemore & Sikkink 1998: 907). Secondly, they showed the direct impact that the tax dodging activities has in developing countries, giving also a compelling view of the needs of these countries to elaborate a better legal structure against tax avoidance. Thirdly, they presented a case of how a tax avoiding scandal can truly damage in both reputational and financial terms a company. The impact of the report was enormous; after its publication SABMiller was audited in five different African countries after the report (Action Aid, 2011c). In addition, *Calling Time* has been debated in the OECD, IMF, ATAF and UN Tax Committee. Finally, extending the impact of their research, and building on the knowledge acquired when reviewing SABMiller, Action Aid extended their study of engagement in OFCs to the 100 biggest companies listed in the London Stock Exchange (UK FTSE 100). The result was that 98 of these companies had business activities in tax heavens, and they disclosed all the spread of subsidiaries these companies had around the world (FTSE 100 Tax Heaven Tracker, 2013).

In conclusion Action Aid exercised their entrepreneurial role of tax avoidance by (1) seeking moral leverage (Keck & Sikkink, 1999: 97) by naming the shame of a company that was outside the already ‘socialized’ extractive industries that adopted the new EITI norms. (2) This SABMiller case made tax-related risks tangible -there are real chances of getting audited or called in front of a tribunal or committee, including litigation or compensation/compliance costs that (3) made tax not only a public policy issue but also a business issue. (4) Finally there is a common strength of Action Aid compare to other advocates: the casual relation of tax avoiding activities and the harm to vulnerable individuals (Finnemore & Sikkink, 1998: 98) from the least developed countries.

On the other hand, Christian Aid, another London-based NGO against the eradication of poverty, has had a prominent role in the advocacy against tax avoidance. They are also part of the Tax justice Network –along with Action Aid- making their framing is similar to the ones showed before. Most importantly it is their public activism what makes them stand out getting a great impact heard in the broad media. They have brought in public light the taxing activities of some of the biggest companies working in the UK through strong campaigns that have brought tax into the interest of many audiences. Companies such as Vodafone, Unilever, IHG or Tui had to undergo unwelcomed negative publicity that even linked the death of children in developing countries with these corporations’

tax strategies (Houlder, 2010) potentially increasing the influence of their claims (Keck & Sikkink, 1999: 98). Another remarkable feature of Christian Aid's campaign is taking the informing and mobilizing policies so far as to empowering the public and other audiences to investigate corporate tax avoiding practices through the elaboration of a civil society advocacy tool kit in collaboration with other members of the TJN (Christian Aid, 2011a). The NGOS had also numerous publications that enforced their framing efforts. These covered the (1) link between tax avoidance and suffering in developing countries, (Christian Aid, 2008a; 2008b; 2009a; 2009b; 2009c; 2011b) (2) the impact of the economic crisis to development aid (Christian Aid, 2008b) (3) and also adopting the business language where having a transparent tax strategy makes sense for business and socially responsible investors for reputational-, litigation- and cash-flow-related risks for the former, and for the interest to contribute to society for the later (Christian Aid, 2011b).

Norm Entrepreneurs and platforms in Denmark –Action Aid Denmark, IBIS, DanWatch

Even though the advocates and organizational platforms are based in the UK, they are a part of transnational advocacy networks, meaning that there are influenced and at the same time they impact other advocates and platforms globally. Denmark is one of the countries where it can be observed the emergence of advocates and platforms that are a part of the Network. To start with, Action Aid has a Danish branch –called 'Mellemløst Samvirke'– with similar normative claims and activities than their fellow organizations in the UK, even though their direct impact is not as noticeable in this country regarding tax avoidance. IBIS and DanWatch are the organizations that have bigger role into shaping the appropriateness of tax avoiding in Denmark.

IBIS is an NGO working for a world with equivalent access to education, influence and resources for everyone (About IBIS, 2013). Under this overarching mission, IBIS has different strategies against poverty and for Human Rights, and different areas of work including tax avoidance among them. Lars Koch is the responsible individual for the area of tax avoidance. As opposed to other cases, it can be observed here that Lars has a bigger remarked character inside the advocating activities of the organizational platform, making it easier to identify him as a norm entrepreneur. The influence of Lars and IBIS is confirmed by the interviews to PwC (Interview, Anne Louise, 2013: 3 & Sørensen, 2014: 9) and DI (interview, Dorte & Jacob, 2013: 2). In 2009 they published *IBIS Policy Extractive Industries* (IBIS, 2009) and sets the grounds of their vision and

strategies for the extractive Industries operating in the countries they work in –mostly in Africa and South America. IBIS declared in this publication that their guiding principles suggested for extractive industries are inspired aligned with those of EITI and PWYP in terms of transparency of tax revenues, and inspired as well with by TJN's standards of progressive taxation as a way to end with illicit capital flight. IN 2012 IBIS published *A brief on tax and corporate responsibility* (IBIS, 2012), where it builds on the works of TJN, Action Aid, etc. to elaborate a paper where the same claims are introduced: tax is a CSR issue, it makes business sense, and it summarizes some guidelines for responsible tax-policy making. Finally, IBIS promotes as well TJN's Country-by-Country reporting for multinational corporations, including the original declaration of PWYP and TJN of intentions for the campaign (Murphy, n.d.) IBIS is a part of this advocacy network playing an active role in the transnational advocacy network, organizing networking events to discuss the relation of tax and CSR where different stakeholder such as members of the TJN such as Richard Murphy, different Ministers and tax consulting companies joined (Conference on tax and Corporate Responsibility –An Emerging Agenda, 2012).

DanWatch, in collaboration with IBIS, had similar reports to the one of Action Aid on SABMiller, *Unstrained Consumption* (DanWatch 2010), *Escaping poverty or taxes?* (DanWatch 2011a) and *Not Sharing the Loot* (Danwatch, 2011b), even though the focus of these reports in the extractive industries. The first report investigates the activities of mining companies in Ghana; the second report researched extractive companies collaborating with projects with the International Finance Corporation (IFC) a project of the World Bank that finances private initiatives with a positive impact in developing countries. Finally the third one covers the same phenomenon in Sierra Leone. The results in the three reports are similar, although each brings a new focus. Many of the companies studied had an acute thin capitalization in the development countries they operated, and nearly 60% of the companies channeled their investments to the developing countries through holding companies in tax heavens, thus declaring little profits to tax authorities. At the end, government revenue from the mining activity through tax is extremely low, being as low as 1.1% of the GDP in the case of Sierra Leone. The recommendations found in the reports to the IFC and the developing countries are also based on anti-avoidance rules and corporate transparency in reporting demands to multinational corporations. The findings in the Ghana case are similar, but they add that the companies researched do not include their taxes paid in their CSR

reports. The genuine aspect of this report is the moral leverage (Keck & Sikkink, 1999: 99) achieve by linking mining with consumer products, thus involving consumers from developed countries in activities that generally they do not consider themselves related to.

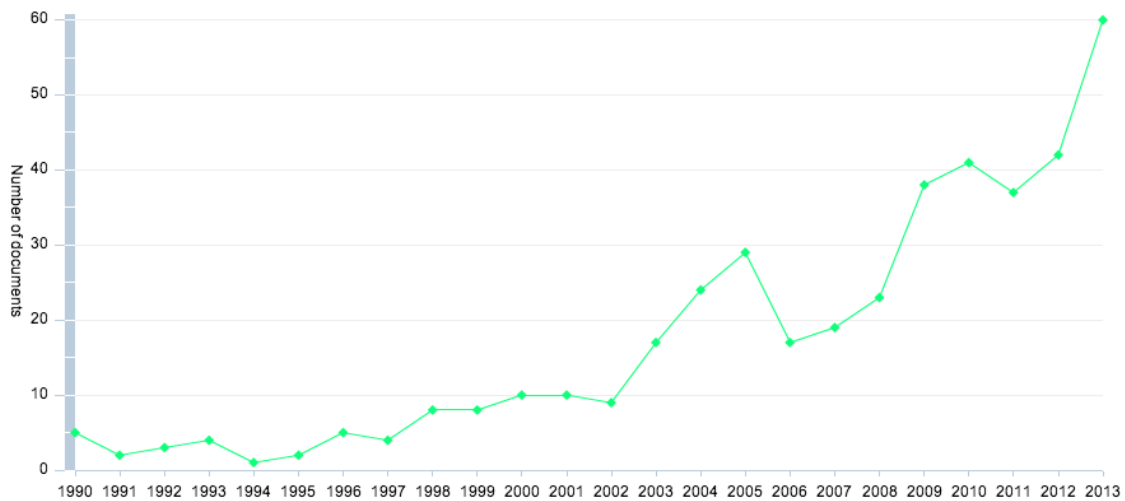
In conclusion, we can see in Denmark a similar state of affairs in terms of norm entrepreneurs that share quite similar framing to the ones explained before: (1) tax avoidance is inappropriate because it harms the well-being of ‘innocent groups’ from developing countries by hindering their chance for equal (economic) opportunities (Finnemore & Sikkink, 1998: 907), (2) tax avoidance in CSR strategy and reporting makes business sense because there are risks associated with the practice and (3) it is a global issue, thus there is a need for multilateral action and even affects consumers from developed countries. 4) They explicitly name the responsible actors for tax avoidance: international institutions, multinational corporations, accountancy firms, banks and wealthy elites (Christian Aid, 2005: 16, 17)

Research on tax avoidance

As stated in the methodology section, I am going to look at the research community to have a deeper vision of the societal shared understanding of tax avoidance. Whether research influences other actors, or other actors influence the trends of research is impossible to analyze in this work, but nonetheless they are members of the societal structure and thus I can look at their research to observe whether there is a change in their research areas regarding tax. Looking at the period, from 1990 to 2013 shown in the Graph 1¹, one can see an increasing interest in the issue from the beginning of the 2000s. It is worth noticing that the database was created in 1996, and the stock of data has increased ever since so there is inevitable going to be an increase of research per year. However, my results show a tendency outside of this factor:

¹ For methodological specificities of data collection, please look at the annex at the end of the thesis

Graph 2: research attention on tax avoidance. Source: Scopus database



There is three years that mark the beginning of an increasing trend in the amount of research over the topic: 2002, 2008 and 2011. These booms can be attributed to political and economic reasons, and the interaction among audiences. With regard to the first boom, on the one hand one could relate attention of research to tax issue to the activism of norm entrepreneurs such as Oxfam and their publication *Tax heavens: Releasing the hidden bullions poverty eradication* (2000) or the OECD's multilateral framework Global Forum on Transparency and Exchange of information for Tax Purposes, launched in 2000. On the other hand, tax scandals at the beginning of the century, such as Enron Worldcom, Peregrine Systems, Adelphia, or Tyco could also have been a trigger of this attention to tax -as suggested by Hanlon, Laplante and Shevlin (2005: 408)-. It can be observed that the second boom marks a more sustained trend of research attention to tax avoidance arguably due to the recent global financial crisis; the impact of the crisis in the national debt has brought the attention of different audiences to the contribution of big firms to the tax revenue. My intention in this section is not to make a full overview of the entire literature on tax avoidance, but to take a look at some of the most notable works in the topic to extract the normative valuation and claims from academia. The increasing attention to tax avoidance from 2011 might be related to the increase in the political measures and attention that I will explain in following sections.

Before the mid 2000s, the research of tax avoidance and was mostly limited to the study of OFCs from different perspectives: economic (Johns & Le Marchant, 1993; Hines & Rice, 1994; Cobb, 1998;), law and politics (Sikka, 1996; Palan, 1999; Picciotto, 1999) or anthropology (Maurer, 1995). Other tax avoidance determinants (Gupta & Newberry 1997) or corporate tax compliance (Andreoni, Erard, and Feinstein, 1998; Hasseldine

and Li, 1999). It is from the early mid-2000s that boom of the research of tax avoidance from several research disciplines.

To start with, one can find several works that delimit tax avoidance from a legal perspective: Barker 2009, Freedman (2008a), Halkyard (2004), Kirchler et al. (2003), Avi-Yonah (2006) and the judge Hoffman (2005), Avi-Yonah (2008). All these authors try to conceptualize and classify avoiding activities differentiating them from those of tax evasion. They also debate about the legislative values that could turn avoidance into evasion, or how court decisions impact these the blurred lines between the legal and illegal aspects of tax avoidance (Halkyard, 2004) -as I showed before, most countries recognize as legal the action of tax planning (Barker 2009: 237)-. This law scholar approach is linked with scholar articles that look at the morality of tax avoidance not from its consequences but more from a philosophical point of view: Preus (2010) and Prebble & Prebble (2012). Both authors make a distinction between the legality and the morality of an action. (Prebble & Prebble 2012: 701,745). Prebble (2012: 701) focuses more in the deontological perspective, even though his work mixes morals and their reflection or inclusion in the law structure of a nation; whereas Preus (2012: 3) makes a more holistic study and evaluates tax avoidance from utilitarianism, value ethics and deontological perspective. Both perspectives see the activity of dodging taxes legally as immoral, or to put it in the Norm-Lyfe-Cycle terms, as 'inappropriate'. In addition, scholars have also discussed regulation proposals; Judith Freedman has had a noticeable amount of research and discussion papers over the introduction of General Anti-Avoidance Rules in the UK as previously seen in this thesis.

This moral approach is directly linked with the scholar discussion over the relation between tax strategy and CSR. On the one hand, these works reflect in the development of CSR and reflect whether theoretically speaking tax should be a part of it. Many of them see share the view of CSR as an evolutionary phenomenon continuing with the perspective of Carrol (1979, 1991), and within this evolution it is natural that tax policies are included within tax strategy and reporting. For instance, Avi-Jonah (2006 & 2009) looks at the current conception of the corporation, the perspectives of the state and the perspectives of CSR there are, and concludes that from none of the perspectives it should be allowed to engage in strategic behavior with the only purpose of minimizing taxes. Ross Fraser will counter Avi-Jonah's central position he gives to CSR, and Timonen (2008) will not agree with Avi-Jonah relation between CSR and

being a 'Happy Tax Payer.' This normative discussion about CSR is also presented through debating about would be the opposite activity: Corporate Social Irresponsibility. Christiansen & Murphy (2004) introduced the concept in the article already mentioned above, but they never get to directly refer to it. One can understand that this 'irresponsibility' stems from the of tax avoidance consequences, that is, the global shadow economy, disturbing the flows of capital to developing countries and the distortion of global markets. Lin-Hi & Müller (2013) take this normative approach and define responsible activities of the company as doing good, but also as a proactive intention of avoiding harm, which otherwise would be socially irresponsible. Clark & Grantham (2012) underline that there should be more focus from research and companies on CSI to avoid the phenomenon of green washing, and Dowling (2013) tests the foundation and boundaries of the concept of CSR with tax, and Dietsch (2011) considers that it is utopian to ask the tax planning industry to adopt CSR practices and the only solution is government regulation.

However, the relation between CSR and tax is not only researched through normative lenses. There is an extensive myriad of empirical research looking at whether self-proclaimed responsible companies do engage in tax avoiding activities. From Synckers & Telia (2006), which test a number of companies with operations in Africa and find signs for questioning the responsibility of these companies, to Müller & Kolk (2012) that also run research of CSR reporting and tax paid in India. Watson (2011) & Richardson & Lanis (2011) represent a group of studies that see a positive impact of strong CSR strategies and the aggressiveness of the tax planning of companies. Huseynov & Klamm (2012) introduce in this kind of empirical studies the variable of the audit service providers, and David, Guenther, Krull & Williams (2013) survey the perception of managers and business stakeholders, that view corporate accountability reporting as important, regarding the responsibility of paying taxes, which turns out not to be seen as socially responsible.

Tax avoidance is also researched through a Business & Management perspective, addressing the necessity of managing the risks derived from tax avoidance; the argument are the same as the one presented by Action Aid, suggesting the interconnected feature of constituencies. Freedman (2008) edits and extensive study of the management aspects of tax risk and management. Other jobs present the same perspective or cover the same issue: Freedman, Loomer & Vella (2009), Desai &

Dharmapala (2006a) understand that there are changes in the tax authorities approach to corporate tax avoidance that leads to real financial, reputational and litigation risks. To manage these risks, companies have to integrate a tax strategy that goes beyond the tax department; tax experts and top management have to sit together to develop a coherent approach where transparency and CSR can be good aid for the matter. Desai & Dharmapala (2006b & 2005) along with Katz, Khan & Schmidt (2013) Kim, Li Zhang (2010), Guenther, Matsunaga, Williams (2013) or Armstrong, Blouin, Jagolinzer & Larcker (2013) try to find empirical evidences of the tax dodging activities in the firm, or viceversa. These bulk of studies look at incentives system, value of the firm, corporate governance, stock price crash risk, investor evaluation, and future profitability. The results of these empirical studies are varied, showing a different range of relations or absence of them –for instance, Desai & Dharmapala (2005) do not see any impact of tax avoidance in firm value-, but they surely represent an increasing interest and attention to tax avoidance from a point of view that is recently new; the share understanding of tax avoidance is no longer seen by the academic sphere as a cost reduction phenomenon, but it starts to entail risks and unforeseen consequences to the firm. Katz, Khan & Schmidt (2013) conclude that the cost saved from tax planning does not necessarily relate to an efficient investment of that money that reverts positively in the firm. Jenkins & Newell (2013) is one example of the academic works that follows the steps of the advocates showed before and researches the relation between CSR, tax and development, and brings just few examples of companies starting to include reference to their tax strategy in developing countries.

Finally, among this amalgam of research literature I will like to mention separately one that is also a part of the other kinds exposed here: critical literature. The critical literature can be found in different perspectives and disciplines, but with the common feature of looking holistically at the tax avoidance linking it to globalization process, seeing relations between the development of government policy and corporate action, a mismatch between corporate talk and action –corporate “*hypocrisy*” (Sikka 2010 & 2013). Works like de Boyrie et al. (2005), Murphy (2011), Palan (2003), Rawling (2007), Sharman (2005), Stewart (2008), Sikka (2010) tend to critically assess the tax policy of different western countries as a loss of sovereignty, or get immerse in identifying the different interests reflected in the tax and international financial regulation. The solution to tackle tax avoidance for these critical academics goes beyond technical proposals, the solution first and foremost has to start form the political

will to find an end to tax avoidance. In addition, there is an emphasis in these critical researches on the consequences of tax avoidance and banking secrecy; for instance, the battle between Sikka (2010) and Hasseldine & Morris (2013), shows that there is a pronounced difference between the estimation of tax revenue lost from dodging activities from of Murphy and Sikka and the rest estimations from government agencies and researchers.

Most importantly, from this academic approach there is a special attention to the role of accountants in tax avoidance (Sikka 2010; Mitchell & Sikka, 2011; Power, 1994 & 2000). Power would claim that modern societies are moving towards an audit society, where all processes are characterized for internal audit run by accountants or auditors. This does not reflect in an increase of organizational transparency, and audits have an outstanding capacity of being invulnerable to their own failure (1994: 6). Power is not a burning criticizer of accountants, he just considers that the audit logic in public and private institutions have shaped the shared conception of control and accountability in a very specific way –determined by quantitative, single measure, ex post controls by private experts as opposed to qualitative, multiple measure real time control by public dialogue (1994: 7)- and that this framing brings some negative consequences. Among them, is that the failure in the auditing society is a process of blame allocation process between regulators and auditors (1994: 22). Auditors tend to criticize regulatory reforms, and regulator will try to codify regulators of audit guidance. This last point is important and means that when there is an audit scandal, audit failure is located as a particular problem of dishonest management or credulous auditors, while the general efficacy of audit is preserved. Power “(...) *does not point to a conspiracy of vested interests of accounting practitioners (...)*” (1994: 32), however Prem Sikka does, calling them Pin-Stripe Mafia and claiming that they destroy societies (Mitchel & Sikka, 2011).

“All over the world tax revenues are under relentless attack from a highly organized tax avoidance industry dominated by four accountancy firms: Deloitte & Touche, PricewaterhouseCoopers, KPMG and Ernst & Young. They employ thousands of individuals for the sole purpose of undermining tax laws which does not create any social value, but enables corporations and wealthy elites to dodge corporate tax, income tax, National Insurance Contributions (NIC), Value Added Tax (VAT) and anything else that might enable governments to improve the quality of life. (...) The loss of tax revenues is a major cause of the current economic crisis that is inflicting misery on millions of people” (2011: 2)

This extreme opinion can be found throughout Sikka’s work (Sikka 2003, 2008, 2010), and accountancy firms are constantly accused of being a part of the global tax avoidance industry. Generally one could argue that these extreme critical positions are

generally marginal in the public debate, but I argue that here in the case of tax avoidance they are not marginal. As I showed before, Prem Sikka has a prominent role as a norm entrepreneur against tax avoidance including strong entrepreneurial platforms. As I will expose later, their advocated policy of general anti-avoidance rules and of the country-by-country reporting process have been recently institutionalized, so I will take their normative claims into consideration.

In conclusion, there has been an increasing attention to the issue of tax avoidance. From the literature one can observe that there is in general a shared view of tax avoidance as something ‘inappropriate’. Legal studies observe that tax avoidance, while being legal there are immoral. Business and economic literature that understood the issue in terms of cost reduction for firms or attraction of foreign investment for countries, now understands tax avoidance and tax strategy as a source of risk that needs to be managed. Tax avoidance represents a problematic loss of government revenue that either hinders its development policies or contradicts its democratic scent. Common shared understandings for solutions are: on the one hand, firms should be transparent and collaborate with authorities to ease the process of taxation for mutual benefit. CSR comes usually as a key element in the discussion for a solution, whether to defend it or attack it. On the other hand, the solution to tax avoidance is seen as a necessary multilateral approach to regulate and control international financial industry and streams of capital. The accountancy companies (Big Four) are seen as actors in the tax avoidance phenomenon. In addition, some concrete suggestion can be found in the literature like General Anti Avoidance Rules and Country-by-Country reporting of tax paid.

4.A.2 Government adoption and spread of norms

The governmental behavior of the international community has changed with the time. Before the 2000s one finds international initiatives focused on OFCs and international information exchange between jurisdictions. From 2008 we can find an increasing governmental attention to tax avoidance that culminates in a real policy reflection of some of the norms seen insofar.

Antecedents

Until the late 90s only the revenue departments of the larger nations had any governmental interest in OFCs, and media coverage only covered dramatic or manifest cases of tax evasion (Hampton & Christensen, 2002; Preuss, 2012). However, the UK was the only country that was openly encouraging their overseas territories to become

tax heavens in order to make these territories non-dependent in UK aid. It is only after the late 90s that the mayor European Countries understand the multilateralism as the only effective way to tackle tax heavens. However this understanding did not reflect in a direct approach such as a trans-EU tax on non-resident's savings; only a agreement on unrestricted information exchange between national tax authorities was implemented in the EU summit in Feria (Portugal) in the year 2000, and some pressure was put on UK to extend information exchanges to its overseas territories and dependencies. Monaco and Luxembourg accepted to exchange information with France and the US Internal Revenue Service, but Switzerland or Liechtenstein strongly opposed to banking secrecy (Hampton & Christensen, 2002). The UK opposed to tax harmonization within the EU to protect their Eurobond market, but they were not the only ones. Countries with offshore financial activities within their borders such as Austria and Luxembourg had were reticent to implementing information exchange due to its incompatibility with banking secrecy (Hampton & Christensen, 2002).

At the same time, there were some international initiatives against tax heavens and for the control of money laundering and finance of terrorism. To begin with, The OECD was fighting its own battle against tax shelters through the listing of tax heavens explained in the definitions section of this thesis. The list had a great impact, and OFCs felt forced to commit to the fiscal reforms and information exchange. The Isle of Man was the pioneer to change fiscal policies and end what OECD denominated 'harmful tax practices', and Antigua, Aruba, Bahrain, Barbados, Netherlands, Antilles, Seychelles and Tonga. Only Jersey and Guernsey were publicly belligerent to OECD reforms, but finally they agreed in 2002 right before the deadline given by the international organization from which economic sanctions will be applicable. Once over deadline, 20 countries remained in the OECD list but still efforts are made to get out of that list (OECD, 2000).

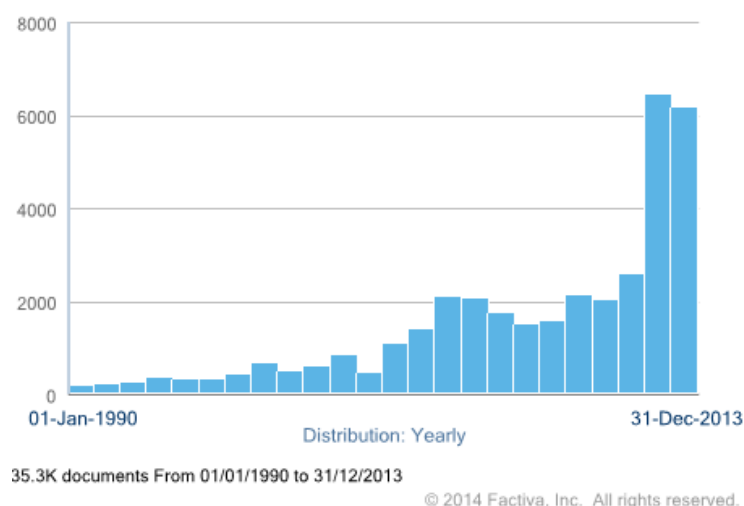
Lastly, the other initiatives against tax heavens came as a consequence of the control of criminal activities by the international community. On the one hand, in 1987 The G7 established the Financial Action Task Force (FATF) to "promote effective implementation of legal, regulatory, and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system" (Who we are, 2014). The FATF then focus on addressing practices that could be considered as non co-operating against money

laundering practices. Another list of ‘shame countries’ was made, with similar consequences as the OECD initiative. This affects directly to OFCs due to their core characteristic: banking secrecy. Even though the pressure in tax heavens with relation to money laundering and secrecy increased after S11, the legislation implemented from the FATF recommendations might have been a widow dressing exercise from tax heavens. Switzerland specially was especially non-co-operative in this area and it did not recognize tax evasion as a crime (Hampton & Christensen, 2002: 1662). On the other hand, the UN launched another initiative against money laundering (United Nations Global Program Against Money Laundering). The report issue by this initiative made that the drug UN Office for Drug Control and Crime Prevention managed to sign a high level commitment with OFCs to support the UN program against money laundering around the year 2000 (Hampton & Christensen, 2002).

The G7 Financial Stability Forum (FSF) formed a Working Group after the East Asian financial crisis to examine the role of OFCs in the global financial system. In 2000 another listing of OFCs was released regarding the quality of the regulation of OFCs, cluster in three groups. IMF was recommended to coordinate the assessment of OFCs.

Latest events

The role of the media in the case of tax avoidance is unclear. Hybels (1995: 244) considers the media is a key audience of organization’s legitimacy. KPMG’s Global Head of Tax, Greg Wiebe, claims that today’s focus on tax transparency is in part consequence of the rise of the media focus (Wiebe, 2013: 2). However, in my study I have not observed any special media advocating behavior, especially when considering the global scope of the topic. However I will use of political and economic media publications on the area of tax avoidance as a reflection of societal and political focus on the topic, because the media both tends to cover the current political discourses and policy developments but also it covers topics that are of mayor interest to their readers.



Graph 2: Media attention to tax avoidance. Source: Factiva

As we can see in the graph ², there are three peaks of attention on tax avoidance, one around the year 2005 the next one after 2008 and finally a threefold increase of publications in the years 2012 and 2013. The media attention to tax avoidance shares a common trend when compared to the academia attention seen before (see graph 1). The first peak can be attributed to similar reasons to the academic attention; accounting scandals such as Enron WorldCom or Peregrine Systems, the activism of entrepreneurs such as Oxfam or the world security discussion regarding offshore finance of terrorism specially after S11 (US), 22M (Spain) or J7 (UK) attacks. The second peak that marks the beginning of an escalating trend that skyrockets in the years 2012-13 could be attributed to the world economic crisis. The outstanding political attention to tax avoidance in the last period takes place due to an accumulation of events since 2009 that would put tax avoidance in the agenda of many governments and international organizations. In the following lines I will expose some of these scandals and events that brought international finance, banking secrecy, offshore centers, tax evasion and tax avoidance into the public light.

To start with, in the midst of the Greece economic crisis when it had to seek finance from the IMF and the Eurozone to pay its national debt, a list was published with more than 2000 wealthy Greeks evading taxes in a Geneva branch of HSBC. Among those wealthy individuals there was family members of the Greek Prime Minister that negotiated first international bail out of the country. The publication of the list did not yield other immediate result than accusing the editor of the Greek newspaper that

² For methodological specificities of data collection, look at the annex at the end of the thesis.

published the list increasing the shared feeling of indignation of the public and their scorn towards politicians. Christine Lagarde, finance minister of France at the moment and now head of the International Monetary Fund intervened with a similar list of tax evaders, yet not producing any visible judicial consequence for the members of the list. (Smith, 2013a & 2013b; Pangalos & Stamouli 2012) But this is not the only scandal where the international finance Bank HSBC was involved. In 2009 Hervé Falciani, put into the hands of tax authorities books from 130.000 clients from HSBC he extracted when working there from 2006 to 2008. He had to run away to Spain because his life was threatened by the bank and the Swiss authorities were looking for him due to his breach of one of their fundamental laws: banking secrecy. From his leaks derived several trials, including the one of the bank itself in the US for laundering money coming from narcotraffic and terrorism, (HSBC money laundering report: Key findings, 2012) and other fiscal trials in France, Spain Germany, United kingdom, Italy or Greece, from which the case exposed above originates (Altozano, 2012 & 2013).

There are other cases of widely known companies that have had public attention due to their tax strategies. An investigation by the US Senate showed in 2013 that Apple Inc. paid only 2% of income tax since 2009. The executives of the European branch of Google were called before the British Parliament and the Commons Accounts Committee to explain the activities that lead to paying only BG16 million in taxes to British Authorities between 2006 and 2011. Amazon was also investigated for its tax dodging practices in the UK and the US. Starbucks voluntarily paid the representative sum of GB20 million over two years to the HM Treasury due to public pressure on their tax strategies (Neville, 2012). Novo Nordisk was accused by the tax revenue of aggressive tax planning in the past (Weaver, 2013) These scandals and the cuts in government spending in Europe brought along social movements' and citizens' activism against tax dodging practices. In the case of the UK, in 2010 Christian Aid and UK Uncut –an anti-austerity action group- campaigned against Vodafone, Unilever, IHG and Tui organizing protest and publicly announcing an estimation of their taxes avoided. Vodafone had to close their shop in Oxford Street due to the protests (Barford, & Holt, 2013). Other countries had similar movements opposing welfare costs and asking for more contribution of the corporate world: US Uncut, Occupy Wall Street, El Movimiento de los Indignados (Spain), Les Indignés (France), Greek riots etc. All these tensions were fuelled by examples of countries where tax was a much more transparent issue, and where the crisis did not hit their national budget and their

economy so strongly: the Nordic countries. Norway, Finland and Sweden publicly disclosed online individual tax returns for individuals since 2005, long before tax was an issue in the broad media (Davies, 2005; Toynbee, 2012). Italy tried to imitate the public disclosure of the tax returns of 2005 in 2008, and that produced shock and was ruled to be an illicit act by the Italian data-protection authorities (Publish and be taxed, 2008). UK's Tax Revenue Authority published in 2008 the tax gap -the estimated tax revenue loss from several reasons including tax avoidance and evasion- of 2005, considering it to be over GB32billion (Seeley, 2008: 5)

The first political initiatives came from the G20 call to the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes to implement standards of transparency to secure the integrity of the international financial system. In the Mexico Forum (2009) the OECD's Global Forum expanded its membership and aimed at ensuring equal participation and peer reviews to monitor implementation process of a set of Terms of Reference set to strike a balance between privacy and the need for jurisdiction to enforce tax laws. The Forum restructuring was followed by an Exchange of Information Agreement (or EOI) (About the Global Forum, 2014). Secondly, the first sprouts of policy making in the UK came from David Cameron's Chancellor of the Exchequer and Second Lord of the Treasury, George Osborne. Affected by a strong decline of popularity due to the public welfare cuts in the UK (Tall, 2010) the conservative government announced in 2012 on the one hand, that they will cut tax allowances in charity donations (A Charitable Retreat, 2012); and on the other hand, that they were coming after stamp duty avoidance with aggressive new measures, and declaring that tax avoidance was "*morally repugnant*" (Ferne, 2012). The measure was perceived as a sign of contradictory policies, because at the same time Osborne will cut taxes on the highest incomes in the UK to encourage enterprise, but at the same time all the added-value taxes in consumer products were risen –fuel, tobacco, etc.- and benefits were cut –e.g. child benefits (HM Treasury, 2012)- in the former periods due to the public budgetary problems derived from the financial crisis. It is in 2013, when Cameron Government takes a major international step towards corporate tax avoidance in collaboration with other governments.

During 2012-2013 G20 government empowered the OECD to research and give advice on addressing base erosion and profit shifting (BEPS), which are the most common ways a multinational corporations engage into tax avoidance. Even though the OECD

has already published other reports on the topic –Tacking Aggressive Tax Planning through improved transparency and Disclosure in 2011, Corporate Loss Utilization through Aggressive Tax Planning in 2011, Hybrid Mismatch Arrangements –Tax Policy and Compliance Issues in 2012 Aggressive Tax Planning based on After-Tax Dodging in 2013- it is the BEPS report (OECD, 2013) that gained more awareness and support from the G8 and the G20. In the G8 meeting in Davos in 2013, when hold UK holds the position of the president, that the main priorities of the G8 is trade, tax and transparency. In his famous speech, David Cameron declared:

“But my argument today, the argument I want to make in front of you and the idea that the G8 will be driving forward this year, is that competing in the global race is not just about what we do at home, it is about the wider economy we’ll operate in, the rules that shape it, the fairness and the openness that characterize it. We need more free trade. We need fairer tax systems. We need more transparency on how governments and, yes, companies operate. (...) We want to use the G8 to drive a more serious debate on tax evasion and tax avoidance. (...) There are some forms of avoidance that have become so aggressive that I think it is right to say these raise ethical issues, and it is time to call for more responsibility and for governments to act accordingly. (...) And we want to work with developing countries on this too”. (Cameron, World Economic Forum in Davos, January 2013)

In the same manner, Osborne declared at the joint statement by the UK and Germany at the G20:

“Britain and Germany want competitive corporate tax systems that attract global companies to our countries, but also want global companies to pay those taxes. That is best achieved through international action in the G20 and other relevant international fora to ensure strong standards”. (Osborne, March 2012)

The OECD was appointed by the G8 to develop a template for global corporations to report to tax authorities on their income and the income declared to tax authorities in the countries they operate in (Making taxes more competitive, 2013) –today, the template is still in process-. In addition, the OECD has presented a 15 points action plan in mid-2013 that allegedly will take to an end the “*Golden Era of tax avoidance*” (Aldrick, 2013). At the same time, some changes have taken place. In the Finance Act 2013, the government implemented General Anti-Avoidance Rules that I explained before, and the government claims working in close collaboration with the OECD for rules setting. The HMRC set specific campaigns and actions against tax avoidance; the campaigns were designed to help people bring their tax affairs to date, help them maintain them that way and prevention of future wrong tax affairs. The HMRC Also augmented resources -GB77 million and more personnel- in order to prosecute breaches of the law. (Reducing tax evasion and tax avoidance, 2014). In 2013 the US signed bilateral agreements with countries such as Germany, Japan, South Africa, France, Spain, Italy an even some OFCs such as Bermuda or Guernsey for the implementation of the Foreign Account of Tax Compliance Act (FATCA) that requires the disclosure to the

International Revenue Service of financial accounts of individuals held outside of the United States (Wiebe, 2013: 11). In the meantime, the EU Parliament, Commission and Council amended the EU Accounting and Transparency Directives to include country-by-country reporting rules for listed and non-listed large companies active in the extractive industries and the logging of primary forests. The companies are required to disclose the payments they make to governments in each country they operate with the objective of giving local communities insight of what their governments are being paid for the exploitation of their natural resources. The directive has now to be introduced in the domestic legislation of its country members, and that is expected to be accomplished in 2017 (PwC, 2012). Australia's Tax Laws Amendment (2013 Measures No.2) act 2013 requires the Commissioner of Taxation to publish certain taxation information from big corporate taxpayers including income, taxable income and income tax payable, applicable to the year 2013-14. The aim of the disclosure is to discourage aggressive tax planning and to have more information for their national public debate regarding the topic (PwC, 2013c). Finally, India introduced as well in 2013 a set of General Anti-Avoidance Rules (GAAR).

UK introduction of GAAR

The growing societal pressure to address the aggressive tax planning of companies led to the coalition government to start a consultation process in 2010 that led into the implementation of General Anti Avoidance Rules (GAAR) in 2013 (Seeley, 2008: 11). This was in part due to the extreme complexity of the former set of Targeted Anti-Avoidance Rules (TAAR) These rules cover a range of topics related to tax avoidance such as los reliefs, financial arrangements, leasing plant and machinery, employee benefits, capital allowances, repossessions, controlled foreign companies, real estate investment trusts, alternative investment bonds, trusts income and gains, offshore funds, securitization companies, etc. The main weakness is that many of the rules take as a centerpiece that the 'main purpose' is tax avoidance (Bowler, 2009: 25-26), being a quite broad and difficult to demonstrate concept. The Result is both a limitation to the HMRC to control the tax arrangement of corporate taxpayers, and in high costs for taxpayers to figure whether their transactions fall foul the TAAR.

The GAAR represent a statutory limit to tax payer's attempt to reduce their tax bill when they go beyond 'a reasonable course of action' (HMCR, 2013a: 5). The primary objective of the policy is to detect codify a list of abusive activities of taxpayers, and if a taxpayers incurs in any of these activities, the GAAR allows to impose tax

adjustments as a counteraction. (HMCR, 2013a: 6). The GAAR does not apply to double taxation bilateral treaties that the UK has signed with more than 100 other countries. More concretely, GAAR applies to: income tax, Capital gains tax, Inheritance tax, Corporation tax, any amount chargeable as corporate tax (such as a CFC charge, bank levy, etc.) petroleum revenue tax, Stamp duty land tax and annual tax on enveloped dwellings. However the GAAR contains some weaknesses. These rules are based in a very broad core concept of “*abusive*” (HMCR, 2013a: 10) that the HMCR has to be prove through a quite long and tedious process before the GAAR can be applied. In my opinion, this complex and long procedure might compromise the efficiency of the GAAR. Furthermore, the legislation just leaves to HMCR and taxpayers a list of ‘examples’ to identify abusive behavior; within these examples “The themes or categories (...) are illustrative and not necessarily exhaustive or exclusive” (HMCR, 2013b: 4). These examples make difficult for the parts involved to correctly identify tax-avoiding activities, and do not provide any specific provision imposing or dealing with penalties. Tax avoiders will only have to pay the tax avoided (HMCR, 2013a: 12) so, the risks for a tax avoider in the UK are based on (1) the British tax revenue agency having all the information of the company’s international arrangements –something quite difficult considering issues such as banking secrecy clauses in tax shelter countries-, (2) and procedural cost for the companies to demonstrate their ‘non-abusive’ behavior. This can be of a more risk with the recent parliament bill ‘Disclosure of Tax Avoidance Schemes’ (DOTAS), that grants the HMCR the capacity to order the disclosure of tax schemes to companies and individuals. The DOTAS also provides substantive penalties for non-disclosure that will apply until the schemes are shown to the HMCR.

In conclusion it can be observed an institutionalization of normative claims in the UK with the introduction of GAAR that clarifies what exactly are the norms and what are a violation (Finnemore & Sikkink, 1998: 900). However, the rule setting leaves space for questioning the quality of its institutionalization and it has gained the criticism of some of the norm entrepreneurs that promoted the implementation of GAAR in the UK. For instance, Richard Murphy claims “*the General Anti-Abuse Rule is a step in the right direction. But we have a long way to go to get this right as yet*” (R. Murphy, 2013).

4.A.3 Conclusion of the section

In my exploratory research I have observed a generation and spread of new normative claims in the 21st century that identify corporate tax avoidance as an inappropriate

activity. Making use of the Life Cycle Model (Finnemore & Sikkink, 1998) I have recognized different norm entrepreneurs –e.g. Richard Murphy, Prem Sikka or Lars Koch- and organizational platforms –e.g. Action Aid, Christian Aid, DanWatch, IBIS- that formed transnational advocacy networks –e.g. Tax Justice Network- that have run different framing processes through several information and moral leverage politics (Keck & Sikkink, 1999: 96, 97). Academia also shapes tax avoidance (Keck & Sikkink 1999: 89) in terms of immoral (Preus, 2010), irresponsible (Li-Hi Müller, 2013), related to risk (Desai & Dharmapala 2006) or inefficient (Katz, Khan & Schmidt 2013); or discussed regulatory measures such as GAAR (Freedman, 2008). Certain critical circles will stress the role of the Big Four in aggressive tax planning (Mitchel & Sikka, 2011).

The biggest period of adoption and spread of these norms is around 2012-2013 where it can be observed the international community raising the issue in their agendas and launching regulatory reforms (e.g. GAAR), and empowering international organizations such as the OECD. This ‘boom’ of norm adoption can be identified with one of the external conditions of the Life Cycle Model, which is the need for domestic *legitimacy* of the elites (Finnemore & Sikkink 1998: 906). The world economic crisis put big multinational firms and governments on the spot due to the welfare budgetary cuts that had to be taken after the bail out of financial institutions. Political turmoil has reflected in extreme change in elections and the rise of social movements that oppose to elites (UK Uncut, Los Indignados, Les Indignés, Occupy Wall Street, etc.). In this context, far from alleviating the tension, subsequent fiscal scandals of big known firms such as Vodafone, Apple, Amazon, Barclays, Novo Nordisk, etc., while the tax burden was increasingly relying in middle class of several countries, led many governments and firms in the need to address their increasing unpopularity.

Even though I find the European economic crisis, as the first casual link to political will to tackle tax avoidance, I find that the *intrinsic characteristic of the norm* (1998: 906) framed by entrepreneurs influenced the way governments adopted the norm. On the one hand, given the complex nature of tax avoidance, norm entrepreneurs have made a great job framing the issue in an understandable way. Action Aid’s *Calling Time* (2010) explains SABMiller’s avoiding strategies in a simplified way so anyone from its public can apprehend activities and practices that before where only a matter for accountants and lawyers. For instance, Christian Aid developed advocacy tool kit against tax avoidance making accessible for anyone to understand basic accounting aspects of tax

planning activities (Christian Aid, 2011a); DanWatch informed consumers about how to influence mining industries that avoided tax (DanWatch, 2010). This clear and specific *formulation* (1998: 907) has definitely helped delimit the issue in the agenda of advocates and governments, including the OECD BEPS report. In addition the suggestion of policies by advocates and academics such as GAARs and country-by-country reporting have helped delimit the discussion of the topic. Nonetheless tax avoidance is still a complex legal issue regardless of the framing of advocates, and that can compromise the quality or degree of adoption or institutionalization of the norm. On the other hand, focusing on the *content* of the norm (1998: 907), the way advocates related tax-dodging activities to harm of innocents has helped gain the attention of the public. The death of 1000 children a day due to tax avoidance formulated by Christian Aid (Houlder, 2008) is a clear example of the efficiency of relating issues to the body harm of vulnerable individuals (Keck & Sikkink, 1999: 98). The opportunity for development lost due to the lack of tax contribution of multinational companies (Oxfam 2001; Christiansen & Murphy, 2004; Action Aid, 2010 & 2011a & 2011b; DanWatch, 2010 & 2011, etc.) represent another example of norms relating issues to the lack of the legal equal opportunity of developing countries in this case (Keck & Sikkink, 1999: 99).

In my research I find difficult to identify at which exact point or stage the norm is according to the Model. I can surely argue that the tipping point has been reached because “norm entrepreneurs have persuaded critical mass of states to become norm leaders and adopt new norms” (1998: 901). This is even more acute considering that some of the countries that are early adopters could be considered *critical states* (1998: 901). The UK led the initiative in the G8 and G20 to address the issues of bank secrecy and tax dodging practices. This in turn empowered the OECD to develop policy recommendations in deep collaboration with members and non-members. In this sense, it could be argued that the norm is its second stage because:

“In most cases, for an emergent norm to reach a threshold and move toward the second stage, it must become institutionalized in specific sets of international rules and organizations. (...) Such institutionalization contributes strongly to the possibility for a norm cascade both by clarifying what, exactly, the norm is and what constitutes violation”. (1998: 900)

In these terms, the GAAR rules, The OECD BEPS report or the EITI could be considered institutions that clarify what is a norm and what a violation. However this institutionalization is not so cut-clear. I cannot observe a homogeneous institutionalization of the norms promoted. The EU elaborated the Amendment of EU Accounting and Transparency Directives to include country-by-country looks promising

but the adoption of the directive in every national jurisdiction of the zone will take time and at the end result can vary, even if we take into consideration that tax avoidance stops being a trending topic before the deadline of 2017. This institutionalization in Europe is more questionable considering that the country-by-country reporting only affects to the extractive industries, and generally many of them are already reporting under the EITI standards. Pharmaceutical, technology and other service industries are not included in the EU initiative. In addition, as I showed in my analytical framework, UK's GAAR implementation leaves some questionable aspects, such as the difficulties the HMRC will encounter to demonstrate the 'reasonability' of the alleged tax avoiding companies, and the lack of punitive action the agency can take. Finally, the Dodd Frank Act reporting requirements have been paused in 2013 until the US Securities and Exchanges Commission redraft some questionable aspects (PwC 2012: 17). I argue that it is only when these legislative processes are finished that it could be considered the norm cascade. This uncertainty is due in part to the highly technical feature of the tax avoiding activities, but also due to the high degree of international consensus needed for an effective ruling of them.

This new normative environment leaves multinational companies in the situation of responding to a new shared understanding of what are legitimate activities. These include new ways of facing tax strategy, but also certain audiences see a need for change of existing concepts such as CSR. Some firms are adapting to this new environment, some others are in the denial phase (Suchman, 1995: 598). Right after the publication of the OECD action plan against tax avoidance in 2013 there were communiqués against country-by-country reporting by strong Unions such as the US National Foreign Trade Council –representing big firms such as Apple or General Electrics- and the British Confederation of British Industry, the French employers' body Medef (Bergin, 2013) or Dansk Industri (Interview, Jacob Bræstrup & Dorte Gram Nybroe, 2013 & Dansk Industri, 2010). This represents at the same time a new environment for PwC most important audience and stakeholder, their clients, because they advise and audit tax but also CSR. In addition, accountancy companies are also under scrutiny. For instance in the UK, a report by the Public Accounts Committee's chair, Margaret Hodge, brought to the public attention that the Big Four Accountancy firms both provide expertise to the government and advise their corporate and individual clients on how to avoid tax, generating a big conflict of interest and leaving

the HMRC in “*a battle that cannot win*” (Syal, Browers, Wintour & Jones, 2013) against tax avoidance.

B. Legitimacy Strategies of PwC UK

4.B.1 Tax Risk Management and corporate governance – institutional entrepreneurship and industry isomorphism

During the early 2000s it can be observed an isomorphic adoption of risk management and standards of risk control in the Big Four in the area of tax related issues (e.g. PwC, 2002; KPMG, 2004; EY, 2004³ and Deloitte, 2006). This process is not an isolated phenomenon within the industry or the area of tax, but it is an adaptation to the new management and governance philosophy that evolves around risk as constitutive or modern public and private organizations (Power, 2007: 8) and understands risk as a rationalized approach to show that it is being done everything that is reasonable to manage uncertainties (2007: 11).

This new form of governance was especially welcomed in the UK, where there was a gap between public expectations and the outcome of the government agencies that opened a discussion of the public service (2007: 17). This new regulation embodied not only for potential greater efficiency but also better understanding of social responsibility because of the direct engagement of management in the control and reporting of the inner life of their organization, and the responsabilization of senior management. The new risk management not only was introduced as a way of avoid or mitigate harm but also it was conceived a new array of opportunities (2007: 22) This new governmentality reflected not only in private organizations, but also in other regulatory fields such as health, safety or environment (2007: 35-39). The first time this governance was institutionalized was in the US after the formation of the Committee of Sponsoring organization of the Tradeway Committee (COSO) around 1992. The Committee came as a response of the US Securities and Exchange Commission (SEC) and the US Congress to finance reporting and corruption scandals in the late 80s. The COSO, drafted and published in collaboration with Coopers & Lybrand (former PwC) the *Internal control-Integrated framework*. It covered not only controls covering financial accounting but regulatory compliance matters and general operations, and it has become a referent for regulatory design in many areas. The COSO approach always follows the same structure: it sets risk assessment as the base for the design and operations of

³ in Bakker & Kloosterhof (2010)

control, and it has a very characteristic visual representation of its integrated elements as a pyramid or a cube (2007: 49).

The COSO framework was ignored by corporate world until the US Congress passed the Sarbanes & Oxley (Sarbox) Act in 2002, an accounting reform that required reporting controls of effectiveness of corporate financial reporting systems. At this point the COSO became the main framework use to report control (up to 82% of the respondents of a poll made by the magazine CFO) (Shaw, 2006). The experience in the US had a similar reaction in the UK with the publication of the Phillip Hampton report titled “*Reducing Administrative Burdens: effective inspection and enforcement*” (HM Treasury 2005). These defined internal control of risks as a necessary step to take, and in consequences Turnbull framework was created inspired by the COSO. In Canada a similar framework denominated CoCo was created as well.

In conclusion, a ‘world of standards’ (2007: 66) was set where several Enterprise Risk Management (ERM) standards were created and where PwC had a leader position in the institutional field as a drafter of the standard. Even the US SEC and the PCAOB (Public Company Accounting Oversight Board) would recommend the COSO to comply with the Sarbox Act. In their standard setting position, and with very homogeneous legitimacy claims of control reporting established through new regulatory frameworks (Sarbox Act, Phillip Hampton Report, etc.), PwC only had to adapt their internal control-integrated framework to the area of tax when political and public attention was centered on corporate tax strategy. As well as corporate scandals brought about risks to manage such as operational and reputational (Power 2007: 104, 136), accounting-related scandals led to the emergence of tax risk to be managed: “The decisions, activities and operations undertaken by an organization give rise to various areas of uncertainty – business risks. Some of these uncertainties will be in respect of tax. (...) Managing tax is therefore managing these uncertainties” (PwC, 2004: 3). Risks can carry value and costs to the company, and it needs resources to manage the upside and downside of opportunities. The opportunistic aspect of risk is constantly underlined. Tax risk is related to seven different types of risk, making more tangible this unforeseeable domain: four generic areas of risk -transactional risk, operational risk, compliance risk, financial accounting risk-; and three specific -portfolio risk, management risk and reputational risk-. (PwC, 2004: 4) External risks are unmanageable risks, and along with a country-distribution of the risk assessment PwC

visually represents areas of risk in the classic COSO way, represented by a ‘cube’ table (Power, 2007: 49; PwC, 2004: 9).

This spread of control standards led to an isomorphism adaptation of the Big Four and other multinational companies. The establishment of this new governmentality even resulted in advocates having to adopt this risk-based language and management mentality to spread their framing of inappropriateness of tax avoidance to the corporate world (Action Aid, 2011a & 2011b; Christian Aid, 2010; etc.). This new governmentality reflects as well in academic research seen in the former sub-section (e.g. Desai & Dharmapala, 2006a).

4.B.2 Tax Transparency Framework & Total Tax Contribution – from control standards to management tools

Not long after it was common already to have a more compelling vision of the process of tax risk management, where companies started developing Tax Control Frameworks (TCF) and they represent a sensibly different approach to the control practices described above. TFCs are top management tools rather than just control guidelines, and they include dimensions of transparency towards several external stakeholders. More importantly, TFC are somewhat different from one consultant to another and can be tailored to the company, as opposed to simply following a control standard, opening new consulting opportunities to PwC. Even though in many cases COSO and other internal standards are still integrated as an internal tool of risk assessment and control in many of the TFCs (Bakker & Kloosterhof, 2010: 21; PwC, 2008)-, the TCFs represent an integrated way of managing risks both in terms of avoidance and opportunity that stands alone as a unique best-practice system. Among the Big Four, PwC is the ones that stand out for promotion of their TFCs and focuses more in the aspect of transparency understood as external stakeholder communication (International Tax Review 2008: 6-13; & PwC, 2008). Deloitte TFC gives small and generic reference to transparency and attention to stakeholders, while it focuses more in compliance; communication is always referred as internal among the organizational members (Bakker & Kloosterhof, 2010: 38). PwC shares many of the characteristics of their counterparts’ TFCs, such as full internal involvement, communication and control, but they stress the important of communicating to the external stakeholders to the point that they create a *Tax Transparency Framework* (TTF) adjacent to the tax risk management (PwC, 2008).

PwC's transparency framework has a great emphasis into stakeholder management. Their strategic aspect of their TCF is much more developed, and it broadens the range of stakeholder including a deeper understanding of the government as a stakeholder beyond the tax revenue agency; in addition, what is considered in other cases 'public' (e.g. Deloitte in Bakker & Kloosterhof, 2010) PwC specifically talks about consumers and NGOs, suggesting areas where all external stakeholders have common claims (International Tax Review & PwC 2008: 7 & PwC 2008: 8). The centerpiece of the PwC approach is a tool for their clients developed in 2005 (PwC, 2005) that helps them engage into discussion and defend their tax planning activities: the *Total Tax Contribution* (TTC) (PwC, 2008). Allegedly created in communication with different stakeholders (International Tax Review, 2008: 7), the TTC parts from the idea that stakeholders –consumers, NGOs, and finance journalists- do not have the necessary knowledge to understand the tax arrangement of modern complex firms. It is for firms to disclose their tax in an understandable manner, and TTC comes as the CSR tool for this end. The firm 'contribution' that the TTC refers to, includes the corporate taxes borne by the firm –including VAT- and the costs derived from the 'collection' of taxes for the government inside the firm (PwC, 2008: 10). Sometimes the TTC includes reporting the tax paid by international regions, giving a bigger sense of transparency. The TTC is a powerful way of reporting taxes because of its simple outline and because it relativizes the corporate tax paid into other taxes and costs derived from tax related activities. The TTC was thought as a discursive tool that may be helpful for tax controversies and lobbying purposes:

“The TTC provides the data to help companies engage (individually or perhaps as members of a trade association) in positive dialogue with governments and other stakeholders, to develop or improve a shared understanding of the total tax contribution made and so inform discussion that will help policy formers shape the tax system in the future. (...) One of the key messages from this work is that corporate income tax is only just more than half of the story”. (International Tax Review, 2008: 9)

The spread or promotion of this framework and discursive tool has been done both oriented at clients and government –one of the most important audiences- but also NGOs and civil society. On the first hand, to promote their influence and procedural legitimacy to clients and government, PwC counted with a great deal of companies that already adopted their framework and tools in their annual reports of 2007-2008 (PwC, 2008: 15-36). On the discussion of their tax strategy transparency, PwC points out the effort of companies such Nutresco, Vodafone, KBC, Diageo, Royal Vopak, Kazahmys, Rank Group or Mobistar. In reporting in a clear and understandable manner the

numbers related to risk, PwC highlights the work of Belgacom, Anglo American, Tomkins, BT Group and Logica. Finally PwC offers some examples of companies using their Total Tax Contribution tool –Aegon, Rank Group, CNP, TNT, Friends Provident, Colruyt SA, Umicore, Anglo American and Diageo-. The of Total Tax Contribution reports of these tend to stress the amount of costs to the company derived from employee salary and compensation, with the exception of Anglo American that discloses, in general terms, the taxes borne and taxes costs country-by-country. In addition, to promote a leading moral role in the industry or institutional field, PwC grants every year to their clients the UK's *Building Public Trust Awards* (BPTA) (Award Winners, 2013i). Since at least 2007, Vodafone has been winning the Tax Reporting in the FTSE BPTA except for the year 2011, the reporting year where Christian Aid run an aggressive campaign against the company for their tax strategies. Anglo American and Unilever were also winners in 2007 in awards regarding tax reporting, but only Anglo American has had a usual mention on the BPTA.

On the other hand, PwC sought legitimacy among NGOs and other advocates. PwC sponsored a publication with the advisory firm Sustain Ability (2006) their tax risk management framework and Total Tax Contribution Framework were promoted and a debate is open between with one of the most known norm entrepreneurs (with Richard Murphy) and a PwC Tax Partner (John Whiting). The debate results in some agreement between the accounting firm and the norm entrepreneur:

“Then, as John points out, transparency is essential. It is not good enough for a company simply to claim to be responsible with regard to any issue. (...) But, and this is where I disagree with John, it is not enough to publish impressively large amounts of taxes paid”(Sustain Ability, 2006: 20)

Was this promotion successful? The results are mixed. PwC itself and clients today still use the TTC as a discursive tool. Companies such as Vodafone⁴ or Carlsberg (2013) use the framework today to report their contribution in their CSR reports. PwC UK runs every year a TTC survey of the 100 biggest companies in the FTSE while disclosing quite visually appealing the results in order to engage into the public debate of corporate tax strategies (PwC, 2013d). Most importantly, the TTC has had a positive welcome from the UK government. Their Tax Minister David Gauke has publicly supported in 2011 the TTC claiming that it was a great input in the public debate on corporate tax (Gauke, 2011). Even one PwC competitor, E&Y, acknowledges TTC as one of the most

⁴ http://www.vodafone.com/content/sustainability/operating_responsibly/tax.html

used tax reporting tools within in the FTSE 100 along with sustainability reports or responsible business reports (EY, 2013: 21).

However, the promotion of the TTC among entrepreneurs and advocates was not very successful. Richard Murphy will at the same time praises and criticize at the framework in his *Tax Research*:

“Let me be honest about what I think about this ‘framework’. I give full marks to John Whiting at PwC UK for trying to do something about tax and CSR. It marks him out from the crowd. And I suspect John had to fight long and hard to get PwC to consider such a thing. That might also mark him out as brave”. (...) And there again, the product he has delivered is simply not good enough to be useful” (Murphy, 2006)

And there can be found more radical critics to PwC’s TTC. Firstly, Prem Sikka, in his speech given in the financial secrecy conference *Financial secrecy, society and vested interests* arranged by PWYP in Bergen (Norway) 2012, he conceives TTC as deceiving because it does not give information about taxes paid by firms in each jurisdiction⁵. Secondly and more concretely, in the mention report of Action Aid covering the tax avoidance schemes of the beer company SAB Miller, the NGO reviews the claims of the company of paying US\$ 4.445 billion in direct tax distribution to governments and a total tax contribution of just under US\$7 billion globally in financial year 2009-10, but the NGO concludes that these taxes are derived from exercise duties –consumption of alcohol-, VAT borne by consumers, or income tax borne by their employees, which Action Aid considers that are not necessarily related to the incomes of the company (Action Aid, 2012: 34). Looking at SAB Miller’s annual report there is not direct mention of PwC consulting the firm into the TTC, but taking into consideration at the wording and structure of the tax report (SABMiller, 2010b: 10) and also contemplating the fact that PwC was in that year the external auditor and adviser of the beer company –“Fees in respect of non-audit services provided by PwC were primarily related to services relating to taxation, our major business capability program and to transaction services” (SABMiller, 2010a: 56)-, it could be possible that this was PwC’s TTC. Whether SAB Miller hired PwC’s TTC framework or not, there is a high level of similarity and it has not proven useful as a communicative tool against certain audiences’ scrutiny⁶.

⁵ Link to the conference: <http://www.youtube.com/watch?v=pByAgp1SNY>

⁶ Lastest research found confirms that it was PwC’s TTC (Sikka & Willmot, 2013 :17)

In the same line, looking at SAB Millers' annual report (2010: 57) the firm used the Turnbull Guidance –the British version of COSO standard- on internal control and risk management introduced in the earlier sections, and it did not seem to prevent the tax avoidance of the firm, and did not seem to help the SAB Miller manage their derived risk from tax such as reputation. There are two ways of understanding this failure. On the first hand and from a critical perspective, this case could corroborate Michael Power's theory that the modern audit logic that shapes control and accountability in quantitative terms, does not bring benefits to society (1994: 7). On the other hand, defenders of risk management and control frameworks would claim that SABMiller either made a wrong assessment of their risks or would consider The Action Aid's campaign against the firm as an unmanageable risk or 'black swan' -an statistically highly improbable and high impacting non-foreseeable event- (PwC, 2013e).

In conclusion, I observe in PwC a strategy of differentiation focused on transparency understood as a communicative process with key audiences. TTF framework is not only as a beneficial control over the tax strategy of the company but also offers a tool (TTC) that allows for a proactive discourse that relativizes the weight of corporate tax in the discussion of tax planning. PwC shows an alleged understanding and engagement with different stakeholders as a competitive advantage of their framework because it entitles them as experts in the claims of these stakeholders or audiences. At the same time, the TTC does present a transparency tool in the way that it is a CSR tool where companies show their tax burden, even though it is shown globally and relativized within other costs. In this sense, it could be considered that PwC UK relatively adopts tax reporting into CSR around 2008 before the government attention peak to tax avoidance during 2012-2013. In this sense, it could be considered PwC UK CSR approach proactive, disclosing client's tax even though the end goal is to bring a new explanation or cultural belief (Suchman, 1995: 591) where corporate tax has a lesser weight within the public debate. This process is called strategic manipulation (Ibid), even though PwC UK also adapts to a great extent to environment by disclosing the tax of clients. Other sign legitimacy theory gives (Ibid) to consider the TTC as a manipulation of environment is that these legitimacy strategies come accompanied by advertisement and communication campaigns, such as in this case the like PwC's BPTAs or the Sustain Ability report seen above. With the evolution of control frameworks into management frameworks, PwC aimed at maintaining their moral and procedural legitimacy before government and clients gained with the establishment of internal tax and non-tax

control frameworks. In addition, they aim at gaining moral legitimacy and arising as the leader of stakeholders-aware and transparency within their industry but also institutional field because the TTC could arise as a new CSR reporting tool.

4.B.3 Tax & CSR: engaging in tax debate, changing code of conduct – maintaining institutional leadership and gaining cognitive legitimacy

With the interest of new audiences focusing in the tax strategies of big firms influencing governmental attention to tax avoidance, PwC aims at maintaining their legitimacy and their institutional leadership through two ways: first by spreading another communicative tool for their clients to engage into the public discussion, namely *Total Impact Measurement and Management* (TIMM). Secondly, they publically advertise that they adapt to environment and modify their advising activities to conform to new societal expectations of not engaging their clients into tax avoidance. These two steps are immersed in a communicative campaign that keeps branding PwC as a stakeholder-oriented firm.

The TIMM is a reformulation of the communicative framework seen before where their clients can report all the aspects of their sustainability strategy integrated in the same framework. Even though it started to be developed in 2007(PwCd, 2013), it can only be observed an intensive promotion of the framework in recent time. The framework still uses the control language and it is presented to as a managerial tool for top management to have a clear overview of all the impacts of possible or potential strategies to choose from. It includes the three classic elements of CSR reporting (social, economic and environmental impacts rights) plus a fourth that is been recently long discussed in academia and advocacy networks: tax impact (2013: 17). In practice, TIMM is a reporting system that integrates financial performance with sustainability performance and stakeholder claims. The framework present a definite establishment of the relation of tax strategy and CSR reporting, even though it does not embody a substantial change from former strategies: the way tax is measured is through the TTC framework without any change in its structure or in the way taxes are reported (2013: 24). Thus the TIMM still represent a strategy for PwC's clients to manipulation of environment to regain legitimacy in the area of tax controversy. Outside of tax impact, TIMM is a sustainability framework or standard that gives monetary value to environmental impacts to balance the financial report of firms, with which PwC competes in his role of institutional entrepreneur:

“Organizations like the International Integrated Reporting Council (IIRC), Global Reporting Initiative (GRI), Impact Reporting and Investment Standards (IRIS) and Sustainability

Accounting Standards Board (SASB) are developing frameworks which look at how to balance financial reporting with the social and environmental impacts of business activities. But what these lack is a robust and comprehensive approach to measuring impacts”. (PwC, 2013 f: 13)

PwC intention is to turn the TIMM as a taken-for-granted process across private and public institutions:

“Business and society are asking for a new language to understand and communicate value and growth. (...) But new languages are not learnt overnight. In this section, we review what can be done by governments, regulators, investors and corporates alike to make total impact assessment the new “business as usual”” (PwC, 2013f: 30)

This taken-for-grantedness is one of the most difficult and at the same time more powerful sources of cognitive legitimacy, because it becomes a subtle cultural accounts that present TIMM as inevitable, as the shared way of being transparent (Suchman, 1995: 583, 584). Furthermore, entering in the institutional field of reporting standard bodies is a new approach that might also result into granting an advantage position within their classic institutional field, the professional service firms where we also find the Big Four.

Communication Campaign and global code of conduct

Around the two years analyzed with more political and media attention, 2012-2013, it can be observed a reaction of the Big Four through an increase in the attention to tax transparency from the Big Four. This responds to a strategy of the auditing and accounting firms to show their clients they are updated with the latest issues in tax regulation. Deloitte changed the design of their global website to include a new section of ‘current issues’ where tax transparency is overviewed and an integrated tax framework is advised (Responsible tax, 2014). KPMG published a press release in 2013 reviewing the dilemma faced by tax directors in the new expectations of transparency and tax compliance (How to comply while meeting new demand, 2014) and E&Y makes some small references to the topic in their website (Compliance and reporting, 2014). However it can be observed a differentiating communicative strategy from PwC. To begin with, the case firm includes tax transparency both in the tax and CSR services in their site (tax & the regulatory environment, 2014), whereas the other members of the Big Four only discuss it as a current issue (Deloitte) and focus merely on tax controversy resolution. In addition PwC owns an additional advertising platform, a blog called *Tax First* where the company discusses how “businesses’ tax affairs will stand up to society’s scrutiny and that the risk strategy (...) is an acceptable level for all stakeholders” (Tax First: adapting to a changing world, 2013). Since 2013,

PwC denotes an intention to maintain their moral legitimacy as stakeholder-oriented advisors, discussing tax avoidance regulation from a seemingly neutral position:

“The fact is that our current tax systems were created for a very different world. The basis on which the US and the UK tax authorities deal with international transaction dates largely from the 1960s. And the core of the OECD model for international taxation originated in the 1970s. Things need to change to match the way value is derived from business in today’s world economy. However no single country can deal with the problem alone; the solution lies in governmental cooperation and coordination. The good news is that progress is been made.” (Rick Stamm, PwC Vice Chairman of Global Tax. In Global Annual review, 2013)

Even though PwC has a pronounced communicative strategy it could be considered as mere rhetoric and does not represent a sign of adaptation to or manipulation of environment. It is with the change of their *global tax code of conduct* (PwC, 2013g) where it can be noticed a bigger change. PwC developed in 2005 a differentiated code of conduct that has been lastly modified in July 2013. Three mayor points compose the code: To begin with, PwC claims that they only work “with clients that generally seek to demonstrate high standards of legitimacy and integrity in their business and financial activities” (PwC, 2013g). This legitimacy and integrity is defined by compliance with law and regulation. Secondly, and in line with the other Big Four the code of conduct demands that all PwC firms should act in accordance to regulation and law, give proper disclosure and apply highest possible technical and professional standards. The principles for tax advice are as well quite similar to the other competitors, where PwC firms should advice tax returns supporting credible basic of tax law, tax advice should be given based in full facts, in the knowledge of the concern of the client and discussing always the wider risks involved –legal, technical, reputational and commercial-. The last edition from July 2013 includes a new section really represents a change because it potentially prevents the firm’s consultants to advice their clients into tax avoidance:

“F. There are certain types of planning arrangements which, although legal, PwC firms should not propose or recommend implementing to clients. PwC firms should advise clients of appropriate options available to them under the law. However, where a client is a company or other business entity, PwC firms should only propose or recommend the implementing of planning arrangements where at least one of the following apply:

- I. The underlying business arrangements have some commercial purpose other than the avoidance of tax; or
- II. The tax outcomes of the arrangements are consistent with the intention of the relevant tax law, other relevant law, regulation and administrative arrangements (as demonstrated by publicly available statements or evidence of an equivalent standard) in the country concerned or the international treaties it has entered into; or
- III. The planning has or creates economic or commercial consequences or effects including the necessary economic substance (as required by tax law, other relevant law, regulation and administrative practice) in each location to achieve those effects.” (PwC, 2013g)

In other words PwC imposes not advising their clients some planning activities even though they are legal if the only purpose is to avoid tax, if it does not follow the intentions of the law –what in the tax discussion shown above many refer as the spirit of the law’- or it does not create economic substance in each location.

This change is not found in any of the other Big Four firms. KPMG has *Principles for KPMG tax* but they do not go further than act lawfully, respecting the needs of the people and communities their clients operate in, maintain objectivity and support relationship between clients and tax authorities (Principles for KPMG Tax, 2014). Deloitte includes in their *Code of ethics and professional conduct* (Deloitte 2013) a section regarding their tax services that does not go beyond declaring their compliance with standards and relevant regulation, propose programs designed to ensure quality and control and do not engage with misleading statement or recklessly information. E&Y does not include any mention to tax in their code of conduct, and direct reference to their tax service code is hard to find in general (EY, 2013). Triangulating this research with the interviews it turns that checking the legitimacy of their clients before engaging into business relation is not a genuine aspect of PwC, but a law requirement in many legislations to all consultancy firms:

“Actually, in the case against laundering, there is a legal obligation to do it. You need to check who is your client ultimate holder. So every other company is doing that. It is a part of our management procedures. Generally we are extremely careful with who are we taking on board. Checking out who the people are.”
(Interview, Søren J. Hansen, 2014)

However the last modification with regard to tax avoidance is certainly a differentiating factor within the Big Four. Does it represent a true change of activities? That is more difficult question to answer. On the one hand, the code makes explicit reference to the intention of the law (referred by many other as the spirit of the law) or the only purpose of avoiding tax, what could be considered as a real delimitation of advisors activities. On the other hand, the conditions exposed in the principle *F* are not to be considered altogether, they are connected by ‘or’. This means that the conditions do not have to apply at the same time. For example, a PwC member could consult a firm into aggressive tax planning if the planning “creates *economic or commercial consequences (...) in each location*” (PwC, 2013g), even though the spirit of the law is not followed. Furthermore, the unclear concept of economic substance leaves space for wide interpretation that still allows PwC consultants to advice into aggressive tax planning.

In conclusion, On the one hand PwC still pursues a strategy of institutional leadership through entrepreneurial behavior by wanting to implement the TIMM as a taken-for-granted legitimate behavior, and being the first company to limit through their code of conduct the tax advice to their clients. This strategy is reflected in their ‘collaborating’ tone of their opinion on the current political decisions towards tax avoidance. On the other hand, the way PwC refers to changes in tax regulation and their change of conduct can also reflect a strategy of regaining legitimacy, suggesting that legitimacy has been lost. This strategy is disassociation:

“In many ways, the task of repairing legitimacy resembles the task of gaining legitimacy. Unlike legitimacy creation, however, legitimacy repair generally represents a reactive response to an unforeseen crisis of meaning. (...) Two types of restructuring play particularly large roles in this regard. (...) The second major form of restructuring -disassociation- employs structural change to symbolically distance the organization from "bad influences; (...) however, organizations also may disassociate themselves from delegitimized procedures, structures, and even geo- graphic locales.” (Suchman, 1995: 598-599)

PwC makes a symbolic dissociation of the firm and tax avoiding practices, but it does not change strategies or geographic location. The disassociation is subtler than what legitimacy theory defines, suggesting that the loss of legitimacy is not so strong or not exclusive to PwC as a case, and thus there is no need to take bigger or more dramatic internal disassociating measures. To illustrate my point, I will use the opposite example of Barclays in the US. Being one of the biggest banks of Wall Street, the firm had a remarkable loss of legitimacy from several scandals of advising tax avoidance that lead to costly investigations in the US and UK (Wilson, 2012). The firm had to make a structural dissociation and to close their tax advisory division due to the loss of legitimacy. In the words of Barclays’ CEO, Antony Jenkins:

“The tax business – known as the “structured capital markets” unit – has attracted unwelcome attention for at least three years. Though legal, the avoidance strategies it used on behalf of its clients were politically controversial.”
(Jenkins & Schäfer, 2012)

PwC has not had to take any step in this direction, but changing code of conduct is also a symbolic disassociation with tax-avoidance advice. This can indicate that legitimacy has been affected to some extent, but not so pronounced as the Barclays case. It could be argued that responds to a loss of legitimacy in the industry or to major international multinationals, and taking a first-mover step towards non-avoidance advice could give them a competitive advantage of leaders in their institutional field. However, if the change of conduct does not really reflect in a future change of advising behavior, it could backfire and damage legitimacy due to skepticism from audiences could arise towards the firm (Suchman, 1995: 599).

Are these strategies working? This is a question that is difficult to answer, albeit some indicators can be taken into consideration. On the one hand, The Global Tax Monitor (GTM), an independent survey conducted by TNS, a research agency, grants PwC as the number one firm for tax service buyers in terms of reputation, client service and brand health in the areas related to tax services (international assignment planning and compliance, international corporate tax planning, tax accounting, transfer pricing, etc.) (Rated top tax advisor globally, 2014). On the other hand, their efforts as institutional entrepreneurs might have had some impact in the industry, resulting in competitors adopting similar transparency approaches: Deloitte (2014) has started to offer their clients an integrated approach to tax transparency including a ‘contribution’ concept that resembles the one of PwC; KPMG’s partners in Denmark have recently developed another communicative tool for taxes called “*Total Tax Footprint*” (KPMG, 2014) that shares the taxes collected- taxes borne approach of PwC. Finally E&Y has developed a concept of World Economic Contribution can be found in Carlsberg’s annual report (2013: 8) that includes government revenue generated through sales, similar to PwC’s TTC. This positive impact of PwC’s TTC in the industry might be a good ground for the future of the TIMM. Considering the report of E&Y mentioned before, TTC is one of the most popular corporate reports in the FTSE 100, along with sustainability reports and CSR reports. In my opinion, If PwC manages to build on the momentum their TTC is having in the market to introduce their TIMM as a tool to communicated all the sustainable strategies for their clients, the consulting and auditing firm is in a good position to compete with GRI, IRIS, IIRC or SASB in sustainability reporting in the UK.

4.B.4 Conclusion legitimacy strategies in the UK

In this section I explored PwC’s legitimacy strategies within the context of their institutional field and throughout the peak periods of societal attention to tax avoidance. To begin with, I observed that PwC had a role of institutional entrepreneur with their collaboration with the US Committee of Sponsoring organization of the Tradeway Committee (COSO) to draft the *Internal control-Integrated framework*. This institutional entrepreneurship succeeded after the US regulatory environment changed with the introduction of the Sarbanes & Oxley Act, turning PwC in a leader in their institutional field. This leadership was extended beyond the US when similar regulative process towards a “*world of standards*” (Power 2007: 66) in other countries: CoCo in Canada and Turnbull framework in the UK. When tax scandals arose at the beginning of

the 21st Century, PwC had only to maintain their procedural and influence legitimacy by adapting their frameworks to the realm of taxation. The choice of audiences in this period is mainly tax revenue agencies.

Around the second peak of attention towards corporate tax avoidance, in the risk management it can be observed a shift from control guidelines to management tools and processes. In the area of tax, the Big Four started developing Tax Control Frameworks (TCFs). Even though these include external stakeholders in their scope, PwC's framework focuses more in managing relations with the public, NGOs or journalists through communication with them. This communication is framed as transparency, but it contains a discursive tool (the Total Tax Contribution -TTC) that to help the accounting firm and their clients to manipulate the legitimacy beliefs (Suchman 1995: 587) by showing that taxes generates other costs to firms that could be consider as contribution to society. The TTC has been well received by clients and government in the UK although it has not been well accepted among advocates, suggesting that in this moment still the former audiences are key to PwC. TTC also represents the first CSR reporting of taxes paid, and it first appeared much earlier the peak of political pressure of 2012-2013, suggesting that PwC UK understands CSR in a proactive manner. It also represents a strategy of early adoption to gain legitimacy as leader in consulting transparency among their competitors.

Finally, in the biggest period of turmoil against corporate tax avoidance the firm adopted on the one hand, a strategy of gaining cognitive legitimacy by promoting the Total Impact Measurement and Management framework (TIMM), one of their CSR tools, as a taken-for-granted process (Suchman 1995: 583). This tool includes the TTC in their tax reporting, and its success could be an important asset when promoting the TIMM as the new business-as-usual sustainability communication tool. Furthermore, it can be observed a strategy of disassociating tax avoidance advice with the firm by changing the firm's tax code of conduct and getting a stakeholder-oriented tone in their opinion communiqués on tax-related changes in communication. Outside of the consideration about whether these changes represent a real change in PwC's advise to their clients, it can be observed positive results from their legitimacy strategies. Firstly, one hand, a reputational survey from a third party (GTM) gives PwC the top position to the firm (Rated Top Tax Advisor Globally, 2014). Secondly, competitors in the institutional field are adopting similar transparency and communicative approaches.

C. Legitimacy strategies of PwC Denmark

4.C.1 From UK to Denmark

PwC establishes a vertical knowledge transfer from the UK that has proven useful for many business matters: “So they do it.... We are actually in constant dialogue because they are years ahead of us thinking this way. So when we have issues in Denmark on ‘how do we do this’, we have discussions with them so we can learn from their experience” (Interview, S. J. Hansen, 2014). This stream of tools and experience has led to PwC Denmark offering the TTC and TIMM to their clients once corporate tax avoidance started entering the public debate:

“The TTC framework, yes, that is from PwC in London. (...) But it was back in 2002-03 where the head of that department in the UK Susan Symons was her name, she came from HMRC the UK tax authorities, so I connect her name with the start-up of all this; but where did she get the idea from, I don’t know. I got it myself a lot later.”

(S. J. Hansen, 2014)

“No, it (TIMM) was in PwC UK. (...) We have our center of excellence in UK. We have there our innovation center where is all about brains obviously but, that’s where all of our sort of innovative ideas come out from often.”

(AL. T. Schur, 2014)

Looking at clients’ adoption of PwC’s frameworks, there are big names in the Danish business that include the TTC framework in their CSR reports. Carlsberg, the famous beer company includes the TTC of their business in the reports of 2012 (Carlsberg, 2012: 8) 2013 (Carlsberg, 2013); Novozymes also include the TTC in their annual CSR report (Novozyms, 2012: 21 & Novozymes, 2013: 46), and DONG Energy issued a memorandum of their taxes paid in 2013 where they use the TTC as the main communicative framework for their taxes costs both in Denmark and abroad (DONG, 2013: 2-3). The success of the TTC communicative framework is relative because these cases only represent 3 out of the 20 biggest companies in Denmark⁷. Furthermore, within the period of research of this thesis there has not been found cases of Danish companies using the TIMM in their CSR reports. However, as explained before PwC Denmark’s competitors are starting to develop similar communicative frameworks to their clients. KPMG Denmark’s *Global Tax Footprint* (KPMG, 2014) has the same basis of reporting tax in a form of tax borne and tax collected both nationally and per regions internationally even though no firm from the Danish Big 20 has been observed using this framework. E&Y’s *Global Economic Contribution* can be found in Carlsberg’s annual report (2013) although it does not represent a substitute to PwC’s TTC, and both can be found in the report.

⁷ <http://www.prodenmark.com/danish-companies/largest-danish-companies/>

The government reaction to the TTC of SKAT (the Danish tax authority) had a relatively less positive reception compared to the British HMRC (The Tax Minister of the UK publicly acknowledge PwC's framework value for transparency- Gauke, 2011).

As PwC's Denmark head of Tax, Sørensen j. Hansen Explains:

“Yeah, they (tax authorities) generally say: OK, interesting that you show these figures but you still should pay your corporate taxes, should not you? So you are also focusing on the corporate tax payments. You should pay in a responsible manner, and we really don't care that your employees also pay taxes (...) So we still have this discussion. But I think, in order to enlighten a discussion, which I expect would take many years, because the numbers are there, everything is available; I think it is necessary to show it. Of course we should pay corporate taxes and of course we should comply with the rules and all that, but we are also doing this, I think, to demonstrate your value for society, really.”
(Interview, S. J. Hansen, 2014)

In addition, during my research I have not been observed any reaction from Danish advocates with regard to both the TTC and the TIMM. This difference of client adoption of the communicative frameworks between Denmark and the UK can be explained by institutionalism where different national business systems determine what kind of CSR is developed in the country. Denmark and UK have different business systems, being the former a coordinated market economy and the latter a liberal market economy (Matten & Moon, 2008: 9); Denmark is characterized for an implicit CSR and the UK for an explicit one.

4.C.2 Danish national business system

Among all the elements that compose the National Business System such as political system, financial system, cultural system, etc. (Matten & Moon, 2008: 6) in my analysis I am going to focus on the taxation and CSR institutions because I find them more relevant to explain the difference in response to the TTC and TIMM between Denmark and the UK.

Tax

Denmark has no statutory law general anti-avoidance provisions, but it does have a high number of specific anti-avoidance provisions with international focus or effect. (Bundgaard, 2014: 4) These provisions have been developed during the last 15 years. The Danish tax administration is an active member of the International Tax Dialogue (www.itdweb.org) (ITD), and it publishes all their key documents to increase transparency and to facilitate information exchange. The ITD is a collaborative arrangement involving the EC, IDB, IMF, OECD, WB and CIAT to discuss tax matters. Their provisions cover (1) Transfer pricing: since the reform of 1998, Danish transfer

pricing provisions have become more effective. These provisions include the arm's length principle, following the OECD Model Tax Convention.

Furthermore, the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations describe various situations where in which commercial or financial relations of controlled enterprises can be corrected; the Danish administration includes all of them. Finally, taxpayers MUST prepare and keep written documentation of the prices and terms set for controlled transactions. This information must be presented to the Tax Authority if requested (Denmark's Transfer Pricing Rules, 2014). (2) Controlled Foreign Corporations (CFC) regime and investment companies: Amended in 2007, it regulates when a Danish company, foreign subsidiary or a foreign permanent establishment is liable to be taxed its income. It includes rules for affiliated groups of companies, shareholders control -include the taxation of shares- and defines investment companies. (3) Thin capitalization and general limitations on interest deductions: Developed from 2000 to 2009, it restricts deductibility of interest expenses to companies that are considered thinly capitalized under a thin capitalization test, and asset test, and the EBIT test –specific technical test for these matters-. The law also combats private equity funds' leveraged buy-outs. (4) Rules on Hybrid entities and Hybrid financial entities: aimed at avoiding asymmetrical tax treatment of these entities when there are two jurisdictions involved. (5) Exit taxation: if a Danish company becomes resident in another country and it is not subject to Danish Taxation, its assets, liabilities and shares owned by individuals should be considered as sold or disposed. (6) Other anti-avoidance provisions: concerning double taxation relief and debt claims. (Bundgaard, 2014: 4-10). In addition, Denmark has bilateral agreements with other countries in relation to double taxation.

Triangulating with the interviews I observe that PwC Denmark perceives that the institutional framework against aggressive tax planning limits more effectively the activities of multinational firms compared to the one in the UK:

“But after the financial crisis there has been a lot of governments discussing, for instance in the UK, whether it should be introduced a General Anti Avoidance Rules (GAAR) and that discussion has not been in Denmark, we had all our stuff in place, so we didn't really need that. Danish Supreme Court also kind of applied some sort of common sense approach. (...) I would say Danish multinationals are pretty conservative in what they are doing, non aggressive. We have this net of anti-avoidance rules so it is impossible almost to do anything. So there is very little, what I would call, aggressive tax planning in Denmark.”
(Interview, S. J. Hansen, 2014)

“In Denmark is more difficult because a) it is tricky b) it’s immoral and c) they have those tax avoidance rules, because of those colonial pasts, they can move their companies around. And that is difficult here, because it is really only Denmark”
(Interview, A-L. T. Schur, 2013)

This strong institutional delimitation of corporate activity in Denmark comes accompanied by a pronouncedly unpredictable tax authority (SKAT) that increases the risks for multinational to engage in tax avoidance:

“So when you ask about the relationship between Danish companies and the tax revenue is tense because, it is not like in The Netherlands and stuff where you can say “ok, I give you something, I give you something”, it is one sided. So I will describe it as tense. Not good for attracting investments, (...) (and) it is very difficult as an adviser to be able to predict Supreme Court Cases in Denmark.” (Interview, S. J. Hansen, 2014)

This institutional framework is been long established both in under liberal and social mandate (Interview, D. G. Nybroe & J. Bræstrup, 2013), and the interviews confirm that there has not been a regulatory reaction to the latest international peaks of corporate tax avoidance:

I think most Danish governments have been doing it (regardless of) whether it is a liberal or a social democrat government, I can’t tell the difference. (...) I think it is obviously for populist reasons. I think they started way before the financial crisis. After 2009 there has been more public attention probably, but if you look at the legislation side of it, actually, a lot of it happened before the financial crisis”
(Interview, S. J. Hansen, 2014)

Regulative changes due to norm adoption

In the midst of an increase of attention to the topic from different audiences including the media, Danish advocates –such as IBIS- or the government –Holger Nielsen, Danish Tax Minister has declared offshore accounts as “*immoral*” (‘Offshore accounts are immoral: tax minister’, 2013)-, the most noticeable government policy to answer the increasing public discussion on tax avoidance was the introduction of a requirement of income disclosure and tax returns to all big companies operating in the country. Foreign companies or persons with permanent establishment in Denmark are also covered by these disclosure requirements (Tax return and disclosure requirements, 2014). Once a year, the Treasury publishes the tax paid by the biggest companies in Denmark. This is more a sign of political will rather than a measure to prevent tax avoidance⁸. This publication has not however yield any impact in the public scrutiny of corporate tax:

“(...) So corporate tax is not very high in Denmark. But we are having another discussion with our clients; they say: we get the called ones, and we tell them how many billions we pay in tax, and we don’t end up on top of that because the number is so high that keeps them out of the news that year because, you know, even if it was low, compared to turn over or whatever, you know that, but the general public wouldn’t, and that is the story in this.”

⁸ For an update look at the list, please visit: <http://finans.tv2.dk/nyheder/article.php/id-72963238:se-hvad-de-kendte-selskaber-betaler-i-skat.html>

(Interview, A-L. T. Schur, 2013: 5)

“(Our clients) seemed to be quite unprepared for, you know, for being targeted at disclosure. But what really happened was that when the numbers came out, there were a few journalists looking into the numbers and maybe few articles in the next couple of days after the publication. And then the peak is out and nothing happened. So we had really big preparation; some of them had actually put some total-tax-contribution-like numbers on the web-site prior to that, (...) but they didn’t really use them.”

(Interview, Sørensen J., 2014: 4)

The low impact in legitimacy that brought the publication of the corporate tax paid has not affected either multinationals that are not PwC clients, as confirmed by the interviews to the Danish Industries Union, DI; the union noticed that the government rhetoric towards the publication has softened from 2013 due to this low impact (Interview, D. G. Nybroe & J. Bræstrup, 2013).

This strong institutional control of corporate behavior is also reflected on the little impact that the change in the global code of conduct has had in PwC Denmark:

“We refreshed what we used as guidelines six months ago, so... on our code of conduct. It is basically now a bit more conservative, be a bit more careful. For our behavior in Denmark it doesn’t matter really because we have been careful since forever. Because in the last liberal government period, 2005-6, we really started changing behavior, being more conservative. So when you see this global code of conduct: ok, this we might have been doing that, today not anymore. We are very far from that. So the code of conduct is just confirming that now the rest of the world is looking like Denmark. So it does not make any interest for our work because we have been used to working in those very tight possibilities.”

(S. J. Hansen, 2014)

CSR

Even though Denmark and UK understand CSR as a matter of national competitive advantage (Gjølberg, 2010: 217-218) The CSR type found in Denmark is different. Danish CSR could be considered as implicit, where the behavior of corporations is defined through formal and informal institutions in terms of values and rules that often in codified and mandatory requirements for corporations motivated by societal consensus (Matten & Moon, 2008: 8). In the case of Denmark, There is a handful of Government Agencies that shape CSR: to start with, there is the Danish Council for CSR. This agency has the function of supporting the Danish government in CSR matters. The supports comes in form of creating dialogue between stakeholders or parties involved regarding both technical aspects and public debate, making recommendations to government, contribute to execution of activities, and take part in a yearly discussion with the Mediation and Complaints-Handling Institution for Responsible Business Conduct. The Council adopts an international perspective in its recommendations, and its members come from different stakeholders of Danish

business world including different industry unions. These members are elected by the Minister for Business Growth (csrcouncil.dk).

Secondly, The Minister for Business Growth is the responsible to setting the grounds of Danish business both inside and outside Denmark. It is responsible for initiatives such as the Business Authority, which is an agency with the vision of creating best conditions for Danish business to grow in Europe. More concretely, they create, promote and explain the Danish business and telecommunication rules, and they promote the country as attractive for business (danishbusinessauthority.dk). In relation to the Business Authority, there is the Danish Responsibility Authority, which is an extension of the former with full attention to CSR. All these agencies have as their backbone the government's action plan 2012-2015 where it is establish the goal of responsible growth of Danish businesses and to place Denmark as the world's CSR frontrunner (The Danish Government, 2012). In the international level, the Danish government has made two moves recently to establish itself as a true front runner: forming The Group of Friends of Paragraph 47 and giving a special status to the OECD Guidelines to Multinational Enterprises.

On the one hand, The Group of Friends of Paragraph 47 (Group of Friends of Paragraph 47, 2014) was formed by Denmark, Brazil, France and South Africa, as higher-level acknowledgment of the importance of the paragraph 47 of the outcome document of the UN Conference on Sustainable Development. The group is officially supported by the UN Environment Program (UNEP) and the Global Reporting Initiative (GRI). On the other hand, Denmark has created in November 2012 the Mediation and Complaints-Handling Institution for Responsible Business Conduct that deals with non-compliance cases of the OECD Guidance for Multinational Enterprises, and anyone can submit a complain about private, public, organizations and authorities. Denmark is the only country in the world that has elevated the OECD Guidelines to such a high level. The base of this complying body is risk-based due diligence, defined as 'identify, prevent, mitigate actual and potential adverse impacts and account for how these impacts are addressed' (Due Diligence, 2014). Due diligence is a process, and not a specific standard to follow. The complaint process is very simple, and can be submitted via email or through the government webpage; if there is not a solution between compliant and the subject, the institution can act as a mediator in voluntary basis. If mediation

fails, the institution will run an investigation that can result in a critic to the subject conduct and recommendations of action. In relation to tax, and the updated version of the OECD Guidelines for International Business does indeed cover in extension taxation transparency (OECD, 2011: 60), including complying with the letter and the spirit of the tax laws, making available information that is relevant or required by law, implement a risk management system or the cooperating with government authorities in the application of the arm's length principle (Ibid).

The institutional relation between multinationals and the CSR institutions is positive, although they are not always harmonious. On the one hand, PwC has a good relation with the Danish Council for CSR: "Yeah! We discuss quite a lot actually in a... sort of networking of CSR" (Interview, A-L. T. Schur, 2013). On the other hand the Union DI has a small representation in the Mediation and Complaints-Handling Institution for Responsible Business Conduct. Furthermore, the Union always had a position where the OECD Guidelines should be integrated in the overall strategy of the company in order to keep CSR flexible, but in the drafting of the Mediation and Complaints-Handling Institution this position was ignored and the Guidelines were elevated to a semi-law status due to the complain mechanism (Interview, D.G. Dorte & J. Bræstrup, 2013). This lack of accord between government institutions and corporations seems to contradict Matten & Moon's work (2008: 13); the authors claim that European firms would tend to raise independent corporate responsibility due to this consensus in the approach of societal issues.

4.C.3PwC Denmark's Institutional entrepreneurship

The institutional environment in Denmark sets special conditions for the tax and tax-reporting environment of PwC clients. To begin with, the Danish GAAP represent an effective constrain to tax avoidance. This vision is not exclusive from PwC; the Union DI (Interview, D.G. Dorte & J. Bræstrup, 2013) shares the same perception. The Union of the biggest Danish industries published a report called the *Myths about Corporate Tax* (DI, 2010) where they explain that Danish companies do not profit from tax planning. This regulative framework in itself is not determinative, because tax avoidance is not completely tackle in Denmark, the value of Danish companies registered in tax heavens has increased four-fold since 2008 (Oh thank heaven, 2013). In turn, DI publication also represents a denial or excuse to the public about tax avoidance. This strategy is included in what Suchman (1995: 598) calls repairing

legitimacy, suggesting certain level of loss of legitimacy among the biggest firms operating in Denmark: “There are fewer zero - tax paying companies than the debate gives the impression; and there are many logical and legitimate reasons that a company does not pay corporate income one year *or even* in the short term” (Dansk Industri, 2010: 8, Own translation). However, this loss of legitimacy does not seem to have affected PwC Denmark:

“(…) And I am proud to say cause it has never been mentioned in none of these programs before, never been involved with any of the companies that are doing wrong luckily. And I am (also) proud to say that is because we always say to those companies to do the right thing.” (Interview, A-L. T. Schur, 2013. Added word.)

According to Matten & Moon’s theory (2008: 9), Denmark is a coordinated market economy and it is characterized for an implicit CSR; this means that responsibility strategies are not voluntary or deliberate corporate decision but a reaction or reflection of their institutional environment. Firstly, Denmark has a financial reporting Act (section 99a) that legally requires certain companies to report their CSR strategy, policies and standards with special attention to human rights and climate impact. In addition, the government’s action plan on CSR 2012-2015 includes introducing country-by-country in the mining industry (The Danish Government, 2012). Secondly, The tax authority publishes the taxes paid by the larger multinationals doing business in Denmark, potentially affecting negatively the discursive power of the TTC in the annual reports of the company. In addition, this is also due to the fact that publishing the taxes paid has proven not to yield any impact in clients’ reputation before the public or the government, as showed in the interviews. Thirdly the institutionalization of the OECD guidelines also delimits what are the reporting actions of Danish companies in the area of corporate tax, and it is of special interest that the OECD has a partnership the Global Reporting Initiative (GRI) (OECD-GRI partnership to help multinational companies operate responsibly, 2010) that also covers taxation under the section EC8 of their sustainable reporting guidelines (GRI 2002)⁹. Considering that the OECD Guidelines for MNEs are strongly institutionalized in Denmark, it is likely that Danish corporations make use of the GRI sustainable reporting system, which is a direct competitor to PwC’s TIMM.

⁹ Since 2004 there is even a guide available in the web of the OECD where GRI is presented as a recommended tool to communicate the implementation of the OECD guidelines (Gobal Reporting Intitative, 2004).

Finally, the implementation of the OECD guidelines opens also an opportunity for PwC as an advisor and auditor of internal control and management:

“Enterprises’ commitments to co-operation, transparency and tax compliance should be reflected in risk management systems, structures and policies. In the case of enterprises having a corporate legal form, corporate boards are in a position to oversee tax risk in a number of ways. For example, corporate boards should proactively develop appropriate tax policy principles, as *well* as establish internal tax control systems so that the actions of management are consistent with the views of the board with regard to tax risk (...).” (OECD, 2011: 61)

This need to implement risk management systems with internal control procedures represents an opportunity for PwC to implement UK’s expertise in the area as advisors and auditors of tax internal control and management systems, specially when the GRI does not cover this area in their guidelines. A sign of this new opportunity is that in the last two years companies from the top-tier stock market index for the Copenhagen Stock (OMX 20) are starting to disclose information about their tax risk, tax policies and/or tax risk management in their annual report or websites, including A.P. Møller – Mærsk, Carlsberg, Chr. Hansen, FLSmidth, Novo Nordisk, Novozymes, TDC or Vestas (Bundgaard, 2014)

5. Conclusion

In my analysis I can observe the rise and spread of new normative claims that see corporate tax avoidance as an inappropriate activity (Finnemore & Sikkink, 1998: 896) that reaches its biggest momentum in the years 2012 and 2013. This momentum is due to the legitimacy turmoil of the domestic elites (1998: 906) produced by the international economic crisis, and a sequence of tax scandals that fueled the public attention towards corporate tax. However, this norm and spread would have not been possible without the framing of norm entrepreneurs e.g. Richard Murphy, Prem Sikka or Lars Koch- and organizational platforms –e.g. Action Aid, Christian Aid, DanWatch, IBIS- that formed transnational advocacy networks –e.g. Tax Justice Network- that have run different framing processes through several information and moral leverage politics (Keck & Sikkink, 1999: 96,97). In addition, academics have also influenced the framing of tax avoidance and possible regulatory solutions –e.g. Judith Freedman (2012), Prem Sikka (2011), Desai & Dharmapala (2006)- This norm has been institutionalized and codified in certain international organizations and organizations such as the EITI or the OECD BEPS report, but at the same time the inclusion of country-by-country reporting in Europe awaits a long and tedious process, and the reporting requirements of the Dodd Frank in the US has been paused until further discussion. I argue that this level of

institutionalization shows that the norm has reached the *tipping point* (Finnemore & Sikkink 1998: 901) exposed by the Norm life-Model, but it is not clear whether the norm is in the phase 2 or *norm cascade* (1998: 902) because the ‘contagion effect’ has not yet taken place.

In this context, I will answer the main research question:

- ***How does PwC react to a changing environment with an increasing societal attention towards corporate tax avoidance in the UK and Denmark?***

Around 2007-2009 in the UK, derived from their success as an institutional entrepreneur with the introduction internal control-integrated framework in the early 2000s, PwC aimed at arising as the leader in consulting transparency offering their clients the first CSR tool where taxes were reported, the Total Tax Contribution framework (TTC). This tool was not only a CSR tool but also a communicative framework to engage in the public debate around corporate contribution to society. From 2010 to 2013 the public attention to tax peaked and PwC changed their global tax code of conduct explicitly ruling out the avoiding practices of their tax advice service. This change was paired with a communicative campaign to gain a profile of pro-transparency professional service company among the Big Four. In addition, they kept their institutional entrepreneurship by introducing their Total Impact Measurement and Management framework (TIMM) as the new standard for integrated CSR reporting competing not only with the Big Four but also with the Global Reporting Initiative (GRI), the Integrated Reporting Council (IIRC), Impact Reporting and Investment Standards (IRIS) and even the Sustainability Accounting Standards Board (SASB) (PwC, 2013: 13).

In Denmark, the adoption of the TTC and the TIMM have not experience as a wide spread as in the UK due to the existence of a different institutional environment. On the one, hand Denmark is characterized for an implicit CSR where responsibility strategies are not voluntary or deliberate corporate decision but a reaction or reflection of their institutional environment (Matten & Moon, 2008: 9). The Danish Council for CSR, the Financial Reporting Act and the disclosure of tax paid requirements delimit the chances of the TTC to arise as a new reporting institution because their already frame how corporate tax should be reported. On the other hand, the semi-enforceable implementation of the OECD guidelines For Multinational Enterprises (MNEs) in Denmark might put the GRI in a privileged position as a sustainability-reporting tool,

limiting the chances of the TIMM to succeed the new business-as-usual tool (PwC 2013: 30). However, the OECD Guidelines For MNEs open a new consulting opportunity for PwC because it recommends the introduction of internal tax control systems (OECD 2011: 31), area where PwC has a lot of knowledge.

- *How does PwC manage its legitimacy in the UK and Denmark?*

Managing legitimacy starts with choosing audiences, and from my analysis I observe that the main key audience is the government. Civil society claims are only attended once they reach government agenda. In the UK, PwC sought to gain moral procedural and pragmatic influence legitimacy by developing a framework aligned with the governance philosophy based on understanding risk as a rationalized approach. Regulatory changes granted this legitimacy to PwC and arose as leader in risk control and they maintained their legitimacy by extending the concept of risk to the area of tax. Around 2007-2009 PwC UK adapted their control framework into management tool, Tax Control Framework, which included the TTC CSR tax-reporting. This tool was aimed at gaining moral legitimacy being a front-runner in tax transparency, but at the same time it was a communicative tool that offered a new explanation of what the corporate contributions are to society relativizing the weight of corporate tax. In other words, PwC was both adapting to environment by offering their clients tools to report taxes paid, but at the same time it was manipulating the environment to offer alternative views of morally acceptable firms. The legitimacy gain and institutional entrepreneurship efforts seemed fruitful; the TTC gained public support from the UK Tax Minister David Gauke (2011), and it became one of the most used reporting tools in the UK (EY, 2013).

In the highest peaks of political attention to tax avoidance (2012-2013) PwC followed a strategy of disassociating tax avoidance advice with their firm. This is classically a strategy to regain legitimacy suggesting a loss of legitimacy, even though I observe this loss is either not strong or it is not only associated to PwC exclusively because they did not undergo a restructuration or geographic relocation (Suchman 1995: 598). PwC launched a symbolic disassociation by ruling out tax avoidance from their global tax code of conduct. At the same time, and given the success of the TTC in the UK, PwC aims at their TIMM gaining cognitive legitimacy and become a taken-for-granted procedure of corporate reporting.

In Denmark, the discussion over corporate tax avoidance seems to have arrived much later compared to the UK, and its effect in corporate legitimacy has unclear consequences. On the one hand, DI, the union of the biggest employers in Denmark, has recently published *Myths of Corporate Tax* (Dansk Industri, 2010) denying certain aspects of public debate on corporate tax; denial suggests loss of legitimacy. On the other hand, the publication of corporate tax payments from 2012 has not resulted in public or governmental attention whatsoever. Moreover, PwC does not perceive their legitimacy affected (interview, A-L. Thor, 2013), suggesting that PwC is in a phase of maintaining legitimacy (Suchman, 1995: 593).

Relevance of this thesis

To begin with, this thesis is relevant to PwC Denmark because it compiles in one work a lot of discussions, perspectives and events regarding tax avoidance. Considering that the organization engaged into formal collaboration with this thesis to gain updated in-depth information about the topic, this thesis serves their purpose. This in-depth feature of the thesis works as well for the public debate around tax avoidance. This work shows that corporate tax avoidance is complicated and that there are many aspects to take into consideration. Corporate tax is not such a moral cut-clear topic as human rights, and technically is very difficult to comprehend. Reporting tax paid neither always results in governmental or public response (as in the case of Denmark), nor reflects in a real downturn of flows towards OFCs.

Theoretically speaking, this thesis is interesting because OLT does not explicitly include possibility of opportunity seeking in times of legitimacy turbulence. OLT refers about gaining legitimacy to enter a market, maintaining it to keep operating and regaining it if it is lost. However in this case PwC UK seeks gaining legitimacy as a transparency leader in times where there is a general threat to the legitimacy of the abstract concept of ‘multinationals’. In addition, PwC UK represents a case where tax is reported in CSR before there is an outstanding societal focus on the topic. Furthermore, the TTC is at the same time meets societal expectations but also tries to change societal expectations regarding corporate tax pay. This represents a proactive approach to CSR that contrasts with the passive approach of Strategic CSR (Porter & Kramer, 2006) or the proactive but naïve process of argumentation with society present in the concept of Corporate Moral Reasoning (Scherer, Seidl & Palazzo 2010), opening space for further debate on CSR.

Finally, this thesis has implications in the theoretical works regarding the persuasion strategies of transnational advocates. Keck & Sikkink identify strategies of symbolic politics, moral leverage politics, information politics and accountability politics as the common among advocates (1999: 94-97); these are top-down approaches where advocates aim at persuading national or international government bodies. However, as seen in this thesis Christian Aid and Action Aid carried another new complementary bottom-up strategy of persuading businesses and investors through acquiring the ‘business language’ of risk management and framing the concept of tax risks.

Limitations

In the theoretical aspect, The Norm Life-Cycle Model does not clearly identify the boundaries between stages, so in my research it has been difficult to determine whether the spread of new normative claims against corporate tax avoidance is in the threshold or tipping point, or it has moved already into the second stage or norm cascade. If “socialization is the mechanism of the norm cascade” (Finnemore & Sikkink 1998: 902), the model does not clarify what degree of socialization characterizes the ‘contagion’ of the norm. The model also refers to international organization as socialization agents, but in the case of tax the OECD is ‘empowered’ by G7 and G20 members to advise technically, suggesting that these countries are already socialized. As seen in my research, normative claims about tax avoidance present features from both the tipping point and the norm cascade without defining clearly which one the norm is in. This might be due to the fact that the Model does not define what governmental actions represent a sign for ‘socialization’.

Further research

As the TIMM has been recently introduced in Denmark but also in the UK compared to the TTC, it would be interesting to see in two to three years whether it really becomes a substitute for the GRI, the IIRC, IRIS or SASB. PwC engaged as an entrepreneur with the TTC when there were not alternative frameworks, but now they have to compete with a handful of well-established standards of sustainability reporting.

In addition, this paper only focused in one of the Big Four companies. It would be interesting to contrast more in-depth the strategies of the rest of the professional services networks and see whether there is a convergence or differentiation of legitimacy strategies among them.

Furthermore, given my conclusion on the norm spread, it would be of interest to analyze in a few years whether the normative claims against tax avoidance do result into norm cascade, and country-by-country reporting and the reporting requirements of the Dodd Frank Act in the US finally get established. If these processes take too long, the momentum against tax avoidance can get lost and the norm can finally not take place. Similar case can be found in the Kyoto Protocol, where norms regarding climate change got institutionalized but now it seems to be stagnated. At the same time, legitimacy can be maintained by just waiting for demographics to replace cohorts of critics with new generation of supporters (Suchman, 1995: 596). Thus it could be possible that a loss of thrust in the public attention or governmental initiative takes place and the norms of inappropriateness of tax avoidance do not get completely institutionalized.

Lastly it would be interesting, if the institutionalization is completed and the norm has cascaded or even internalized, to contrast with the UNCTAD the flows to offshore centers whether the increasing inflow trend changes with the myriad of new of regulation and CSR reporting initiatives.

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Annexes

Annex 1: data collection –Academia and media attention

Academia word search parameters

TITLE-ABS-KEY("Tax avoidance" OR "Corporate Tax avoidance" OR "Tax non-compliance" OR "Tax Heavens" OR "Tax Shelters" OR "Off-Shore Countries" OR "Aggressive tax planning") AND PUBYEAR < 2014

Data range: 1990 to 2013

Document results: 418

Platform –source of data: Scopus database

Media word search parameters

Search Summary	
Text	("Tax avoidance" OR "Corporate tax avoidance" OR "Tax non-compliance" OR "Tax heavens" OR "Tax shelters" OR "off-shore Countries" OR "Aggressive tax planning") AND (re=eurz OR re=namz)
Date	01/01/1990 to 31/12/2013
Source	Not All Pictures
Author	All Authors
Company	All Companies
Subject	Not Commodity/Financial Market News Not Corporate/Industrial News Not Sports/Recreation
Industry	All Industries
Region	Not Africa Not Antarctica Not Asia Not Asia Pacific Not Australia/Oceania Not Caribbean Islands Not Central America Not CIS Countries Not Developing Economies Not Emerging Market Countries Not Latin America Not Mediterranean Not Middle East Not South America
Language	English
Results Found	35,419
Timestamp	24 April 2014 16:25

Platform –source of data: Factiva database

Annex 2: Interviews transcriptions

Interview to Søren J. Hansen, Tax Partner in PwC Denmark (January 2014)

David: you were saying, governments, tax authorities a little bit... how, when the focus started in Denmark, sorry, on tax planning in Denmark, and when did it start, and do you think this is inherited from Europe discussion, or there where things happening in Denmark; or is it a mixture of both?

Søren: ah, if we look at it historically, am, yeah, we go back to 96 when we had our mayor build on international taxes. We introduced CFC (Controlled Foreign Corporation) legislation, stuff like that. So for us it was like, ok, multinationals could shift income from one place to another, so ah.. CFC... I don't know how familiar are you with technicalities of taxation, but basically in a corporation you are targeting

income easily movable. So it typically financial income, interests, capital gains, stuff like that. So that was introduced back in 96, so that was kind of the first sign.

We have from 98 some very nice holding company rules, whether the aim was to attract foreign investment, I am not sure. But at least they were in place, so we saw a lot of foreign companies getting established in Denmark. These rules were abolished few years later, although it was nice time for advisers, what we did back then was structures with Denmark as a holding company. Then the rules would change and we needed to, untangle the structures, so for the advisers was not bad, but of course, for Denmark's reputation as a stable country, not very good. So that was kind of it. Then they started introducing some very special rules. We had some rules, like, you know there are some rules that mirror US rules, US check-box rules and so on, actually are called anti-check-the-box, and to my knowledge Denmark is the only country in the world that has introduced such rules. (D: in 2011?). No, that was back in 2003. And that was that was in order to prevent certain US structure, which is certainly possible in all the countries in the world. And that was followed up by introducing a number of anti-avoidance rules. So we have now anti hybrid financing rules, and hybrid entity rules, so we have a big palette of different rules that try to do what OCDE proposes in their report avoid mismatch between tax burdens in different countries. So, Denmark has been the forfeit there.

So former liberal government they had the ministry of taxation and one said: hey, I wanted to test borders. I think for probabilistic reasons he was pointing at the multinationals, the bad guys here. So they wanted to test borders, and that was a kind of the exact wording of what he said. So what we have seen ever since was the exact opposite; trying new interpretations of existing rules, trying to push the borders "ok, how far can we actually go here". So they are changing existing practices with retroactive effect in a number of areas. Affecting the increase of tax base for companies operating in Denmark, and also changing the practices compared to what we used to.

So when you ask about the relationship between Danish companies and the tax revenue is tense because, it is not like in The Netherlands and stuff where you can say "ok, I give you something, I give you something", it is one sided. So I will describe it as tense. Not good for attracting investments, because if you are an investor, you want stability, you want to be able to know if I punt one billion kroner I can take it back in ten years, and you cannot do that in Denmark. So that's tricky. So when you look at, as a reference, equity investments in Denmark, it is actually quite tricky to comment on a business case: we put this in, what can we take out?

D: and would you say, there has been a change of attitude with the recent change of government towards tax avoidance?

S: no, it started much earlier. (D: Much earlier?) yeah, it started with the liberal government. I think it was –when was the statement in extending borders?- I think it was back in 2007-2008

D: so it started around with the economic crisis... (S: no, a bit before that) Before that, ok.

S: and the rules have kind of.... in 2005 we had some mayor changes through legislation, and that was aimed at private equity investments. So one of the former Danish Prime Ministers -----Rasmussen around this time we ere talking about, he did

law on private equity funds, or whatever surrounding that, he took initiatives in his time, it was never really enforced, but 2005 we had some legislation in private equity investments. So it was way before the financial crisis, really.

D: OK, so then Demark had a much more structured legislation towards how to plan your taxes, right? It is not like the UK that suddenly there was a lot of attention. Cause my research says, that at European level, specially in the UK and the Netherlands there is an increase of attention towards tax avoidance around 2006-2007 and just recently you start having public declarations. G8, G20, UK, US, trying to introduce tax avoidance rules.... Eh would you say these government policies tackle the problem, or they just kind of a shift of attention, because, there a lot of public, NGOs, etc. etc. talking about the topic, but nobody really understands the topic, because it is a highly technical issue. So would you say governments are really trying to tackle the problem - plus because it is an international deal- or just something to keep the balance of the public. How do you see it?

S: yeah, I think most Danish governments have been doing... it doesn't matter whether it is a liberal or a social democrat government, I can't tell the difference; maybe some people can.. I think it is obviously for populist reasons. I think they started way before the financial crisis. After 2009 ammh... yeah, there has been more public attention probably, but if you look at the legislation side of it, actually, a lot of it happened before the financial crisis. But after the financial crisis there has been a lot of governments discussing, for instance in the UK, whether it should be introduced a General Anti Avoidance Rules (GAAR) and that discussion has not been in Denmark, we had all our stuff in place, so we didn't really need that. Danish Supreme Court also kind of applied some sort of common sense approach. So when they see something they don't like, they just set it aside, probably they don't feel so bound by what is the wording of the legislation. (D: ok, so they are more dynamic in that way). Dynamic... more unpredictable... it is very difficult as an adviser to be able to predict Supreme Court Cases in Denmark.

D: Ok, that is very, very interesting. So then, cause I have been checking some contradictory government policies: introduction in 2011 of anti-avoidance rules, they introduced the OCDE Business Conduct, but on the other hand they have this deal with selling DONG to Goldman Sachs, and they lowered corporate tax so even though in the press they say they are avoiding the problem, it is not easy to see for your clients where they (the government) are going.

S: well, I think it is more a lack of clear policy on what to do with foreign investments... And they have stated very clear that they don't like private equity. And then they do DONG, and Goldman Sachs, and this and that... Well, DONG needed the money, so... And that has been discussed whether that was a good deal or not. I was advising on that thing, so.... But of course, everything is public; we know that. Or a lot of it. So.... Post Denmark, the formerly stated owned post company in Denmark, also they have CVC Capital Partners as investors, a private equity house... so the Danish government as such seems to be entering into agreements with private equity companies, even though they have a lot of legislation. Basically, you want the money but you don't like them, really. Which is a bit double taste, But I guess how the game is.

D: So it is not that it is changing some patterns of behavior from your clients, for instance, now they have it more difficult...

S: well, the aggressiveness from the inside authorities, they constantly change rules, ammh... it is difficult to actually show in numbers, but Denmark loses a lot of investments, so, when a discussion of an investment opportunity comes with business clients –sell options- it is kind of not allowed in Denmark to do that, It is kind of unstable. “What does it mean tax revenue?” no body knows. It is difficult to prove what is the value of missed opportunities, or what was really the tax revenue of certain investment, that haven’t been through Denmark or whatever. Has it created jobs? Because, you know, Jobs and all that is much more important than corporate tax revenue. I think also you out on the table how do you allocate the tax revenue in Denmark it is a very important thing.

D: I think you had a presentation regarding this topic and then you kind of were disclosing this in a chart...

S: yeah it was just a part of it. There was more detail, but it was just the highlights of it. I think it was 55% of the tax revenue comes from personal income taxes. And you have around 10% percent from corporate tax. Which kind of illustrates the public debate is not taking this factor into consideration. “Ok, what does it really mean?” not much. It’s is creating an environment where you create as much taxes from wages. The decreasing labor is key. If you look at your public spending, you need to increase your labor force. It is very easy to see when you look at the things, the numbers. (D: ok, I will get a look on it)

D: am, so then lastly, this thing they passed lately, this thing that big corporations have to disclose their cash... or their corporate tax paid. What do you think about that?

S: We had some sessions with some big multinationals operating in Denmark. Also to try to prepare them on what could we expect from the press, and that was very interesting actually to have these discussions. They seemed to be quite unprepared for, you know, for being targeted at disclosure. But what really happened was that when the numbers came out, there were a few journalists looking into the numbers and maybe few articles in the next couple of days after the publication. And then the peak is out and nothing happened. There was silence after that. So we had really big preparation; some of them had actually put some total-tax-contribution-like numbers on the web-site prior to that, because we advised them that it would be silly if first they attack you and then you come up with numbers –looks silly-. It is better to say “it has been on my website all the time; now look at this...” But they didn’t really use them.

D: and did the government do something with that?

S: no, not to my knowledge at least, I haven’t seen any reaction to it. the numbers have been published from December 2012; it is published also on group level because we have -----ization schemes, so the top-companies income in there. So for instance Novo that’s held by a company on top, holding both Novo Nordisk and Novo Zymes, and same with Lundbek–holding company for Lundbek Fak- LAK, some Danish businesses... so that is the actual income reported. Its difficult to actually see how much do you pay in taxes.

D: So has there been some legitimacy at stake for the biggest companies since the publications of these taxes... there is reputational risk, which is something you can manage with your tax control framework. To what extent do you think there has been a

threat to legitimacy of your biggest clients in Denmark? To what extent was this an issue when you were talking about your tax strategy?

S: a number of the companies had tax forward for some years, and published their tax strategies on the Internet. And some of them were inspired by this published tax and they did something about it (18.04). Does it have any impact to have the tax strategy out or not? I think it should have. It is more how you implement it. If you put down some words down and you know, a power point you put on the internet, that doesn't matter (as 'work'), really. It is more about whether you are an organization that behaves. So you need some management involvement to your tax strategy...

D: and have you seen a change in management strategy in Denmark?

S: yeah, a bit increased. But that is a tendency that I have seen globally. You have more focus of being in compliance with the rules, so that is the general headline of what I have seen the past 5 to 10 years. And also behaving in the right manner.

D: what do you mean with right manner?

S: say that, if they are in doubt, they better don't anything, or something. Avoid grey zones, a lot of discussion with the tax authorities. And that is also a good advice in Denmark; if you have a discussion about a case before court, taxpayers lose, 100% of the times now. It is a very difficult environment for tax payers. So about grey zones, really. And that really has nothing to do with the financial crisis, it was more a consequence from the behavior of Danish authorities. It changes in that direction. I would say Danish multinationals are pretty conservative in what they are doing, non aggressive. We have this net of anti-avoidance rules so it is impossible almost to do anything. So there is very little, what I would call, aggressive tax planning in Denmark.

D: good to know, this is interesting. An again, in your Control tax framework, composed by total tax contribution and tax transparency, you guys (PwC) do risk assessment before you set up this things; is there a change in the parameters that define risk in this environment?

S: yeah, I think we tend to be more conservative as we used to be previously in the risk assessment. So when you account for risks, putting in risk in your financial statements, doing probations risk, we a more conservative now than we were ten years ago. It is also because experience in history shows that tax payers are losing much more now than they did 10 -20 years ago. When it comes to court cases and dispute in taxes.

D: You guys changed your code of conduct, global tax code of conduct; are you aware of that one? It is kind of a common code of conduct that you share with all the PwC network. I guess they passed on to you, some time ago.

S: yeah, true. I do not know, I have it as a book mark in one of my books. I think it was a five-points, or something like this. We refreshed what we used as guidelines six months ago, so... on our code of conduct. It is basically now a bit more conservative, be a bit more careful. For our behavior in Denmark it doesn't matter really because we have been careful since forever. Because in the last liberal government period, 2005-6, we really started changing behavior, being more conservative, so when you see this global code of conduct: ok, this we might have been doing that, today not anymore. We are very far from that. So the code of conduct is just confirming that now the rest of the

world is looking like Denmark. So it does not make any interest for our work because we have been used to working in those very tight possibilities

D: as an international company; I read that you check the legitimacy of your clients before hand. Is this a competitive advantage to your competitors, or this is kind of a normalized process that everyone does...

S: Actually, in the case against laundering, there is a legal obligation to do it. You need to check who is your client ultimate holder. So every other company is doing that. It is a part of our management procedures. Generally we are extremely careful with who are we taking on board. Checking out who the people are. There is a funny story: one of our clients has a very famous shareholder. 1% owner of this group known to everyone in Denmark more or less; but we had to have his identity confirmed. So we had to ask for his passport and all.... you know this guy is hugely rich in Denmark! both his passport and his wife's. So yeah, we have this rule that applies all the time. We have internal procedures checking that we do it all the time. So it is very rare that they come out non-compliance. Because every time you charge a customer you need to have a go through these procedures, so everyone is doing it.

D: For instance, I haven't found KPMG's global tax code of conduct.

S: no? ok...

D: I just wanted to know if you understood it as a competitive advantage, like we (PwC) have a strong moral code or....

S: I think it is more about when you go and negotiate with tax authorities or If you want to have... but I am surprised they don't have a code of conduct....

D: ok, then it was not as accessible as PwC's

S: well, we see it as a kind of branding....

D: cause you have the business one, and the specific tax one, and I have only found (from PwC) the business one that has to do with diversity, and all that... but you guys specifically talk about the new one -2013, July- that you are concerned with tax planning and your consultants shall not to consult if there is no economic substance to the transaction.... That you are concerned about transactions that are only about tax avoidance....

S: yeah, because that is obviously the way the world develops, and if you want to do business, as I said to begin with, you have to adjust to the playing field you are in and that is just a part that started adjusting, so you just cannot live in your own world and say: "ok, we do like we did 10 years ago; we don't care". You will lose business on that. Of course we don't do it because we are good guys, we do it because it is our business it is our business situation.

D: good. When all this happened, did you have a call from the CSR department, have you guys been in relation about CSR reporting of the tax strategy, or have you guys had this discussion here in Denmark?

S: yeah, emmh.. we have our work with CSR is.... Yeah, I work a little bit with them, but it is not something we do day-to-day. For instance when we do our financial statements, for PwC in Denmark, we have these considerations: we do a Total Tax Contribution analysis.

D: but it is also included into the TIMM, which is a framework of CSR to disclose all the impact, or financial impact from the activity of the company, so.. it can of overlaps with the TTC

S: yeah, I just want to say, the TTC is a part of CSR report.

D: ok, so it appears in both , and there is....

S: basically, when is spoke with Danish multinationals on this, it is different how they see it, whether it is a part of CSR reporting or whether you do a separate total tax contribution report. It is mainly due to how they are organized internally. Because you, TTC tells how the hard figures show, that is the financial department. That is not CSR. CSR you are typically with people with communication skills and you are a lot shorter. Stop Numbers and all kind of staff, you need to consider how people react and all that. So what I have been trying to do in Denmark was getting people dealing with communication and people dealing with numbers (from clients), to communicate, and to some extent that has actually worked, but it is a bit different how they do it, who is the stakeholder internally for, for instance, the TTC reporting, who sits with that. I have experienced all in tax department. Well, it is tax, isn't it? So, Collecting the numbers, getting an overview on how it could look like internally, that is the tax department. I also have talk with CSR departments on how do they communicate it, how do they deal with it.

D: So, all these frameworks come from the UK, right?

S: the TTC framework, yes, that is from PwC in London.

D: and how is the relation from the UK? Do you get like 'memos' with new.....

S: yeah, they produce a number of..... for instance they have recently this paying taxes book ... it is really a book, ... on paying taxes. So they do it.... We are actually in constant dialogue because they are years ahead of us thinking this way. So when we have issues in Denmark on "how do we do this", we have discussions with them so we can learn from their experience. Recently we have discussions on banks, financial sector, how do they do that, and they have a nice publication on City of London which is focusing on the financial sector in the City of London. How does the City of London actually pay taxes in the financial sector, how do they contribute to the total UK economy and all that so we have a number of specific questions to that respect so they could help us with it. So we have a regular dialogue communication with them, to learn from their experiences.

D: so you call UK, you can get in contact with them whenever you don't know something, or sometimes the UK sends you something on how to do...

S: both. They push, keep on sending stuff...

D: and do you find sometimes that is not useful, cause it is very specific, different from Denmark, or

S: No... it is grounded in the UK, but it is differently useful. So... of course there is always some stuff that you don't use... but most of it is very useful.

D: and the TTC, could it be considered stakeholder management because basically communicates the taxes you pay. To me it doesn't seem very typical from the tax department, cause you said tax department is about numbers, but this is a way of communication. Did it originate in the tax department? Or does it come from somewhere else? This idea of communicating, apart from corporate tax all the taxes you pay; the costs of getting taxes from employees, etc. etc.

S: yeah, I don't know who got the idea, but it was back in 2002-03 where the head of that department in the UK Susan Symmons was her name, she came from HMRS –I believe he means HMRC- the UK tax authorities, so I connect her name with the start-up of all this; but where did she get the idea from, I don't know. I got it myself a lot later. When I saw the stories on the press started to appear “what was all this really about?” What is really corporate tax revenue? And they discovered that corporate tax revenue was a fragment of the total tax revenue. Well... then why are we discussing this instead of talking about how to create revenue? instead of looking at one of the smallest figure in that table, and say, we should extract more from that. It was kind of silly discussion. And then I started looking into it and then I started to look at who had published something about it and it turns out it was only PwC. When was that? 2010. So they had had a number of publications on that

D: it is then a unique strategy, having this discourse of showing, publishing all the taxes contributed. (TTC)

S: yeah, it is only a PwC UK and exists on Denmark, entirely. I haven't seen E&Y, --- trying to do that

D: and would you say it works, in terms of protecting legitimacy of customers, they way you show taxes has helped or ease the tension with government or NGOs?

S: Yeah, they generally say. OK, interesting you show these figures but you still should pay your corporate taxes, should not you? Of course you should! So you are also focusing on the corporate tax payments. You should pay in a responsible manner, and we really don't care that your employees also pay taxes saying that, TTC the framework divides the taxes you pay up into taxes borne and taxes contributes. Taxes borne is actually what is included in your profits, or actually deducted from your profit, of course, while taxes contributed that is something like payroll taxes, duties put in the bills of your customers, VAT, etc. So we still have this discussion. But I think, in order to enlighten a discussion, which I expect would take many many years, because the numbers are there, everything is available, I think it is necessary to show it because normally people would say “ok, let's have a discussion on light basis”. Of course we should pay corporate taxes and of course we should comply with the rules and all that, but we are also doing this, I think, to demonstrate your value for society, really. That is why it is into the CSR discussion; and also country-by-country reporting.

D: how do you see that. Do you think it is possible? Do you see happening the country-by-country reporting?

S: yes, it will, it will come. It is one of the items on the BEPS agenda there is some legislation on its way as well. I expect that to be on only corporate taxes, and not for instance payroll taxes, real state taxes, or whatever you pay. When you speak about IBIS they are very focused on developing countries, looking at Africa and what is happening there, etc. And the guys, what's his name, Lars Koch... he is a really nice guy.... So when he talks about multinationals should behave in a responsible manner, he thinks of Africa, when I talk about Multinationals he thinks of aggressive tax planning and hybrid instruments and stuff like that, "all the funny tricks" so it is very different. Basically we only see that in territories where it generates tax revenue, because it is only interesting to do, you know, tricky tax planning in high tax territories to lower your expenses. So it is a very different discussion that we have really.

D: so you talked with Lars Koch, you talked with IBIS, and how come you guys got in contact? Did they approach you?

S: we had.... Sometimes we are invited to speak to arrangements where, say, the head of taxes in the Danish multinationals, they have one annual meeting, and they are trying to put some interesting topics on the table. And I had a session with Lars Koch, in November. Of course we said hello and we know we had different views on things but still we are talking about something different. Where is focused in Africa or similar countries, and I am talking about "be responsible and when you do tax planning". Come on, don't be too artificial. It is something relevant, in other countries too. So, it is difficult. I was also invited to something IBIS organized, similar "pay taxes and behave" and all, so we know each other and all...

D: ok, so you have contact, that is very interesting, because they tend to put things very tremendously and.... They say that tax avoidance is very... it should be a part of CSR, and etc. So I think is good you talk together. Stakeholder management, on the other hand.

S: they are there, and you know, I was also invited to a working group with IBIS but declined that because... you know, I am paid by the hour, so why I should you care... it was more a priority of what should I invest my time in. I mean, it would be an interesting thing for me to know how are they doing things, so in that respect I will be happy to work with them. But you know, I have a business to take care of.

D: ok, that was it! Well, one more last question: are you familiar the Vodafone case, where they had to pay a lot of money when they were in course in the UK. PwC UK named them as one of the most responsible as one of the most responsible ones in terms of tax reporting company, in 2007.

S: they had won the price as one of the companies that were having one of the best tax reporting of one of the PwC publications. Is that it?

D: yeah, so what happened at then end? They got before court in England and it did not go well from them, they had to pay a lump-sum of money.

S: it was an Indian tax case, there is the famous Vodafone case, that was a very famous Vodafone case. Vodafone bought Hutchison another telecom company business in india. That company was held through a Mauritius company, Indian had a very nice treaty with Mauritius; and when you are transferring shares in India, the Indian rules say that India is entitles to getting tax on shares. And it is actually the buyer who is

responsible to pay that tax. OK, but in this case, they bought a Mauritius company, so they did not charge taxes to the Indian company, ok that is fine. They are trying to charge the Mauritius company. But Indian tax authorities said: ok, this Mauritius company was something that, you know, was somebody's stuff, we just looked through that and said: it is held by Hutchison based in Hon Kong, the Hon Kong company are trading Indian shares,. There was a change in the rules of the game. the UK company, please pay taxes. We want them here in India. And that was taken to Indian court, after 12 years or so. Very good for the lawyers So and the court said no, actually there Indian lawyers are very good, they have high standards really, the conclusion of analyzing the legislation was: no, you cannot do that because there is no requirement in Indian legislation saying that you should have something particular in Mauritius to have this transfer accepted by tax authorities. So no company is paying tax. So they actually ended up winning, so what Indian parliament did was getting pissed off and change the legislation law with retroactive effect back to 1963, when the legislation in corporate taxes was created. So now they are able to tax international transfers. So a lot of clients got pretty worried about, imagine, every transfer that was made since 1963 suddenly could be taxes by the legislation. But what happened is that they introduced the legislation but didn't enforce it. Otherwise people would be more reluctant to put their money into India. But it was the parliament reaction to it and probably at least their voters, or whatever. So...

D: so there was no case in the UK? Because I think there was some

S: oh, so maybe you are referring to another case?

D: yeah, but maybe you are not aware of it. Cause I think they went in court in the UK and they had to pay a lot of taxes because they were accused of tax avoidance. Well, although if you are in court, it has to be more tax avoidance

S: no, sometimes we have cases in court cases on the value of the assets you are trying to... you discuss their value, so.... Of a transfer from one company to another. So... it is that most of the cases are taken on discussions, really, on how to interpret certain rule. We are even in the avoidance area, so....

Interview to Anne-Louise Thon Schur, CSR Partner in PwC Denmark (December 2013)

David: ok, I think it is up and running. So we can start with this! So am, generally like, how is tax, not technically wise, but how is it regarded lately, do you see any change in Denmark, Danish society where there is a focus on tax, or do you see any....

Anne-Louise: yeah, there is change, there is always been focus, am.... There is a slight change in that companies are starting to disclose because they get attacked; so we have some media attention, so media programs that have focused on tax or avoidance of tax. And is up to Danish companies to start more in the road of explaining what is going on, and why they do as they do, and why.... 99.9 of the cases is legal, so they.... So you know.... But maybe it wasn't into the agenda before, so we have started to focus on it a bit more.

D: when do you see the changes, could you give a date, or around this or that time, or...

AL: no, I think that it actually it first appeared when first one client I know started to think about it, and that maybe or year, two years ago.

D: ok.

AL: and then I think recently because of these media programs the attention is becoming a lot more, and the change in the government two and a half years ago and they... the... they... then because it's been exchange, but then the minister of finance, the minister of business or economics or something in English, am... he made a disclosure where you had to disclose the tax of the biggest companies and obviously it prompted a little bit of attention.

D: but that was one thing at the time, or....

AL: he did that about... two years ago....

D: yeah but, that became a rule that you have to disclose your

AL: no, you don't have to, but they do, if they are publicly traded and if they are the biggest companies there's... the... the government discloses it

D: ok, and what would you say you as a company both, advisor in tax and ah.... Consultancy in CSR.... How do you face this in your environment?

AL: well it is sort of... well we ah.... It related very well because am... PwC is a company that... am... does a lot of tax advising, and we always... make very, very sure that we are completely correct and within compliance, and we don't do any speculation, we only do what's right, and that is obviously what CSR is all about, so the link is very close. There is a lot of things maybe that the company disagrees on, if you think about IBIS has been talking about, intellectual property or whatever, but am.... We, and.... There are maybe ethical considerations while you should take, you know developing the emerging markets, pay tax in the countries you operate etc. but I think am... most Danish companies wanna do the right, so am... they don't speculate, they just do.... But obviously no body wants to pay too much tax, like when Starbucks did when they paid a lot of tax to get rid of all the negativity, I don't think is the right thing because I think if it's the law being... it the rules that are wrong, it's not necessarily the company, and if the company is obliged to maximize profit, that is how we create the economic reels, I am an economist of trade, so I think it is wrong to do it because you get bad reputation, I think then the country needs to change the law, but I can see why they did it. They got so much attention from the press. And the UK is known for being a little bit more radical. I mean Denmark is not very radical as a country.

D: ok so, I've heard you guys are trying to engage into communication with the tax department, from the CSR department

AL: yeah. I wouldn't say it like that, but yeah. What are you thinking?

D: am.... Well I heard from Ulrik that you guys are trying to do like a common framework. Is that possible?

AL: yeah, yeah. What we do is that we do is we link up with our tax experts and we make sort of... we call them 'Alpha Meetings', 'Experience Meetings', where we make companies aware of this agenda. And in that meeting is open tax because we obviously invite them because of dialogue and tell what the issues are because obviously... we take Starbucks as an example. The tax people would need to see that and they, they are doing nothing illegal, so it is companies that are.... You know, why is it like this? Then

having the explanation and then tax could also strengthen that is not about not paying taxes but it is about where you pay tax and why you pay tax.

D: exactly. Because it is a moral issue at the end of the days

LA: yeah, but isn't it a moral issue because you are a company, that is not public companies, you know they are not run by the state, not government companies; eh... is it not optimizing costs? I mean, I don't know if you believe in treatment, but I think eh, if we start to seek that companies start to ask about governance, then I think we take the basis on what they operate.

D: I completely agree with you and, and I am not for the moral discussion, I am...ah... my point is there is a little bit of a tension now from both media, society and government (LA: sure!) on companies. And it is not about whether what they are doing is legal or not, because they have been engaged into legal activities for a long time. My view, there is a tension, ah, that is about your reputational risk, (LA: yeah) so how do you go about this? There is no real legal statement already (LA: no), but there is some kind of claims that might lead in the future, so as that, how do you fight that, for your self as PwC as for your clients.

AL: We don't fight it, because we, PwC, as a company, operates in a country locally. So we pay tax here, end of discussion. And we pay....

D: No, no of course not taxes, but reputation for like, you know, you get the blame and....

AL: yeah, so we, we ah... there is a common sense story to most things, we use common sense along CSR. I am against doing things because you have been forced to; because reputation. Because really, if you are doing the right thing, that reflects automatically in your reputation. Eh... I normally compare with a human being, so ah, so you whether you are a company and a human being, you do the right thing and you are constantly aware were are your trade-offs, and then you shouldn't be at blame, and then you stand up for it because you have done the right thing, normally you are quite bullet-proof. Then you see people that stand out and say, well yes eh, if you have an issue and actually it is just the way it is, it was a wrong decision and therefore you wind up paying more taxes because you can stop some losses in another countries which is normally the case you minimize your tax due to Denmark, eh... is it wrong, or is it a decision you made? Is it not necessarily, you are not avoiding to pay tax. So I think am... as long as you are keeping your moral clear, it is very obvious what you get out of there. Eh....

What I really disagree with is the pressure to change things because IBIS has an agenda that is put out in the world, in fact IBIS as such has had, you know, they are very strong in this tax thing, and that hey just have had a huge case in Iberia, were they were 'intransparent' their own employees, where 'intransparent' dealing in corruption; half a million of the state's money. So I think, you know, have order in your own house before you start pointing your finger to another people, and of course we are human beings operating in these countries, so of course we have... you know, we make mistakes, like even if you tried to do the right thing, always sometimes you didn't know all the things you were doing, and therefore you make mistakes. So I think as long as you concentrate in doing the right thing, and that is what CSR is all about. It is about ordering your own

house and doing the right thing then you must not change your payment of taxes just because someone forces you to.

However I think there are issues. In this program, Nestle has been operating here more many years, they had things that, now we are borderline, such as the CEO wasn't living at the secretary's house, but he had that address so that is a tax issue. Now were are talking about speculation.

D: and evasion more than avoidance, right?

AL: exactly, and I think then you have a moral problem, quite a muddy area. I mean, they had done nothing illegal, but they would have obviously been paying a fine, but I think now we are in a grey zone, from the CSR perspective. Because a lawyer would have obviously said: 'no-no, it is not illegal'; but from a CSR perspective you say: 'well actually...' no we are really starting to look at it. our recommendation would be: 'hung on, there are things you just don't do it because that doesn't look good' and that affects your reputation. So the difference is eh ..., following the rule, and then doing the right thing. And that is how we really work with the companies to make them understand what is actually the right thing.

D: exactly, because I think also it depends on where you stand, right? You could be arguing it is a matter of perception. So (do) you said is the perception of what's wrong has changed?

AL: yeah, yeah, in a 20 years period, perhaps. But Denmark is quite unique in that sense. Because I travelled a lot, and had a lot of work in Africa, were you see particular Chinese companies are working, and they use and abuse the mining the mines, they don't have human rights, they have bribery and corruption coming out of their ears, and then they have, you know, and of course now we are not a level playing field, because if then a Danish company comes in and does all the things, they don't get the contract, so what we need globally is a change of the agenda, so em.... There is a level playing field. And that is not happening. (D: yeah). So obviously if Denmark, an oil company decides operating in Zambia, in the mining industry, so they are taking commodity out of the soil in Zambia, belongs to Zambia, I should pay taxes in Zambia.

A Danish company would look at that, actually take it into account, and don't just go out and have to sort of, want to. It's like am... some Australian company was fined by the authorities to pay 100×10^6 USD back to Zambia. And you know, 100×10^6 USD today, it's peanuts! they should be paying 500×10^6 USD! Cause they probably have made trillions out of those mines. So now they say "we paid 100×10^6 millions, that is a lot of money!" but in relative terms, what they got out from mining in Zambia (D: it still pays off) How can you actually own resources, you know. Can you own water? Can you own mines, you know, that what you take out of the ground? Who do they belong to? Or should you otherwise be getting a royalty fee? And that is very immoral CSR discussion. We are now looking holistically at the globe, how do companies operate, what do they take into account, etc. That's... that's I think the future. So it started with avoidance, and now Danish companies are very good at this. "Ok Hung on. I am using water, who this water belongs to, what is our impact in water, can we make it sustainable?"

Companies like H&M has started to look at eh... I know it is not tax per se, but you know it is resources (D: Yeah) and they are looking at how much water goes into making a pair of jeans, (D: oh yeah, I've seen the label) and then they go "ok hung on,

how do we minimize that so no you are becoming a moral company because really maybe they don't care, but they DO care. I think Nordic companies are in particular very good at this. (D: OK) and that also reflects in the tax agenda.

D: that reflects in the tax agenda.... Because, would you say that tax, hasn't it localize a little bit, hasn't it gone back to the home country? No people are.... Because I have read some email from companies that were inquired "hey, you are avoiding taxes" and they say "well, I am paying taxes in the countries, developing countries, I operate in. And would you say now that claims are in the home country, or people still have a focus on developing countries.

AL: I don't think, I don't think we would advice, but maybe I stand to be corrected, anyone to do something that wasn't the right thing to do. So if the company makes sense and has payrolls, eh....Then they automatically pay local taxes providing that the local tax system is such that it can connect tax, so many countries in Africa don't have collecting system –that is what happened with them? in Zambia, and then they got this after tax bit, that they actually strained themselves with- And then you have Zimbabwe for instance where you have the population, you have no government at all. You employees don't pay taxes, now there is a whole economic problem with that, but then you think –as a Danish company operating in Zimbabwe- would you want to pay tax? Because are you going to corrupt government officials? Or would you then rather pull back and pay where you get health systems, schools and whatever. You should really do what is legal, what makes sense, morally, but maybe you should also take into consideration that a country like Zambia needs the taxes to build the road systems so it is sort of a head/hence and an egg situation. and if you wanna make money, in Zambia for instance, then you have to.... You have to help them with the infrastructure, get you car, or your goods out, or whatever is you take, export or import to that country.

David: ok but, in the corporate tax classic avoidance, right, where you declare your profits somewhere else and then you return it, ah, how would you set the moral standards for Denmark, do you have this in light when you are a CSR service provider, right, when you go to your clients, do you feel any change in the way you....?

AL: No. The one that have focused on it, they have order in their own house. I had this discussion with a client the other day, we get a call once a year, now that this list comes now, I don't know if you saw it. (D: no, I haven't) Ok, so when you look at this list, because Danish... - maybe I have it in my phone, I can send it to you- (D: mh-hm) so it comes out and basically you look at,? clients and they pay two billion; it kind of shocks up people. (D: I see) they have no relation to it. I mean, I don't know if you know but their actual corporate tax is 56 million per year, it is actually not very much, compared to the human tax, the personal tax, which is 250 million, so corporate tax is not very high in Denmark. But we are having another discussion with our clients; they say: we get the called ones, and we tell them how many billions we pay in tax, and we don't end up on top of that because the number is so high that keeps them out of the news that year because, you know, even if it was low, compared to turn over or whatever, you know that, but the general public wouldn't, and that is the story in this. Because we tell my mother, you know, Lego is paying two billion in tax my mother things: Great!! she doesn't relate, she thinks it is nice, even though it could be low But our companies that have been under the knife on that, companies like Danske Bank, where they have.... Ah, they pay dkk300 million but obviously compared with their turnover that seems like a very low number, even to general public; (D: yeah) but they have an investment in Ireland, where that is a huge loss, and you can deduct from that loss.... So they are not

doing anything illegal, and they are actually paying more tax than they should, because they know they have that

D: So when they get asked and they answer they pay taxes do they have it in the annual report? They have it in the annual report. (AL: yeah) yeah, ok.

AL: I think most Danish companies do what is legal, and Danish companies have to tell (D: report), yeah.

D: Ok, so let's go back to the CSR department. Ammhh, so we have these Total Impact measure and Measure Management, right? Aammh... as far as I know, you have been newly introduced to this thing.

AL: no, not newly anymore, but a year and a half (2011)

D: a year and a half ago, ok. And, how did it come, like, who.... Where the initiative came from? Was it developing....

AL: you know it is an interesting It is an interesting topic, it is very current, we are making a big presentation on it. And it is my second this week. It is a big topic. One half is basically that companies are historically reporting on em... eh.. the financials (D: yeah) financial data. Input, manufacture input, eh... you know (D: sustainable reporting) no but financial (D: financial reporting, yeah) yeah. But then people are starting to think more and more about what else is our imprint on the world (18.48), where do we affect the world. And what TIMM does is, it shows... have you seen the wheel? (D: yeah) so it shows where all the potential impacts you can see, and you can you can turn into ?? (19.02), so you can focus and create focus areas where you say well, for our company for instance, for PwC; our biggest impact on the world is of our services is our payroll. Our wheel affects on a higher level on personal tax because we obviously, that's something to have, and we make a lot of money, but we also, it's personal money. whereas for instance, Apple, that would not be the.... That would not be the thing to look at persons. That would be inputs from minerals or from productions, human capitals and the brains they have to develop there. That will be looking at social relations, very important, because of the way their reputation is affected, government officials; we are looking at other inputs. And TIMM comes into that. TIMM was introduced to Ban Kim Moon about.... Maybe not even 6 months ago, maybe 2 to 3 moths ago because this is a new way of reporting, to show other imprints than just your financials. A lot of cynics, are saying well, you know there is only one imprint and that is financial. But yeah, "we only show profit", and that is maybe a bad thing, but most Danish companies are really healthy, our big companies at least, so we It is starting to see what other impacts they make on the world. And in fact that is what stakeholders want to know. So we have a lot of family owned companies that have a very high moral, very strong sense of Danish-ness or nationality feeling, so it is very important to show, to other Danes, what actually happens; which makes a lot of sense because we get this feeling for our companies.

So we... to tell you, the Lego brand: the Lego brand is perceived as an extremely good brand, and automatically healthy brand, in all the TIMM wheel aspects. And I think that what they want to make sure that is true. So the TIMM wheel builds around reputation and perception and a very assurance way of thinking, so nobody can say that's a rapture or whatever.

D: so it is like a communication strategy. This is my impact, apart from financial, but this is my sustainability impact. This is where my operations, take into society, etc. right, and environmental as well, impacts. Am, when was this developed, when do you know, when do you think this was developed, and where?

AL: first of all it was developed just as TIM, so total impact measurement. It came out of companies that got fixed about tax, right? they said: well, actually we also have huge tax bills. So you are criticizing us for whatever it is, not doing the right product or whatever, but have you actually noticed that there are other terms that we are also making an impact by paying company tax to billions, we make sure that the government has the money in the pocket to make health, to make schools, to make... and that was the start of it. And then we actually developed and supported TIMM, measurement and management.

D: was it created in Denmark?

AL: no, it was in PwC UK.

D: UK, ok.

AL: we have our center of excellence in UK. We have there our innovation center where is all about brains obviously but, that's where all of our sort of innovative ideas come out from often. They were saying, ok, if we know this, how can we measure it, how can we manage it. So in fact if you want to make a decision on, making this example, importing. You have a manufacture in –I am using Africa again- you have a factory in Zambia. You have a need you're your, you have a Fish farm, and you need for an input or something. Then you have two choices: do you want to grow your food locally or do you want to import it? Normally you would look at whether the fish got bigger or not. (D:yeah) but here you start to look at things like: if I import my food, will my CO2 imprint go up, -my carbon footprint will go up- compared to my tax bill, compared to my water resources use, compared to my....? So you can make a little trace. Will I employ more people if I grow it Zambia? That is better for the Zambian economy. Then you sort of continue. And that is why it is called management; because you can then manage your trade-offs, you know, take decision. Maybe the food that I grow it gets more expensive, but my impact on the globe is better. And yeah, you can choose that is cheaper, but at least you know that your impact is higher. You know the trade-offs.

D: and when did it come? Like, a year, could you say when did these intelligent brains developed this....

AL: like about a year and a half ago

D: ok, a year and a half ago

AL: and then it obviously got better, better and better. The reason it got spread to here is because we needed it. The companies are very focused in sustainability and changing the agenda through a holistic approach. What are your other impacts? What is our impact in humans, livelihood says if a Danish company builds a factory in China, what are the impacts on the people in china, the community, how can we manage that? How can we measure it?

D: so there was a demand from your clients or an increasing (public) demand to be able to report holistically, or...

AL: it was a mutual thing. So it was a demand from the clients as well as something we developed together. So what happened within the consultancy house is obviously that you can smell something, something that they need here, they keep talking about it, and you develop something to help. You know, our role here is to help.

D: ok, How has it been accepted by your clients the tax bit. Because the social imprint, the environmental imprint and the environmental print -economic growth print-, were a little bit the classic aspects of sustainability reporting, right? (AL: yeah) but the taxes are a little bit like a new thing. How has it been accepted in Denmark by your clients? How do you thing...?

AL: if we take the whole wheel, emmh... you don't have to use all aspects of it, and I think now there are people who are starting to look at taxes. I think they have... it is important for them that it is included; that there is a general conception about it. I kind of really want to go down that road but I am a little bit scared because we start talking about tax, you better make sure you pay something (D: yeah). But then, thinking of it, clearly thinking what is the impact... you have a big company, you know, with a lot of employees like us, then your impact is obviously in that personnel. When we talk openly about it, the clients look and they say: wow! This is true! I show it as an example, and it makes sense to them, that it shows the company a little bit better, when you show the tax.

D: Because I have been investigating a bit the wheel, specifically in the tax. And it stems from the Total Tax Impact (AL: yeah, yeah), which is a part of the former tax control framework. (AL: yeah, we have it here too). So, but was offered, or issued from the department of tax, or from the department of CSR? Because it is stakeholder management in a way; you communicate to stakeholders. Where did it come from, from the tax itself or the CSR department?

AL: ah, that is difficult. When we were invited to the meeting they both come. So, em, I think it is different from company to company (D: ok), yeah. So I think I make the speech at people with the Total Tax Impact I think a lot of them were very critical -a lot of tax people were critical- because they were saying -obviously hardcore accountants-: were are not doing anything illegal. And then the CSR people come and say: yeah, but maybe we should think about the reputation. And I think there is a soft and a hard (approach?) and they clash, but where thy benefit is that, they look at it holistically and some companies are great at that, some other are not, but I think that is normal. It could be anything!

D: how do you manage this clash, as a company? How do you do it?

AL: we try and, get into dialogue. I think in that particular meeting there was a lot of dialogue, a lot of discussion, where we explained everything. Even in here, our tax people are obviously thinking as tax oriented, and our CSR people at the CSR, and I think a tax person per se is not so concern with the reputation as a head of CSR or communications position. But I think it is normal. It is like marketing and production (yeah, definitely. It is a process, and that is what I am interested in). it is also what you are inspired by. If you work in CSR and you are inspired by doing a difference, making a difference, whereas if you work in tax you are inspired by getting the numbers right. I

just think that is a human thing. And I think it is very different from company to company, and I don't necessarily see a difference of right and wrong. I think it is neutral. It is personality.

D: but when you have different personalities you have to cope with them, right?

AL: yeah yeah, we want to get consensus, and that is why we invite the tax and the CSR together and then we talk the issue. And when I did my speech I got a lot speak form the tax people, they were asking a lot of questions, and the communication people were nodding (D: hehe), yeah, sometimes you need a bit --- person to mellow things a bit.

D: how is your relationship with the Danish council for CSR, the Danish government.... I am assuming you guys have a good relation. Have you guys talked about where the relation is going regarding tax and CSR, or CSR in general? I mean, I am assuming CSR is more about... pardon me, tax is more about tax department, but the reputational side, the standards for CSR disclosing. Have you guys talked?

AL: Yeah! We discuss quite a lot actually in a... sort of networking of CSR. And I think we are all pro, because I think, as long as you have order in your own house, you are quite bullet proof. I think the general public doesn't understand the issue, I think it is a quite companies/(communist?) issue, because I think it has a lot of "the companies is always the bad guys". In the media program I started out we talk about is was very, very red, as in left wing. And even to the point you walk into a building and the others are the bad guys just because it looks corporate. And the communist don't get it, I think it is wrong, they don't appreciate that if you 'public-cize' (make public) every single big company like Mærsk -we have this crazy political party, that wants to make Mærsk a public company- they clearly didn't build it themselves, they don't understand how much effort goes into successful, and I think a lot of people do not appreciate how difficult is to run a good business, and before they start criticizing it, I mean, that's because they haven't tried to build a huge organization and all the trouble that goes into it. Most people don't even have, you know, a tenth of the capacity to do that. So I think that instead of criticizing these people, we should 'broad' them, I think we should appreciate the economic development. Isn't that development? Look at communist countries, how well did it go? Eh, cause the other side of the coin is America, which is totally the extreme picture, and I don't appreciate either at all.

D: so imagine I am one of these companies, and I come to you, cause you are a renown -very well known- reputation manager in a way, what would it be your... -and you know, I am on the scope of taxes, and you know, we had this discussion, ?I thought I did the right thing, I did what was legal"- what is your approach as PwC, what PwC could offer?

AL: but maybe I don't understand you question. Have they done something wrong?

D: yeah, the tax, how do you guys manage to specially what people are saying, "you should pay more taxes". I see a general trend companies are the daemons, the big companies, what do you, how or what do you advice to your customers under these times?

AL: Eh, we advice to be reasoning, and do the right thing. And I think most companies do, and they really want to do. So for instance we have something called the UK bribery act and they have CPA, anti-corruption act, and the Danish companies a more

concerned about this because we really are trying to do the right thing. We take it as a competitive advantage. Because if you are in a contract situation in Germany, which is a high stake, this is in the agenda, and our biggest market is still Germany, and we look at them, we could actually have a competitive advantage; maybe a little bit more expensive as Danish companies often are, but known for the use of human rights, not tax avoidance, no transfer pricing, you know, none of the tax issues that you would consider a problem. We are, and I am proud to say cause it has never been mentioned in none of these programs before, never been involved with any of the companies that are doing wrong luckily and I am proud to say that is because we always say to those companies to do the right thing. We really want them to and we also want to, really do the right thing. (D: it is a feedback) (AL: yeah, it is a feedback) and it is about culture. We have something called 'risk behavior culture' and we have a mission to make sure that the things you say are being lifted, and we have once a year every single employee, and I am an employee of course, has to go through our independent test from our 3 and hours of course, and if you fail, you have to do it until you pass it. And it is all about independence rules, rules for advising companies, moral issues, etc. It is a really difficult test, and every employee has to pass it. So we live by the guidance of this and it pops up when you are in situations that you have to do the right thing. We have a concept that is called 'moments that matter', where you are sitting here and, let's say I say something wrong, then that moment matters. I don't know, when you send an email to someone so think, you want to CC something, and you think "mmh, so I do or not do something" you check them off, and those are moments that matter for you, when you should do the right thing. And you know it is the right thing before you send it. So those are our guiding principles and we use them for all our transactions. And that is why 'touch wood', appeared in the press. It only takes one rotten apple, as you say in English, and of course you make lots of mistakes, but we genuinely have a strong code of conduct for these things here.

D: Ok, so as far as you haven't been touched by any tax issue, I mean, none of your clients..., you don't feel forced to change anything, obviously.

AL: No, because actually our tax expert 24/7, he is extremely competent. It is almost scary! He is really, really clever and his right hand, she is a woman with a PhD in tax, I think she was in your list and you want to interview, (D: yeah) –non relevant-. She is a very competent, but also her boss

AL: I take you have seen that TV program, right? If I were you, I would try and see at the small companies, and obviously where is the tax avoidance there. When you are small, want to grow and that is where I think some companies would try to avoid taxes. But if you look at the reputational side, not a lot of media is interested in the smallest ones. And the media looks at a small guy avoiding tax, and I think that is wrong. One of our competitors has advised him to switch home. Now, A) we don't have that many small clients. But even if we did, we would not advise them to do that. And I think that is where interesting points could be found the ones that operate below the radar. Because the big clients that we have here, they play so big, that they cannot afford it. And they wouldn't be here.

D: then again, why? In UK they can, but in Denmark is more difficult?

AL: in Denmark is more difficult because a) it is tricky b) it's immoral and c) they have those tax avoidance rules, because of those colonial pasts, they can move their companies around. And that is difficult here, because it is really only Denmark, so even,

and the is just you moving to Switzerland, or putting your HQ in Switzerland... and most people don't want really do that. Way back, 20 years ago, there were all those talks about all those companies would leave Denmark because the tax is so high here, and 20 years ago we were fearing that it would be this flat country with no industry at all; and now the other way. Because it is such a nice place to live, people are sort of thinking, "well, hold on!". Me, for instance, I don't like paying taxes, but I do like paying taxes when I see the system works. So I am not happy signing my tax check, but I am happy when what gives me. In the companies is not different. So, where the moral comes in is when you are struggling. And I can see a company struggling and maybe not having the right cash-flow that you should, etc. then, it is more tempting. The risk is not that high because you probably are not going to get caught. Those would be the cases where, I think you should be looking for your thesis. I think for the big companies, the risk of doing something wrong will be then too high. I mean, then we have this IT company, I don't know if you remember (D: no) this IT company was based on air, and they didn't have no products, no nothing, and they kept selling to America, to friends, etc. and they never paid tax because they only stole. So, other rotten apple, it is a company we (Denmark) had here 20 years ago called (NAME) it did the same, but it was a big scandal, and the it was rotten inside but it looked good on the outside. (D: "we" PwC or "we" Danish population?) No, "we" Danish population. In fact, PwC proudly stepped away when we looked at the books and we said: "ok, we don't agree" and they fired us. But it is good, it reflected very good on us, because when it blew up, we had said no. It is good. Maybe there different names, like Arthur Andersen, but it was a big scandal. But we don't have a change or anything

Revised Notes on group interview to Jacob Bræstrup and Dorte Gram Nybroe, responsible for Tax & CSR respectively in Dansk Industry (December 2013)

Tax avoidance in Denmark

The focus on corporate tax comes higher after the economic crisis, even though there was some discussion about it before it. On top of that, the topic has been a part of the political battle among a government from right in power and left in opposition. Now that the left is in power, the right doesn't want to pick on the issue, and the left has no practical way of giving solutions to it. Now the pressure is a little bit more calmed with it. The topic also gained momentum from experience of to the Extractive Industries (EITI). The first time the biggest companies disclosed their income tax there was a lot of attention but the government had no tangible action to take. It was clear that the issue was more layered than it seemed, and the Danish tax system was tight already. Following the disclosure of this year (2013), the attitude of the government has been different. They were on using such a strong rhetoric against tax practices of big companies.

The issue of tax profit tax avoidance is like any other thing in the global market. If your products need water to be produced, then you go to the places where there is more water. The same happens with profits. As long as you obey by the law, you have your pricing ratios set so you do not different pricing to the same asset to minimize the tax burden against another, which then is illegal in one of the country and thus you are evading taxes which is illegal, then you should be able to do it.

Tax & CSR

DI doesn't consider tax a part of CSR. CSR should be integrated in the corporate strategy and should be business driven. Tax is a thing of the government and a thing of tax revenue agency, which happens to know everything about Danish companies in Denmark. Why would you want to disclose information if the Danish tax office has all

the information possible of Danish companies? However, if you as a company want to include tax in CSR in the way that you communicate to stakeholders the costs of tax revenue and where do you invest the money you save from tax planning, that is up to you and maybe you should do it. The information of tax burden can be found already. True that you have to do some detective work to extract from the annual reports and so on, but it is already out there.

The issues with tax are:

- Income tax is just about the 10% of all the tax contribution of Danish companies to society. It is weird all this focus on this part of the tax, when it is not such a big part of it.
- The information disclosed around two years ago was biased as well. In Denmark, when there is a holding, the tax burden goes on the head or holding company, and not in the branches. Then the data shows that the only one company (the holding) pays taxes out of 9 (say, the other subsidiary companies). Other companies didn't have any taxation due to the nature of their business and their operations.
- Danish companies make money from their operations, whether selling goods or services, not from avoiding taxes. There has been a governing idea that the crisis was created by all the international companies, and then there is the myth of the tax avoidance is damaging the capabilities of the state, but this has little to do with reality, at least in Danish context.
- DI released 'Ten Myths on Corporate Income Tax', where they counter-argued all the points against income tax avoidance. Other initiative was to research how much was the total tax contribution of Danish Industries to the Government tax revenue to show that Income is just a very small part. Payrolls, tax revenue from selling their products and services, etc. This was an approach elaborated by DI, and it is different from PwC because the former has a top-down approach, as opposed to the bottom up of the latter. For the overall discussion, DI's is better for the sake of argument, but DI is not against the own disclosure of their companies if they want.
- Disclosing open books is tricky for two reasons
 - o The first one is the disclosure of lame business practices. When some journalists have approached DI for some new about some companies not being transparent, some companies were not transparent where ashamed of not disclosing all the information because they didn't want to show to investors the losses from buying a company that depreciated afterwards or some business decisions that incurred in losses.
 - o The second is showing to competitors your benefits and margins globally. Say one company makes business in a developing country and the only client is the government. Having to disclose profits would make very difficult to negotiate margins for that company, and then other companies, from China for instance, would have it easy to make them lose their opportunity.
- Difficulties of fair amount of tax and following the spirit of the law:
 - o Put the weight on the shoulder of the company. They have to choose for themselves what is the amount of tax they should pay outside what is claimed by law, instead of the government putting up a law framework with all the information they already have from Danish companies.
 - o This also would mean adopting a CSR that is closer to the British system, implicit CSR, where more engagement is expected from the voluntary action of the individuals, whether citizens or companies. If this

was to be implemented in Denmark, then you would have both, meaning doubling the costs for the same thing.

- If you ask population, they would claim that they pay what they are supposed to pay. In the same way, Danish companies PAY what they are supposed to. The issue of taxes is difficult because if highly technical and the public or journalist sometimes lack the scope to assess tax burden. For the public, just 'big numbers' of tax payment is enough (regardless of the relation to the profit); journalists have their vision on it. NGOs, such as IBIS, have a quite particular vision that clashes with some of the real situations of the companies. At the end reporting is not such a easy one-solution measure.

The answer to the tension

What were the answers from companies during the years of bad reputation?

- Some companies however have tried to disclose their tax activities in order to gain reputation and to brand themselves as truly engaged with the revenue of the government. One of them was McDonalds; another that is very advanced in the reporting of tax burden is A.P. M. Mærsk.
- Others have insisted in communicating that they have never incurred in illegal activities.

Europe and Denmark

The trends in Europe are an influential in Denmark, but to a big extent. The discussion of country-by-country reporting is an idea that seems to be shaping as a reality, but it contains the same drawbacks as for Danish Industries: open book disclosure is dangerous for business reputation and competitive positioning. Tax avoidance and country-by-country reporting is good as political tool for France, England, Germany, but still it happens as with Danish Government: no body has a solution. On the other hand, regarding CSR, some trends such as including the taxes in the non-financial reporting are starting to be heard in Denmark.

DI, CSR and Council of CSR

The relation between DI and Danish Council of CSR is active, but with some confronted points. DI has representation in the Council, but senses that it is in some occasions limited. DI has one of four seats in the OECD Complaint Mechanism. The complaint mechanism was drafted by the council and DI entered the working group which drafted the mechanism. lobby the result. CSR should not be enforced, it should be an integrated part of the overall strategy of the company, away from just a simple marketing tool. It could be a competitive advantage positioning – most importantly is that CSR remains flexible, business-driven and founded on interenally recognized frameworks.. This is what makes it not philanthropy or PR.

The development of CSR from here in the following years is an integration in the process of the company, and it is acquiring and establishing several topics. However it is difficult to see the direction of it in relation to CSR due to the given reasons during the interview.

