THE ROLE OF TAX IN THE FOREIGN DIRECT INVESTMENT DECISION PROCESS: EVIDENCE FROM UK FIRMS

by
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The candidate confirms that the work submitted is her own and that appropriate credit has been given where reference has been made to the work of others

Dedicated to my parents

DECLARATION

No portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institution of learning.

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ABSTRACT

This study investigates the interfaces and integration between tax strategy and corporate strategy in the foreign direct investment (FDI) decision process of UK multinational firms. Drawing on the prior literature, it aims to develop a better understanding of: (i) the role of tax in the FDI decision making process; (ii) the stages at which tax issues are considered in the decision making; and (iii) the processes by which the FDI strategic decisions are made. Data were collected by means of a web-based survey using Survey Monkey. The FAME database served to provide the main sampling frame for the data collection. A total of 192 usable responses were obtained for data analysis. The relevance of taxation in the FDI strategic decision process has not generally been addressed in UK academic literature, so little is known about the processes by and stages at which FDI decisions vis-à-vis taxation are made. It is clear from the data analysis undertaken, for example, that tax is not a driving factor in strategic decisions, but one of many factors considered, and that multinationals do not take decisions based on tax criteria alone. The thesis can thus refute, for instance, popular perceptions that multinationals' behaviour makes exploitative use of tax avoidance schemes and devices, which is typically not supported by empirical evidence. The research findings suggest that tax strategy is part of corporate strategy in the FDI decision process. The findings show that tax incentives are not an important motive for FDI compared with other business-oriented motives, which play more important roles in the FDI decision making process. The study's findings add topical and original elements to the development of academic literature in this area and are also of practical significance.

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Chapter 1: Introduction

1.1 Introduction

Foreign direct investment (FDI) has attracted the attention of many researchers for several decades (Dunning, 1993; Mintzberg, Raisinghani and Thèorêt, 1976). However, the process by which FDI decision making takes place in practice has been relatively ignored in the literature. Taxation, as a significant element within the FDI process and its interaction with corporate strategy, has also largely been ignored. An exception is the 2008 study by Glaister and Frecknall-Hughes. To address these lacunae in the literature, it is therefore necessary to carry out a study to develop a better understanding of the relative importance of tax considerations influencing corporate strategic decisions in the FDI decision process. This will provide insights into the role of tax in the FDI strategic decision making process.

When multinational enterprises (MNEs) invest abroad or engage in international trade, they usually become subject to the tax law of more than one country. Although tax systems may have similar aims and objectives, they differ from one another along a variety of dimensions. Also, the taxing mechanisms and devices become murky as commerce becomes based less on physical items and more on intangibles, such as services, communications, and intellectual property. Such shifts pose problems to taxing authorities and offer opportunities for clever tax planners. Given the nature of cross-border transactions and different national tax regimes, the MNE is therefore in a position to exploit opportunities to avoid taxes legally and minimise its overall tax liability. However, to achieve this, a critical element for the MNE is the use of a wide range of possible actions/devices to implement comprehensive tax planning, as part of accomplishing the strategic objectives of the firm. As tax planning is arguably a critical component of business strategy, it requires input from managers of most functional areas in the firm because tax issues do not exist in isolation but are part of overall corporate strategic decision making. In the past, tax planning was often viewed as a stand-alone activity and not as an integral part of management strategy (Cravens, 1997). MNEs are faced with the complex challenge of considering how to integrate tax planning within overall business strategy because tax strategy is an integral part of corporate strategy and should not be considered in isolation as merely a mechanism or technique (Glaister and Frecknall-Hughes (2008, p. 42).

This chapter aims to provide an introduction to the thesis and give a brief explanation of what the thesis is about and why this thesis has been undertaken. The chapter is divided into several sections, as follows. Section 1.2 provides the definitions of tax strategy and corporate strategy and also indicates the relative importance of tax strategy; section 1.3 gives an overview of the structure of the thesis; section 1.4 indicates the domain of the study, including an overview of the literature review chapter, research method chapter, three empirical chapters and summary and conclusion chapter; and finally, section 1.5 provides a summary for this chapter.

1.2 Tax strategy versus corporate strategy

1.2.1 Definition of tax strategy

> "Strategy is the direction and scope of an organisation over the long-term, which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfil stakeholder expectations."
>
> Johnson, Scholes and Whittington, 2005: 10

Corporate strategy may be viewed as an organisational process consisting of formulation and implementation (Andrews, 1987), which is concerned with the overall purpose and scope of the business to meet stakeholder expectations. Tax strategy can be viewed as an integral part of corporate strategy to help accomplish corporate objectives and thus create desired consequences. Tax strategy can therefore be defined as how an organisation integrates taxation considerations within corporate strategy, often with a view to minimising the overall tax liability. Tax strategy involves a number of considerations, such as tax planning, assessment of differential tax rates in different jurisdictions, tax incentives made available to encourage particular FDI decision, tax benefits that may apply to different organisational forms or to different legal structures and availability of tax allowances all of which are calibrated in the context of their overall contribution to the achievement of declared corporate strategic objectives. It is important to note that tax strategy can be very different from tax planning and tax avoidance. While definitions may be almost endlessly debated, tax planning is usually where a company manipulates its affairs by arranging its financial activities so as to minimise expenditure on tax. It often involves companies using legal loopholes and financial dispositions which are permitted by law. However, it is important to note that the practice of tax planning does not exploit unintended loopholes created between laws and the process of a taxpayer choosing how to structure their affairs is the process of tax planning (Murphy, 2010). An example of tax planning might be the choice of the time of paying contributions to company pension schemes in order to reduce a company's profits chargeable to corporation tax or an individual making lifetime gifts as allowed under UK inheritance tax rules.

While tax avoidance is the use of legal means to arrange a taxpayer's affairs such that the liability to tax is eliminated or minimised. By contrast with the nature of tax planning – the process of choosing how to structure the transactions, tax avoidance involves the exploitation of loopholes and gaps in tax and other legislation in ways not anticipated by the law (Murphy, 2010). Tax avoidance is an action with the law, however, it can involve stretching the law to extremes – obeying the letter of the law, but not its spirit (Frecknall-Hughes, 2007, p. 11; Wyman, 1997, p. 3) and so is now looked upon with askance by revenue authorities. The basic distinction that can be drawn between tax strategy and tax planning and avoidance is that tax strategy focuses on a holistic corporate strategic point of view rather than on individual business transactions. Certain tax schemes and mechanisms involved in tax planning and tax avoidance, for example, taking advantage of tax exemptions and reliefs, might also be applied in tax strategy to help achieve strategic goals. Generally, tax strategy takes a broader focus than tax planning and tax avoidance in terms of strategic decision making.

1.2.2 The importance of tax strategy

It is essential to consider why tax strategy[1] is important for corporate strategy. This is because each business transaction will usually have a tax impact, and so affect the company's overall tax liability. Once a firm determines its overall business strategy,

[1] In the context of this thesis, 'tax strategy' is taken to mean 'corporate tax strategy'.

managers are confronted with a set of choices. The choices that the firm makes will determine the type of entity, financing decisions, location of investment, capital structure, etc., subject to what is feasible from its current position, standing, or historical development. Tax issues arise when firms decide to locate operations in high tax or low tax countries, design organisational and financial structures, undertake restructuring and mergers and acquisitions and apply transfer pricing to secure income or profit movement from one jurisdiction to another, etc. Each strategic decision will normally have a tax consequence. There is a certain amount of literature examining the effects or implications of tax effects in relation to decision making (Devereux, Griffith and Simpson, 2007; Glaister and Frecknall-Hughes, 2008; Scholes et al., 2009; Yancey and Cravens, 1998). However, the relative importance of tax strategy in the strategic decision making process is relatively neglected in the mainstream literature (see Glaister and Frecknall-Hughes, 2008). Further, to examine the interaction between tax strategy and corporate strategy (given the broad, separate nature of corporate strategy), it seems sensible to focus on a specific issue of tax involvement in decision making about strategy, such as foreign direct investment (FDI), and thus attempt to discover the extent to which tax issues are considered in the development of corporate strategy in regard to FDI.

1.3 Thesis structure

Figure 1.1 provides an overview of the thesis and, as shown, the thesis is divided into seven chapters. Chapter 2 reviews the relevant academic literature, including that relating to the main theoretical perspectives regarding the FDI decision process and how tax strategy can fit into the various stages of the FDI decision making process. The literature review starts with a consideration of recent tax issues involving Tesco, the retail and property giant, as an example to highlight the tax issues that have appeared in practice, to demonstrate why the thesis is undertaken and whence its purpose derives. Drawing on prior research findings, the literature review provides a theoretical background to the study to inform the development of the research questions. Chapter 3 sets out the research methods employed by the study.

The analysis of the primary data is presented in Chapters 4 to 6. These chapters are organised as follows: an analysis of the role of tax in the motives for and location of

FDI; the interaction between tax strategy and corporate strategy in the FDI decision process; and an analysis of the FDI decision making process in two types of situations when tax is either considered or ignored in terms of decision making.

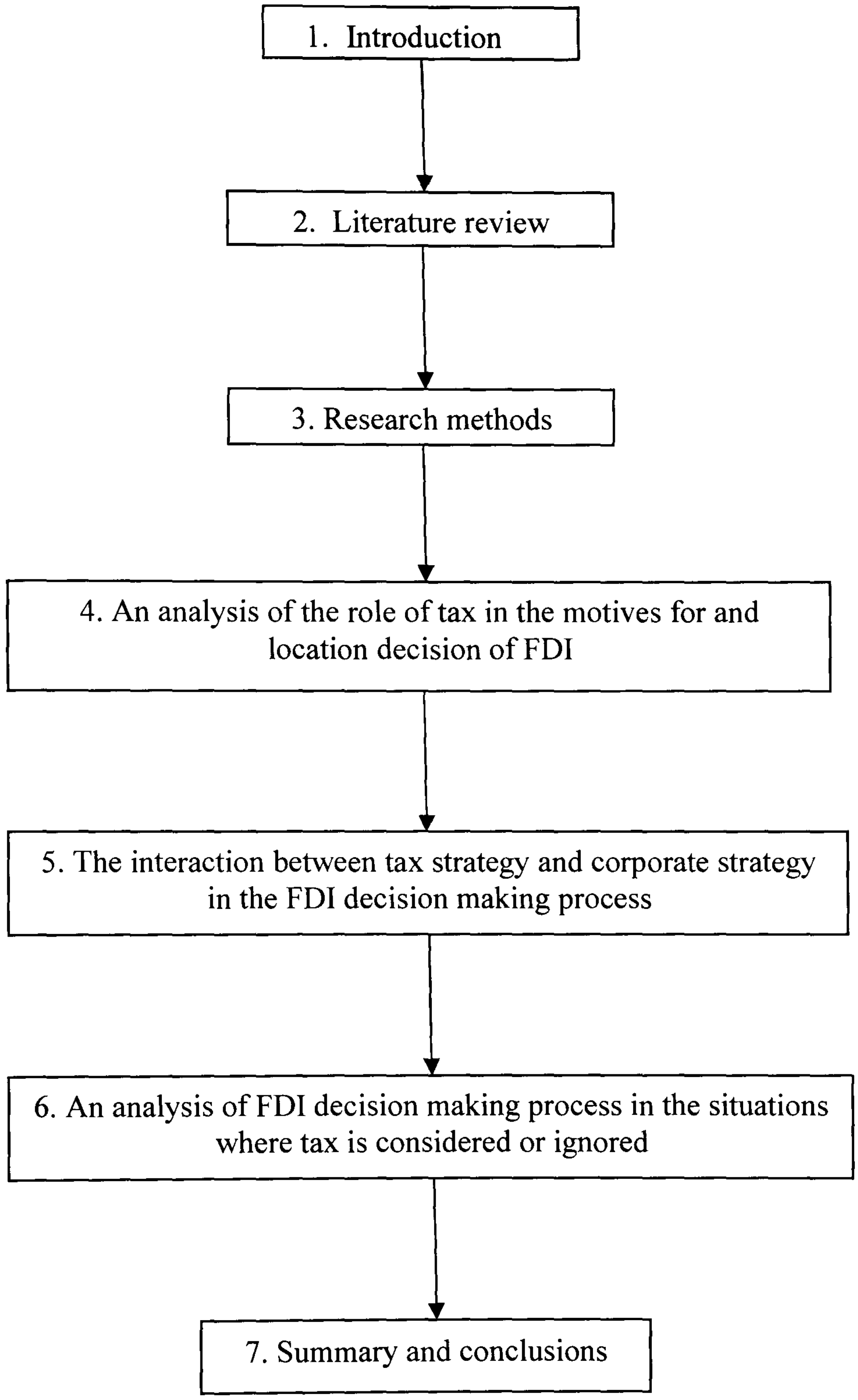
The research questions underlying the study, measurement of the variables, the results and the discussion are detailed in each of the respective analysis chapters. The literature review provided in Chapter 2 aims to review the main published work to demonstrate how the research questions relate to and build upon previous studies. Chapter 7 provides a discussion of the study, including a summary of the findings. The content covered in each of these chapters is briefly reviewed in the next section.

1.4 Domain of the study

1.4.1 Literature review chapter

Chapter 2, the literature review, has three main parts: (i) tax issues highlighted by the example of Tesco; (ii) the FDI strategic decision making process; and (iii) how tax strategy can fit into the FDI decision process. Tax issues raised in the Tesco case shed light on the fact that some large multinational companies may use various devices in an attempt to avoid tax liabilities. Such an example in reality provided an incentive to undertake the study in order to investigate how taxation is treated in the FDI decision making process in practice. The model of the FDI decision making process employed in the study is developed from Larimo (1987). According to Larimo (1987, p. 154), the FDI strategic decision making process consists of three main phases: (1) identification; (2) development; and (3) selection. Each of the main strategic decision making phases can be divided into further specific stages. The phase of identification includes recognition and diagnosis stages. The phase of development consists of search and design stages. The final stage of the process – selection – involves the steps of screening, judgement, analysis, bargaining and authorisation. The model identified by Larimo (1987) provides a clear picture of the FDI decision making process.

Figure 1.1 Overview of the thesis structure



The main part of the literature review considers how tax strategy can fit into the FDI decision making process. Drawing on the prior literature, the relevant tax strategies identified with respect to FDI strategic decisions include: (i) the location decision for FDI; (ii) motives for FDI; (iii) choice of strategic market entry mode of FDI; (iv) selection of ownership form of FDI; (v) transfer pricing strategy; and (vi) income shifting policy. Further, the interface between tax strategy and corporate strategy in the FDI decision process is also analysed. The research questions developed from and informed by the literature review are as follows.

(i) What is the relative importance of the stages of the FDI decision making process in practice (e.g., recognition of investment opportunity, investigation of investment opportunity, investigation of target market, identifying the appropriate organisational form, identifying the ways of financing the FDI, identifying the appropriate legal structure, identifying the appropriate management structure and reviewing the choice of decisions)?

(ii) What is the relative importance of tax incentives in the strategic motives for and the location decision of FDI?

(iii) Does the importance of the variables (e.g., strategic plan of the firm, prior international operation experience, size of the investment, potential target country, available acquisition candidate, available joint venture partner, competition situation, and effective management) in the FDI decision making process vary according to the FDI strategic decisions?

(iv) Do the different stages at which tax implications are considered in the FDI decision making process (e.g., the stage when investment proposal is raised, the stage after the investment proposal is decided, and both before and after the investment proposal is made) have an influence on the FDI strategic decisions (e.g., motives for and location decision of FDI)?

(v) In practice, what are the processes by which the FDI decisions are made with respect to tax considerations?

(vi) Is corporate strategy given priority over tax strategy in terms of strategic decision making?

(vii) How does tax strategy interact with corporate strategy with respect to FDI decision making?

1.4.2 Research method chapter

Chapter 3 sets out the research method employed to collect the data for undertaking the empirical analysis. This chapter establishes the background for the primary data collection by means of an on-line questionnaire survey administered to the Chief Financial Officer (CFO) or Group Director of Taxation in UK-based multinational firms. The issues relating to the process of data collection are considered and the sample characteristics of the collected data are provided. Survey Monkey was employed as a means of administering a web-based survey. Also, follow up telephone calls and reminder e-mails were sent to encourage response. Additionally, in order to increase the likelihood of response, two UK professional organisations, the Chartered Institute of Taxation (CIOT) and the Institute of Chartered Accountants of Scotland (ICAS) provided support for the study. The FAME database for UK companies was used as a sampling frame. The Hemscott Company Guru database was used to provide detailed information for the potential participant companies.

1.4.3 Research findings chapters

Chapter 4

Chapter 4 analyses the role of tax incentives in the strategic motives for FDI and location of the FDI. The chapter is divided into two sections: the first analyses how the strategic motives for FDI vary with the key characteristics of the sample (industry sector of FDI, geographical location of FDI and capital size of FDI); and the second considers how the FDI location motives vary across the sample characteristics (industry sector of FDI, geographical location of FDI and capital size of FDI). The findings report that from a strategic motive perspective, the FDI location decisions vary with tax incentives. As a location motive, tax incentives were found only to vary with the capital size of the FDI.

Chapter 5

Chapter 5 explores the interaction between tax strategy and corporate strategy in the FDI decision making process. This chapter examines the variation in importance of the components of tax strategy (e.g., transfer pricing policy, income shifting policy, achieving low tax rate, availability of tax allowances, achieving double taxation relief and choosing investment location) and determinants of tax strategy (e.g., tax minimisation, compliance with business strategic plan, availability of tax incentives, ease of profit extraction, mitigation of risk and imitation of the action of competitors) with the key sample characteristics. Further, the chapter discusses the relative importance of tax strategy and corporate strategy, as well as the integration of the two strategies. The findings suggest little evidence or no evidence to support the view that the relative importance of both the components and the determinants of tax strategy vary with the characteristics of the sample. With respect to the integration between tax strategy and corporate strategy, the results of this chapter suggest that tax strategy is fairly well integrated with corporate strategy in the FDI decision process. Also, corporate strategy was found to be relatively more important than tax strategy and often given priority over tax strategy if a conflict occurs.

Chapter 6

Chapter 6 investigates the FDI decision making process in two situations, either when tax implications are considered or when they are ignored in terms of FDI strategic decision making. This chapter explores the FDI decision making process and identifies the relative importance of the stages in the FDI decision process, particularly when tax issues are brought into the process. The analysis of the chapter is in two parts: one focuses on the analysis of the FDI decision making process and its implications for FDI strategic decisions in terms of ownership form and market entry mode, and the other analyses the relative importance of stages of the FDI decision process when tax implications are considered and when they are not. The evidence from this chapter indicates that the relative importance of the variables in the FDI decision making process is not likely to vary with the choice of the FDI ownership form and the market entry mode. Further, the findings show strong support for the argument that the relative importance of the stages of the FDI decision process varies when tax issues are taken into consideration.

1.4.4 Summary and conclusion chapter

Chapter 7 presents the summary and conclusions to the thesis, in terms of the overall aims as outlined in Chapter 1. It also emphasises the implication of the study and suggests areas for future academic work.

1.5 Summary

This chapter has given an overview the context of the study, the research gaps from the literature which it aims to address and has clarified a definition of tax strategy and corporate strategy, as well as outlining the chapters that follow. The next chapter provides a literature review of the role of tax in the FDI decision making process and develops the research questions for the study.

Chapter 2: Literature Review

2.1 Introduction

The purpose of this chapter is to examine in detail the literature on the foreign direct investment (FDI) decision process, with particular reference to the role of tax, in order to investigate the interface between tax strategy and corporate strategy. The chapter is divided into several sections, as follows.

Section 2.2 identifies tax issues apparent in tax practice; section 2.3 identifies that FDI is a form of corporate strategy with respect to overall business strategy; section 2.4 evaluates the FDI decision making process; section 2.5 analyses how tax strategy fits into the various stages of the FDI decision process; sections 2.6 to 2.9 focus on the analysis of the role of tax in different stages of the FDI decision making process; and finally, section 2.10 provides conclusions for this chapter.

2.2 Tax issues raised in practice

As they are better placed to take advantage of the variation in taxes across countries, MNEs may be incentivised to consider tax strategy to a greater extent than small firms. A recent case involving Tesco, the retail giant, has highlighted practices adopted by this particular MNE, and hence the topicality of the study (Leigh, Guardian,[2] 2008). The supermarket company faced allegations made by the *Guardian* newspaper that it sought to avoid corporation tax on millions of pounds of profits through an offshore scheme. Basically, Tesco used an overseas partnership structure to channel £1bn debt finance to other divisions of Tesco. Although the *Guardian* subsequently acknowledged its factual errors and apologised for incorrectly saying that Tesco was avoiding up to £1bn corporation tax, importantly, this case shed light on some of the issues apparent in tax practice, such as morality issues associated with tax strategy and planning policy, along with the tax treatment in respect of corporate strategic decisions.

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[2] Specific typical citation, as the story which the *Guardian* Tesco ran about lasted for several weeks.

The tax arrangement implemented by Tesco seems to commit no offence against UK tax law. However, with respect to morality and corporate social responsibility (CSR), such highly sophisticated tax strategies bring global companies to the close attention of the public. This is because certain types of tax strategy and planning techniques, for instance, tax avoidance which may be part of the strategic decision making are perceived as just as bad as evasion and, according to HM Revenue & Customs (HMRC) in the UK, should not be treated as any different. This is because although tax avoidance is lawful, the purpose of which is to avoid the creation of a tax liability in the first place. It usually comprises a complex and artificial series of transactions, financial engineering or transactions undertaken solely for tax reasons (HMRC, 2006). For instance, the '*Reverse Morris Trust*' – a tax avoidance technique that is increasingly deployed by firms seeking to sell off unwanted assets without paying taxes on their gains (Bizshifts-Trends, 2011). The technique starts with a parent company looking to sell assets to a smaller external company. The parent company then creates a subsidiary, and the subsidiary and the smaller external company merge to create an unrelated company. The unrelated company then issues 50 per cent shares to the shareholders of the original parent company. The parent firm has effectively transferred its assets, tax free, to the smaller external company. Such case in which business transactions were structured so as to solely enable tax avoidance in order to achieve the purpose of reducing tax payment shows why certain types of tax avoidance are perceived as just as bad as tax evasion.

Tax evasion is known as illegal and dishonest behaviour, which might be the "deliberate omission or understatement of income undertaken with the intention of not paying tax where such payments are required by law" (Frecknall-Hughes, 2007, p. 11). Cross and Shaw (1981, 1982) and Seldon et al. (1979) argued that evasion and avoidance are just two arbitrary segments of a continuum that stretches from tax planning through to tax evasion. Lymer and Oats (2010, p. 389) suggest that the distinction between the three types of activity is by no means straightforward, but also indicate that it is possible to think of it as a continuum, as shown in Figure 2.1.

Figure 2.1: Distinction between tax planning, tax avoidance and tax evasion
(Source: Lymer and Oats, 2010, p. 389)

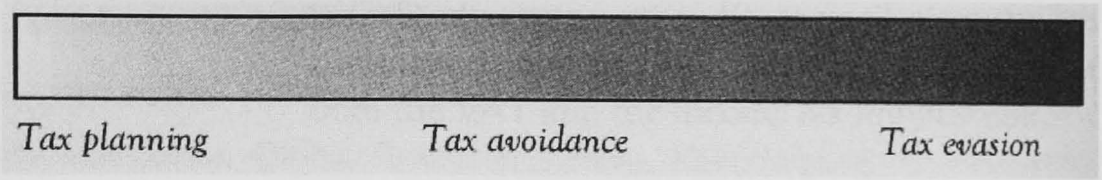


Figure 2.1 shows the degree of the three tax activities with reference to UK tax law. Both tax planning and tax avoidance are perfectly legal activities, though tax avoidance can involve stretching the law to the extreme (Frecknall-Hughes, 2007; Wyman, 1997). However, the challenge often apparent in tax practice is the difficulty of drawing the line between what is now termed 'acceptable' and 'unacceptable' tax avoidance. Bond, Gammie and Whiting (2010, p. 172) noted, the Tax Avoidance Disclosure regime is the most important recent legislative development in tackling avoidance. The volume of disclosures made is important for the judgement of the acceptable and unacceptable avoidance and the blocking measure deployed to halt arrangements sees as unacceptable (Bond, Gammie and Whiting, 2010, p. 172). The forms of avoidance seen as unacceptable have been drawn close attention from the government even if they satisfy the letter of the law. In the words of OECD's Secretary General, Donald J. Johnston, 'there is a limit to what we regard as acceptable and the limit is breached when people take advantage of tax breaks in a way Parliament would not have anticipated'[3]. It indicates that the authorities will not judge tax avoidance only based on the letter of the law, but the purpose of the transaction, for instance, any artificial arrangement with the intention of reducing the tax liability in the first place will no longer be tolerated and will be countered, if necessary.

In fact, some accounting firms are the major players in selling tax strategy and planning schemes to their clients in order to attract or maintain their customers (Sikka and Willmott, 1995). According to Sikka and Hampton (2005, p. 331), Enron's highly complex tax strategy and planning schemes were designed by Arthur Andersen and Deloitte & Touche along with Chase Manhattan, Deutsche Bank, Bankers Trust

[3] The words of Donald J. Johnston, Secretary-General of the OECD are cited in the on-line article of 'Legal Tax Avoidance vs. Criminal Tax Evasion' via http://www.offshore-fox.com/financial-privacy/offshore_banking_0102.html

and several major law firms. Christensen and Murphy (2004, p. 40) have also considered the harmful practices of tax strategy and argued that business should adopt similar standards in relation to taxation as they adopt for corporate social responsibility (CSR). For example, in a survey conducted by UK-based fund managers, Henderson Global Investors (2005), when companies were asked what consideration they had given to the relationship between tax strategy and the stance on corporate social responsibility, many companies did not address this question in their responses to the survey or suggested that they perceived a tension between the objectives of tax management and the concept of corporate responsibility.

Tax authorities around the world are now tightening rules and stepping up monitoring and enforcement action to prevent what they view as inappropriate tax strategy. Often the degree of artificiality is a major criterion in determining what is too aggressive (Williams, 2007). Some researchers have argued that tax is a matter not just of law but of morality (Stainer, Stainer and Segal, 1997) and other commentators are suggesting that approaches to tax should be seen as a matter of CSR (Sartoris, 2003 and Williams, 2007). Ethical considerations may assist in drawing the border line because the law seems unable to provide a sound basis for distinguishing acceptable tax planning from unacceptable tax strategy.

Moreover, given the way in which Tesco acted – setting up a partnership overseas to channel £1bn debt to the foreign divisions and subsequently enabling the company to defer UK corporation tax of £20m – raises several questions about how tax strategy generally might be linked with corporate strategy, as follows.

(i) How was tax strategy treated in the corporate strategic decision making process (e.g., did tax implications drive or were driven by the strategic decisions in terms of establishing a foreign partnership in the case of Tesco)?

(ii) To what extent was tax strategy integrated with corporate strategy in the Tesco case?

Drawing on the case of Tesco and the relevant issues apparent in current tax practice, this research has been undertaken with the aim of examining how tax strategy can interact with corporate strategy in terms of FDI strategic decision making.

2.3 FDI as a corporate strategy

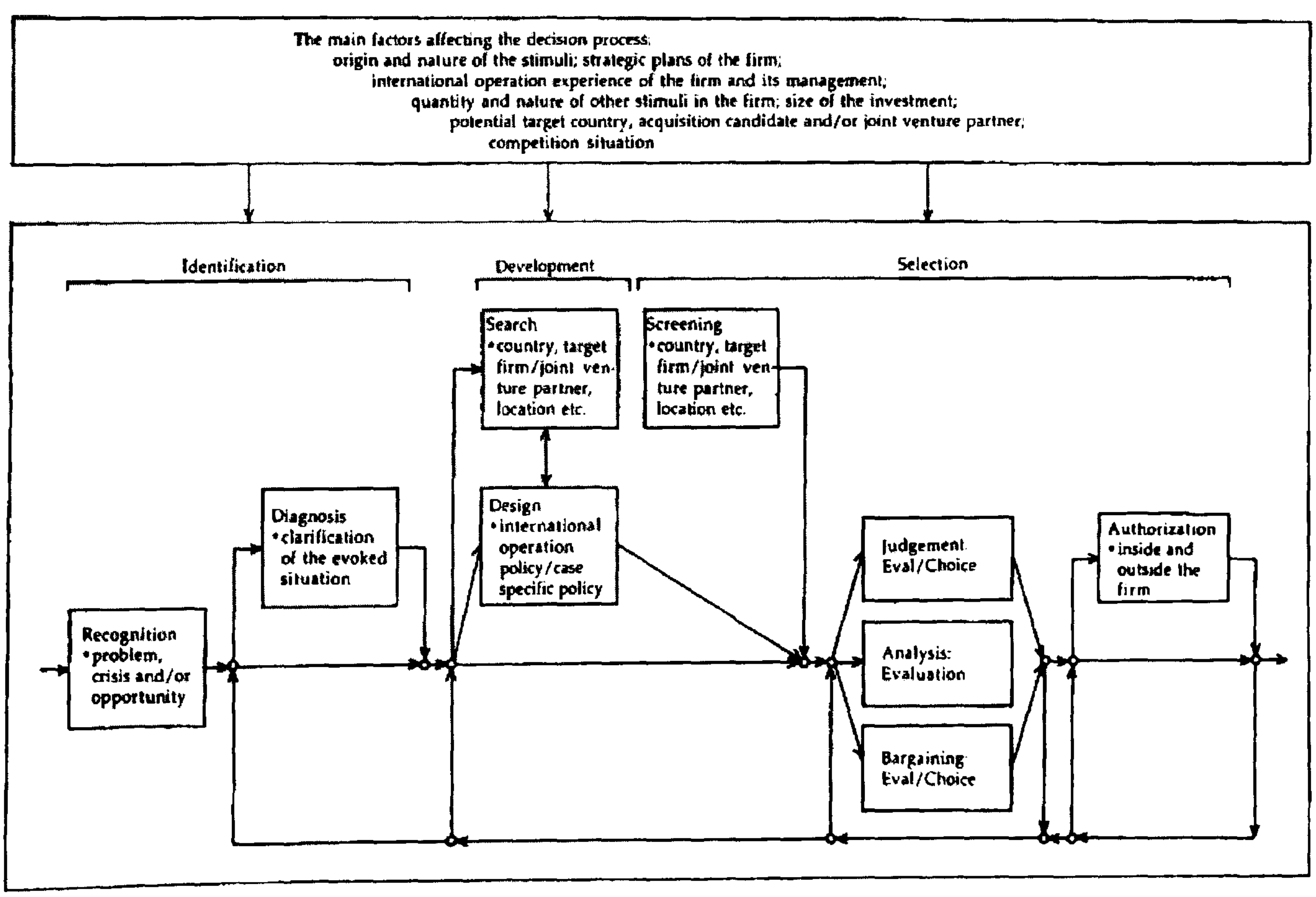
FDI is defined as "[i]nternational capital movement with the investing companies retaining the control over the use of the resources involved" (Qu and Green, 1997, p. 2). It usually involves establishing, acquiring, or expanding an affiliated subsidiary corporation or branch. FDI plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing. Multinational companies are normally the vehicles for FDI (Singh, 2005, p. 1). An MNE is in general defined as an enterprise that engages in FDI and owns and controls value-adding activities in more than one country. This is definition of an MNE is widely accepted in both academic and business circles (Dunning, 1993). FDI is therefore an important strategic decision in multinational firms. When MNEs globalise their operations and exports to sustain their competitive market positions (Dunning and Lundan, 2008), they have to deal with cross-border transactions and may face double taxation as a result of FDI. MNEs are therefore in a position to exploit opportunities and adopt investment strategies to avoid tax legally and thus achieve tax minimisation.

This is the reason why FDI is chosen as a corporate strategy by means of which to examine the relationship with tax strategy. Because of cross-border activities and internal structuring, MNEs are often in a position to use tax strategy to take advantage of tax incentives offered by host countries. According to Conover and Nichols (2000, p. 200), large firms significantly reduce their global taxes through the use of intra-firm transfers as compared with small firms. The nature of FDI therefore provides an opportunity to obtain a clear picture of the role of tax in the FDI decision making process and also to develop a better understanding of the interaction between tax strategy and FDI strategic decisions. Before examining in detail the relationship between tax strategy and corporate strategy in FDI, it is important to consider the FDI decision making process itself.

2.4 FDI decision making process

The importance of FDI strategic decisions lies in the fact that they are at the riskier end of the capital investment spectrum, owing to the complex political, cultural, economic and legislative considerations that affect FDI decision processes (Sykianakis and Bellas, 2005, p. 955). To ensure an effective FDI strategic decision, a comprehensive FDI decision process is necessary. Relatively little is known about foreign investment decision making processes in practice, although several researchers have examined the general model of the FDI decision process and the main factors affecting it (Larimo, 1987, 1995; Mintzberg, Raisinghani and Thèorêt, 1976; Sykianakis and Bellas, 2005). How corporate strategy interacts with the FDI decision making process is relatively neglected in the prior literature. As a framework for the analysis, the general model of the strategic FDI decision making process developed by Larimo (1987) is used. According to Larimo (1987, p. 154), the FDI strategic decision process mainly includes three stages: (1) identification, (2) development, and (3) selection, which is illustrated in Figure 2.2.

Figure 2.2: A general model of the FDI decision process and the determining factors (Source: Larimo, 1987, p. 154)



To gain a better understanding of the FDI decision process, the three main strategic decision making phases can be divided into the following routines.

2.4.1 Recognition

The first step of an FDI decision process is usually considered to be the identification of the investment project – the recognition routine. As Larimo (1995, p. 27) noted, the stimulus for FDI is usually an opportunity arising in a foreign country, rather than a problem that necessitates change. Generally, the main motive for multinational corporations to engage in FDI is the need for continuous growth. Sykianakis and Bellas (2005, p. 958) suggested that a Chief Executive Officer (CEO) might consider foreign expansion as a means of preserving high rates of growth and dynamism in the company. Other factors may also cause the recognition of a need for FDI, such as political changes or economic crises. Thus opportunities, problems and crises are identified in the recognition step and evoke decisional activity.

2.4.2 Diagnosis

Following the recognition routine, the initial investigation undertaken in FDI is usually related to the choice of location (Larimo, 1995, p. 27), followed by the choice of product range (Sykianakis and Bellas, 2005, p. 958). The role of diagnosis is basically to tap existing information channels and open new ones to clarify and define the received stimulus in order to proceed (or not) to the decision process. Hence decision makers seek to comprehend the evoking stimuli and determine cause-effect relationships (Mintzberg, Raisinghani and Thèorêt, 1976, p. 253). The initial ideas and proposals therefore shape the way in which projects are defined (Sykianakis and Bellas, 2005, p. 958).

2.4.3 Search and design

The preliminary search for the information about the targeted country considers some general indicators, for example, politics, economics, demographics and the market environment in the country. Also, during the search stage, the company might make the first contacts with partners or agents from abroad in an attempt to obtain full and accurate research on the targeted country because it is vital to the FDI decision making. However, information available during development is often inadequate, not up to date and difficult to process (Pinches, 1982). Therefore, decision makers have to rely on information channels, strategic and non-financial considerations and, of course, on their own judgement (Sykianakis and Bellas, 2005, p. 959) to obtain useful information about potential partners and markets.

Once full research has been undertaken and enough information has been collected, managers have to engage in designing a solution and planning for the FDI decision. Mintzberg, Raisinghani and Thèorêt (1976, p. 256) argue that design starts as a vague idea and ends as something tangible. The design routine is therefore characterised by uncertainty about the process's future outcome (Sykianakis and Bellas, 2005, p. 959).

2.4.4 Screening

The screening process is more concerned with eliminating what is infeasible than with determining what is appropriate (Mintzberg, Raisinghani and Thèorêt, 1976, p. 257). To reduce the infeasible options, information about the economic, political and market environment of the targeted country, as well as prospective partnerships, all become important for managers when deciding whether a project fits with the overall corporate strategy and also helps to estimate future demand for the company's products. The screening process is important in leading to an effective FDI decision.

2.4.5 Judgement, analysis and bargaining

Mintzberg, Raisinghani and Thèorêt (1976, p. 258) argue that evaluating choice often appears to be a kind of trimming of the process, a ratification of the solution that is determined explicitly during design and in part implicitly during the diagnosis stage. The process of evaluation of choice may be considered to use three modes: judgement, analysis, and bargaining.

(i) In judgement, managers make choices in their own minds by means of cognitive processes in reaching decisions or drawing conclusions. However, such a process may refer to the decision maker's specific interpretations of the subjects in his/her mind. They are unique to the person experiencing and perceiving them, thus the judgement is highly subjective.

(ii) In analysis, following up managerial choice by judgement and bargaining, a factual evaluation is carried out to make a further analysis of the investment decision.

(iii) In bargaining, selection of an investment proposal is discussed by a number of decision makers with conflicting goal systems with each exercising subjective judgement. For example, a finance department might attempt to manage costs whereas a marketing department may try to gain more budget allocation in terms of making advertisement and product promotion.

2.4.6 Authorisation

When the FDI decision is made, the decision maker must have authority to commit the organisation to a course of action. Typically, authorisation is sought for a completed solution after final evaluation of choice, which appears to be a binary process, acceptance or rejection of the whole solution (Mintzberg, Raisinghani and Thèorêt, 1976, p. 259). Acceptance leads to a course of action, whereas rejection leads to its abandonment or redevelopment.

It is important to note that the FDI decision process has attracted considerably less attention from researchers than has domestic investment (Sykianakis and Bellas, 2005, p. 955; Wilson, 1990, p. 28). The economic theory on foreign investment, international business and multinational corporations is well developed in the literature. However, little is known about the processes by which investment decisions are made. Sykianakis and Bellas (2005, p. 965) argue that the FDI decision making process is cyclical in nature. However, this reveals only the tip of the decision making iceberg. For instance, the extent to which corporate strategy interacts with the FDI decision making process is ignored in the mainstream literature on the FDI decision process. As Boddewyn (1983, p. 23) argued, little has been done from a management and organisational behaviour perspective to theorise about how

FDI decisions are made. Also, there is a lack of research on the FDI decision making process from a practical point of view to justify the relative importance of the stages of the FDI decision process. It is still ambiguous how in reality strategic decisions are made throughout the FDI decision making process. There is a gap between FDI decision making theory and understanding of practice in the literature. This therefore leads to the first main research question.

1. What is the relative importance of the stages of the FDI decision making process in practice?

The research therefore attempts to explore the FDI decision process from managerial and organisation behavioural perspectives in order to contribute to knowledge about the relative importance of taxation in the stages of the FDI decision process. Also the process itself is considered in order to examine how and when FDI decisions are made in order to fill the gap in the literature with regard to taxation. This is because little prior empirical literature has addressed the role of tax within an appropriate FDI theoretical framework. The relative importance of the tax issues in the FDI decision making process is neglected in the current literature. Therefore, it is essential to examine how tax issues integrate with and affect, or are affected by, the FDI decision process.

2.5 The role of tax in the FDI decision process

FDI is a major stimulus to host country economic growth resulting from its perceived ability to deal with major obstacles, such as shortages of financial resources, technology and skills in the host country. It has been seen as a key to improve the economic situation. To attract large inflows of FDI to aid economic development, host countries have put in place various initiatives, such as improvement of infrastructure, liberalisation of the economy and granting of various incentives, including tax incentives. The purpose of offering tax incentives is to influence the location decisions of investors. To maximise the benefits of tax incentives, multinational corporations engage in various tax strategies.

2.5.1 Tax strategies identified in the literature

Once a multinational company decides to engage in FDI, managers are confronted with a set of choices. The choices made will determine the type of FDI entity, financing decisions, location of foreign investment operations and capital structures, etc., subject to what is feasible from the MNE's current position, standing, or historical development. There is a significant amount of literature examining the effects of, or implications of, tax effects in relation to FDI decision making and some of the strategic issues are inter-related. Altshuler, Grubert and Newlon (2001), Buettner and Ruf (2005), Meyer and Nguyen (2005), Scholes et al. (2009), Swenson (1994) and Szanyi (2001) examined the impact of tax on FDI location decisions. Derashid and Zhang (2003), Devereux and Griffith (1998), McIntyre and Nguyen (2000) and Shaw and Wier (1993) addressed the relative importance of tax issues to strategic motives for FDI. Brouthers and Brouthers (2000), Demirbag, Tatoglu and Glaister (2008) and Padmanabhan and Cho (1995) considered the tax implications of the foreign market entry mode. Gentry (1994), Graham (2003) and MacKie-Mason (1990) studied the tax implications of corporate financing decisions. Collins and Shackelford (1997), Desai and Hines (1999), Gordon and MacKie-Mason (1994) and Holmstrom (1991) identified the effects of taxes on the choice of organisational legal form. Cools, Emmanuel and Jorissen (2008), Cravens (1997) and Halperin and Srinidhi (1991) evaluated the importance of transfer pricing strategy in cross-border transactions. Harris (1993), Jacob (1996) and Klassen, Lang and Wolfson (1993) found that US based MNEs shift income between geographical locations in response to changes in tax rates and rules. By reviewing the prior empirical literature, the relevant tax strategies are identified as follows.

(1) Location decision of FDI
(2) Strategic motives for FDI
(3) Choice of strategic market entry mode of FDI
(4) Selection of ownership form of FDI
(5) Transfer pricing strategy (e.g., arm's length price)
(6) Income shifting policy

In the literature, however, the interface between tax strategy and corporate strategy in the FDI decision making process has been relatively neglected. Moreover, little attention has been given to the role of tax in the FDI strategic decision making process other than to the specific tax implications of a particular corporate strategic decision (Glaister and Frecknall-Hughes, 2008). Given the model of FDI decision making process discussed in Section 2.4, in order to identify the role of tax in the process, it is important to assess how tax strategy can fit into the various stages of the FDI decision process.

2.5.2 Tax strategies in the FDI decision process

The various tax strategies can be categorised and fitted into the different stages of the FDI decision process. The choice of location and motives for FDI can be categorised as part of the initial stages of recognition and diagnosis in the FDI decision process. The choice of organisational forms and financial and legal structures of the FDI can be considered at the stages of search, design and screening. The tax strategies of transfer pricing and income shifting policies can be located in the stage of evaluation choice. The final stage – authorisation – might involve implementation of the tax strategies made in the previous stages. The strategic decisions associated with tax strategies identified in the FDI decision making process are presented in Table 2.1.

Table 2.1 shows how the various tax strategies identified in the literature fit within the particular stages of the FDI decision making process. Also, it suggests that tax strategy does play a part in the decision process, which is in line with the findings of Glaister and Frecknall-Hughes (2008, p. 41). To develop a better understanding of the role of tax in each stage of the FDI decision process, it is necessary to investigate further how tax strategy fits into each stage of the FDI decision making process in order to assess the interaction between the tax strategy and the corporate strategy with respect to FDI decision making.

2.6 Tax strategy at the stage of recognition and diagnosis of the FDI decision process

The initial stage of the FDI decision making process is usually considered to be the identification of the investment project, which includes the recognition and diagnosis routines (King, 1975; Mintzberg, Raisinghani and Thèorêt, 1976). One of the important decisions to be made at the beginning is the choice of investment location. At the initial decision process stage, it is also important, where appropriate, to consider the availability of natural resources and take advantage of any low cost manufacturing base in the foreign market, as well as to overcome barriers/restrictions to trade with respect to strategic orientation, as identified by Dunning (1993, p. 61). The following sections will examine the role of tax incentives in the stages of recognition and diagnosis of the FDI decision process with respect to motives for, and location decision of, the FDI.

Table 2.1: Tax strategic issues in the FDI decision making process
(Source: compiled by author)

Stages of FDI decision process	FDI strategic decisions	Tax strategy applicable
Recognition and Diagnosis	• Location of FDI • Strategic motives for FDI	• Tax rate differentials in different jurisdictions • Favourable tax incentives offered in different host countries
Search, Design and Screening	• Strategic market entry mode • Ownership form of FDI	• Tax rates applicable to different legal structures, e.g., public or private limited companies, partnerships, etc. • Tax benefits applicable to different organisational forms, e.g., JV, 'greenfield' site, M&A, subsidiary or branch
Evaluation choice (evaluating the feasibility, e.g., judgement, bargaining and analysis)	• Transfer pricing strategy • Income shifting policy • Profit repatriation	• Arm's length price between related parties in cross-border transactions • Shifting income from high tax country to low tax country (if possible) • Timing of repatriation of dividends/profits from the foreign subsidiary
Authorisation	• The stages at which tax issues are considered in the FDI decision process • Priority between tax strategy and corporate strategy • The relative importance of the stages of FDI decision process taking account of tax considerations	• Judging the integration of the tax strategy and corporate strategy • Investigating the stages at which tax strategies are considered, e.g., before the corporate strategy or after • Deciding when there is conflict of corporate strategy and tax strategy, which one is given priority

2.6.1 The role of tax incentives in motives for FDI

MNEs may have many motives for undertaking cross-border direct investments. Economists offer four major theories to explain motives for MNEs to invest abroad (see Boddewyn, 1983; Gordon and Lees, 1986; Liou, 1993; McGuire and Landefeld, 1991). The theories are: (i) international trade theory, which includes the comparative cost view and the product life cycle view; (ii) location theory, which considers transportation costs and resource availability; (iii) investment theory, referring to the cost of capital approach, which contains the imperfect capital market view and the portfolio of FDI view and emphasises commercial and exchange rate risk; and (iv) industrial organisation theory, which is based on the theory of the firm and explains investment activity in terms of the strategic behaviour of the firm.

Blonigen (2005) suggests two main motives for FDI which encompass vertical and horizontal FDI. Vertical FDI serves to allocate different steps of production to those countries where corresponding production costs are lowest. Horizontal FDI represents a duplication of the entire production process to a second country in order to be closer to the foreign market.

Out of the four theories to explain the motives for FDI, tax incentives can be viewed as part of location theory, which serve to attract FDI flows to particular locations by host governments offering an advantageous tax regime. Many empirical studies also explain FDI by external and firm-level factors, such as market size, to capture horizontal FDI motives and labour costs, and tax incentives to capture vertical FDI motives (see Bénassy-Quérée, Fontagné and Lahrèche-Révil, 2005; Desai, Foley and Hines, 2004; Devereux and Griffith, 1998, 2003; Wolff, 2007). The tax incentives are usually offered as exemptions or deferrals from property, inventory, sales or income tax, which includes exempting new companies from various national taxes, for example, corporate income tax, for specified periods and exempting business sales from tax.

In addition, motives for FDI are also associated with the industry sector of the FDI. Glaister and Buckley (1996, p. 325; 1998, p. 223) argue that sector motives for any international alliance are relatively more important for ventures in the manufacturing sector than for service sector ventures. This might be because from the viewpoint of cost effectiveness, a low cost production location is probably more attractive to the manufacturing sector than the service sector. Further, several researchers have considered the association between the industry sectors and their tax treatments in the host countries (Derashid and Zhang, 2003; McIntyre and Nguyen, 2000; Omer, Malloy and Ziebart, 1993). These researchers argue that different sectors may indeed receive different tax treatments and the differences would lead to different effective tax burdens (Derashid and Zhang, 2003, p. 48). For example, McIntyre and Nguyen (2000, p. 7) reported that in the US, tax rate varies widely by sector, with oil companies enjoying the lowest effective tax rate. Omer, Malloy and Ziebart (1993, p. 201) found a significant difference in tax rates between firms in the pharmaceutical sectors and firms in the petroleum sector.

2.6.2 The role of tax incentives in location decision of FDI

Many scholars have examined the impact of tax on the FDI location decision (Altshuler, Grubert and Newlon, 2001; Boskin and Gale, 1987; Buettner and Ruf, 2007; Dunning, 1980; Grubert and Mutti, 1991; Hartman, 1984; Newlon, 1987; Slemrod, 1990; Swenson, 1994; Young, 1988). The findings of these empirical studies argue that MNEs tend to locate foreign investments in low tax countries instead of high tax countries. The tax implications for the FDI location decision have been explained by reference to the concept of cost minimisation which implies that a company will choose a location with low tax rates or high tax incentives/allowances to reduce overall tax liabilities. According to Scholes et al. (2009, p. 287), companies have considered the variation in taxes across countries as fertile ground for creative tax planning because they are aware of the collective impact of various tax rates and situations in different countries on business decisions as a whole. Thus the elements of host country location decisions may be integrated into investment location selection by MNEs as part of the interplay between tax incentives and FDI strategic location decisions.

A strong consensus in the literature is that MNEs are mainly attracted by strong economic fundamentals in their host economies. The more important factors which have been specifically or partly examined in a number of studies are:

- market size (Buckley and Mathew, 1980; Chandprapalert, 2000; Dunning, 1993; Rugman, 1979; Tatoglu and Glaister, 1998a);
- political and legal environment of the host country (Boddewyn and Brewer, 1994; Dufey, 2004; Goodnow and Hansz, 1972; Kobrin, 1976; Markusen and Venables, 1999);
- the availability of infrastructure (Dunning and Kundu, 1995; Kumar, 1994; Loree and Guisinger, 1995; Ulgado, 1996);
- access to a skilled labour force (Feenstra and Hanson, 1997; Waldkirch, 2003);
- the availability of natural resources (De Mello Jr, 1997; Pigato, 2001)
- ease of profit repatriation from the host country (Nicholas and Purcell, 2001);
- low-cost base of operation (Atlee, 2009; Michalet, 1997; Pigato, 2001); and
- political and macroeconomic stability (Carkovic and Levine, 2002; Gbakou, Jallab and Sandretto, 2008; Sau, 1994).

Obviously, tax incentives are only one of the determinants of international production or service location in terms of decision making. However, locating investment in low tax countries is an important means of retaining more profit for firms in order to help to ensure competitiveness in the global market. Several researchers have provided evidence that differences in tax rates create incentives for multinational firms to locate operations in a low tax environment (Grubert and Mutti, 1991; Hines and Rice, 1994; Kemsley, 1998). The strategy point to draw out from this is that an entity, faced with a choice of where to locate an investment, may then be influenced to obtain the tax benefits offered in the host countries (subject to all other business requirements being met).

However, most prior studies on the empirical effects of taxes on FDI either focus on the discrete decision to invest or on the amount of investment. There is limited literature which has examined the role of tax in motives for FDI although the prior literature reveals that there is widespread interest in international management research concerning an MNE's rationale for selecting a particular investment location (Coughlin, Terza and Arromdee, 1991; Devereux, Griffith and Simpson, 2007; Dunning, 1993; Globerman and Shapiro, 1999; Head, Ries and Swenson, 1995) and motives for undertaking foreign investment (Boddewyn, 1985; Gordon and Lees, 1986; Liou, 1993; McGuire and Landefeld, 1991). Furthermore, the effect of tax incentives on the selection of the FDI location is mostly considered in regard to US-based MNEs. The extent to which tax incentives are a driving force in term of the motives for and the location decision of FDI is relatively neglected in the existing literature. Thus the second research question is as follows.

2. What is the relative importance of tax incentives to the strategic motives for FDI and the location decision of FDI?

In order to answer the second main research question, it is necessary to consider the strategic motives and location decision of FDI in the context of the sample characteristics (e.g., industry sector of FDI, geographical investment location and capital size of FDI).

2.6.3 Industry sector of FDI

(i) Industry sector in motives for FDI

The manufacturing sector differs substantially from service operations (Rolfe, Ricks and McCarthy, 1993). Brouthers, Brouthers and Werner (2002, p. 496) argued that the level of resource commitment is commonly different between service and manufacturing firms. Manufacturing investments generally require much larger investments in fixed assets, such as land and equipment, or natural resources, such as oil and coal, than do service sectors. In comparison, service industries typically use fewer natural resources, especially in the business service sector in areas such as banking, consulting, hotels and advertising. As a result, incentives related to capital allowances or tax discounts on natural resources should be of less interest to service firms. For example, Derashid and Zhang (2003, p. 57) found that manufacturing firms and hotels experienced significantly lower effective tax rates than any other sectors in Malaysia. McIntyre and Nguyen (2000, p. 9) reported that in the US, the effective tax rate varies widely by sectors, with oil companies enjoying the lowest tax rate. Therefore, the underlying motives stimulating UK firms to undertake FDI will be expected to vary with the industry sectors.

(ii) Industry category in location factors for FDI

In the existing literature, several researchers have identified the association between the industry sectors and their tax treatments in the host countries (Derashid and Zhang, 2003; McIntyre and Nguyen, 2000). However, there is relatively little attention given to the importance of the FDI location decisions by reference to industry sector, that is, manufacturing or service industries. Given the nature of the manufacturing/service sectors, the FDI location decision is likely to be affected. For example, firms in manufacturing sectors might prefer to locate operations in countries such as China or Africa because of their rich natural resources and relatively low cost workforce, which enable a low cost manufacturing base, while countries such as Australia and New Zealand might be more attractive to the service sectors. This will be because these latter regions have a highly skilled labour force and advanced intellectual property law (Webber, 2005) which help to provide a reliable environment to set up business services firms, particularly for high-tech or R&D service companies. Nicouland (1989, p. 62) argued that a need for multi-site locations is greater for service providers than for manufacturing firms, because, typically, location is more important for services than for manufacturing (Boddewyn, Halbrich and Perry, 1986; Rushton and Carson, 1989). Therefore, it would be expected that the relative importance of host country location motives will vary with the industry sector of FDI.

2.6.4 Geographical location of FDI

(i) Geographical location and motives for FDI

There is a considerable literature on the determinants of foreign location, but very little evidence for UK-based MNEs on the relative importance of FDI motives, given the location of the FDI. UK-based MNEs do have preferred locations (EEF, 2004), for investment, for example, investing in the neighbouring countries of Ireland or France which, owing to location proximity, leads to low transaction costs, whereas locating in China or Middle Eastern countries enables the firm to benefit from the size of domestic markets and low cost of workforce and natural resources. More specifically, differences in tax treatment across countries are influential in determining the investment location. Devereux and Griffith (1998, p. 337) highlighted that the cost of capital, influenced by the effective marginal tax rate, was a factor in determining the optimal level of output in the location, which in turn affected the decision of whether to locate there. Countries with a relatively low tax rate, such as Ireland and Malaysia, might be preferred locations for UK firms to invest in compared with other high tax countries. It is therefore expected that motives for the FDI will vary with the geographical location of FDI.

(ii) Geographical location and location motives for FDI

Most countries have implemented various initiatives to attract FDI inflows. Some countries are particularly favourable investment destinations, such as the United States of America, Ireland, China and India, owing to the various location advantages in those countries. There is relatively little evidence of how the relative importance of the FDI location motives varies with a FDI location. The relative importance of location motives may be expected to be influenced by the geographical location of the FDI. Taxation is one of the location motives. There is a substantial amount of literature which has examined the relationship between taxation and the FDI location decision (e.g., Slemrod, 1990; Swenson, 1994; Young, 1988). For example, the host country corporate tax rate contributes to determining the comparative location advantages that can be offered to UK investors relative to other destination countries. Therefore, it is expected that the relative importance of location motives will vary with the location of FDI.

2.6.5 Capital size of FDI

(i) Capital size and motives for FDI

Launching an operation abroad requires a careful consideration in terms of the capital size of the investment. This is because large sized FDI demands a high resource commitment in the form of capital and managerial resources (Tatoglu and Glaister, 1998b). A relatively large investment might lead MNEs to benefit from economies of scale which will reduce the unit cost of production while small sized FDI might bear relatively low risk compared with a large investment. Thus it is important to consider the potential costs and benefits of such investment in terms of the capital size. Therefore, the research question that arises is the extent to which the relative importance of motives for FDI will vary with the capital size of FDI.

(ii) Capital size and FDI location motives

There is no explicit discussion in the prior literature that provides an indication of what to expect in terms of the variation in the motives for FDI location with respect to the capital size of the FDI. Establishing a large sized FDI necessitates substantial costs and commitment from the home companies, such as the costs related to administration, legal fees, and operational expenses. This means that the larger the size of the FDI, the greater the risk that is taken by the UK firms. To enhance or reduce the potential investment risk, UK firms might choose neighbouring countries in which to locate large sized FDI, whereas they might invest a fairly small amount in a country far away. It is therefore necessary to consider the extent to which the relative importance of host country location motives will vary with the capital size of FDI.

Consequently, to answer the second main research question, it is important to investigate the following sub-questions.

2.1 Do the underlying motives for FDI vary with the characteristics of the sample (e.g., FDI geographical location country/region, industry sector and capital size of FDI)?

2.2 Does the relative importance of location motives for FDI vary with the sample characteristics (e.g., FDI geographical location country/region, industry sector and capital size of FDI)?

2.7 Tax strategy at the stage of search, design and screening of FDI decision processes

Once MNEs determine why to invest and where, the next stage is to consider the form of the FDI to invest in the foreign market, for example, the choice of the organisational structure. MNEs therefore have to implement in-depth market research to collect information about the local economic and political environment, design their market entry mode such as 'greenfield' investment or merger/acquisition (M&A), and also select a beneficial ownership form of the FDI, namely, joint venture (JV), wholly owned subsidiary (WOS) or branch/division. This study seeks to examine the role of tax in the routines of search, design and screening of the FDI decision process with respect to the FDI strategic decisions in terms of market entry mode, ownership form and financial structure of the FDI.

2.7.1 The role of tax in market entry mode of FDI

MNEs have to decide where and how to launch their operations in worldwide markets or how to expand and integrate their existing international operations. Some will seek new outlets for their products and know-how outside their home markets, while others will seek expansion capital and new technology not available in their own countries. In order to achieve these goals, MNEs must determine the appropriate mode for organising their foreign business activities. Generally, there is a number of different modes available for companies to engage in FDI. According to Harzing (2002, p. 211), if an equity mode[4] of entry into a foreign market is chosen, the issue of whether to acquire an existing local firm (M&A) or to establish a completely new entity ('greenfield' investment) in the foreign market has to be decided. A substantial number of studies has investigated the influences with respect to the choice between M&A and 'greenfield' investment (Anderson and Svensson, 1994; Barkema and Vermeulen, 1998; Brouthers and Brouthers, 2000; Demirbag, Tatoglu and Glaister, 2008; Padmanabhan and Cho, 1995). Several researchers have found that an MNE favours the M&A over the 'greenfield' investment in terms of strategic market entry mode (e.g., Demirbag, Tatoglu and Glaister, 2008).

The selection of entry mode is critical because each of these strategies has different implications for the degree of control which a firm can exercise over the foreign operation, the resources it must commit to the foreign operation, and the risk that it must bear to expand into a foreign country (Chan, 1995). Also, these are likely to be significant tax impacts. As a general rule, the choice of market entry mode is typically driven by strategic or commercial objectives, rather than tax considerations, as argued by Glaister and Frecknall-Hughes (2008, p. 41). However, tax issues are still an important aspect. Becker and Fuest (2008, p. 23) found that tax treatment of acquisitions is an important factor. Desai and Hines (2004, p. 25) argued that M&A does not imply a relocation of corporate capital but rather a change in ownership and control rights. Compared with building up a new entity from scratch, such contractual arrangements, in relation to the acquisition of an existing firm located in countries with different tax rates, offer numerous possibilities for sophisticated tax strategy (Desai and Hines, 2004, p. 19). This is because a large amount of money can usually be saved by paying careful attention to the structure of the deal and the management of the tax burden of the combined enterprises. In many cases, however, tax strategy is considered to be a post-deal activity (PriceWaterhouseCoopers, 2006) and the deal

[4] An equity-based entry mode is a form in which the local enterprise is either partly or wholly owned by the parent firm whereas a non-equity entry mode includes exporting through agents and licensing (Harzing, 2002, p. 211).

structure with respect to tax implications is often not given enough attention in the decision process.

Further, UK multinationals, which attempt to merge with or acquire overseas companies, frequently underestimate or ignore entirely the complexities in structuring a deal (Peterson, 2006). This process is frequently problematic, with acquiring firms often losing control of their tax position by compromising on their positions to come to a settlement. The inability to align a tax strategy with a business strategy and a lack of clear decision making on tax issues will delay successful integration and will imply opportunities foregone in optimising the group's tax position (Scholes et al., 2009, p. 87). Therefore, it is important to examine the FDI decision making process with respect to the market entry mode. The extent to which tax issues are considered in the market entry mode decision has been given little attention in the prior literature, particularly from the perspective of UK-based MNEs, because a characteristic of the current literature is that it focuses almost entirely on US-based MNEs.

2.7.2 The role of tax in the ownership form of the FDI

According to Harzing (2002, p. 211), equity-based entry modes of FDI are joint ventures (JVs) and wholly owned enterprises. The wholly owned enterprises consist of a wholly owned subsidiary (WOS) and/or a branch/division of an established enterprise. A JV is a form of partnership whereby parent companies which may originate from different countries, different economic, political and legal backgrounds share resources and supply each other's needs to maximise the benefits and capacities to achieve a 'win-win' relationship. A WOS is a separate legal entity of the parent firm whereas a branch/division of the established enterprise is part of the MNE, but not a separate legal entity.

Many studies have investigated factors that might influence the choice of the ownership of FDI between JVs and wholly foreign owned enterprises (Buckley and Casson, 1998; Eramilli and Rao, 1993; Hill, Hwang and Kim, 1990; Kim and Hwang, 1992; Kwon and Konopa, 1993). With respect to the choice between the formation of a JV, WOS and branch/division of the existing firm, several international business scholars suggest that the WOS is more favourable than the other two entry modes

(Demirbag, Tatoglu and Glaister, 2009; Kim and Hwang, 1992). Regarding the taxation effects on the choice of organisational structure, Desai and Hines Jr. (1999, p. 380) suggest that the tax system often gives firms incentives to adopt certain forms. For instance, a UK firm is likely to have to choose between a subsidiary and branch in terms of launching a new firm in a foreign market. Given the nature of the two ownership forms, if a UK-based MNE sets up a subsidiary, the subsidiary will be taxed on its corporate earnings and the dividends, royalties, interest payments flowing from the subsidiary to the UK parent are subject to UK taxes. However, organising units as branches will result in the inclusion of all branch income in the worldwide income of the UK parent firm because a branch is not an independent legal entity, but merely an extension of the parent.

There are certain advantages and disadvantages in terms of the selection between subsidiary and branch from a tax point of view. A subsidiary seems more attractive in the long term because of its separate tax paying status which may ensure that the parent company is not exposed to any liabilities incurred by the subsidiary. By contrast, a branch may be more tax advantageous in the short term. This is because losses made by the branch can be offset immediately against foreign profits of the head office. Arguably, a starting position may be to form a branch with the intention of transferring its business to a locally incorporated subsidiary at a later date. However, the disadvantages of a branch structure might be the obligations of paying tax on overseas income/profits domestically and paying again in the country in which the income/profits arise. Double taxation occurs where two or more taxes may need to be paid in respect of the same asset, financial transaction, income, etc., and arises because of an overlap between different countries' tax laws and jurisdiction although it may be mitigated if a double taxation treaty is in place between the different countries involved. Comparatively speaking, given that taxation of the subsidiary is on the subsidiary's income alone, double taxation issues do not often arise at the subsidiary level.

By contrast, in terms of the distinction between a JV, subsidiary and branch, it has been argued that the JV involves only the sharing of cost, and the inclusion of any element of profit or loss sharing will give rise to a partnership (Stevenson, Potts and Houlton, 1994). It is important to note that the third independent firm established in the equity joint venture (EJV) is usually treated as a separate legal entity for tax purposes. In any event, the choice of organisational form for FDI from a tax perspective must be balanced with the needs of the firm overall. For example, the choice between a branch and a subsidiary is dictated by commercial, legal and taxation matters, all of which will not necessarily point to the same answer. Therefore, the choice of organisational form may not necessarily be the one which, for example, reduces a tax liability to its lowest possible amount if this is outweighed by other considerations. There would be a trade-off.

However, the existing literature generally treats tax issues as a single factor in a list of considerations underlying the choice of organisational structure of the FDI. The interaction between tax strategy and the organisational structure decision of the FDI is ignored in the literature. Also, there is very little evidence in the current literature to demonstrate the FDI decision making process with respect to the choice of FDI organisational structure in terms of ownership form and market entry mode. This is because certain stages of the FDI decision process emphasised in the decision making process might lead to different strategic decisions. It is therefore important to examine the variation in importance of the stages of the FDI decision process with the choice of the ownership form and market entry mode of FDI. The following question, which is relatively unexplored in the literature, is raised.

3. Does the importance of the variables in the FDI decision making process vary according to the FDI strategic decisions?

To answer this main research question, it is necessary to examine the relative importance of the variables in the FDI decision making process with respect to the choice of the ownership form and market entry mode of FDI.

(i) FDI decision process in respect of ownership form

While a number of studies has identified the choice of the ownership form of FDI (Buckley and Casson, 1998; Erramilli and Rao, 1993; Hill, Hwang and Kim, 1990; Kim and Hwang, 1992; Kwon and Konopa, 1993), little attention has been paid to the FDI decision making process with respect to the choice of the ownership form. According to Harzing (2002, p. 211), equity-based entry modes of FDI are joint venture (JV) and wholly owned enterprises. Wholly owned enterprises may be either a wholly owned subsidiary (WOS) or a branch/division of an established enterprise. The WOS is considered as a separate legal entity of the parent firm whereas the branch/division of the established enterprise is not. As the prior literature provides very little guidance as to how the choice of the ownership form is associated with the FDI decision process, it is important to examine whether there are differences in the ownership form decisions with respect to the variables of the FDI decision making process.

(ii) FDI decision process in respect of entry mode of FDI

When a UK firm decides to undertake FDI, the issue of whether to acquire an existing local firm (by merger or acquisition) or to establish a completely new subsidiary ('greenfield' investment) in the foreign market has to be decided (Harzing, 2002). A substantial number of studies has investigated the influences with respect to the choice between mergers or acquisitions (M&A) and 'greenfield' investment (Anderson and Svensson, 1994; Barkema and Vermeulen, 1998; Brouthers and Brouthers, 2000; Demirbag, Tatoglu and Glaister, 2008; Padmanabhan and Cho, 1995). However, the decision making process with regard to the foreign market entry mode is relatively neglected in the literature. There is very little evidence in the current literature to demonstrate how the entry mode decisions interact with the FDI decision making process. It is therefore essential to examine whether the relative importance of the variables of the FDI decision process varies with the choice of the foreign market entry mode.

The two further subsidiary questions have to be considered, as follows.

3.1 Does the importance of the variables in the FDI decision making process vary according to the choice of the FDI ownership form?

3.2 Does the importance of the variables in the FDI decision making process vary with the choice of the market entry mode?

2.7.3 Influence on FDI strategic behaviours of the stages at which the tax implications are considered

A review of the prior literature also indicates that the interaction between the stages at which the tax implications are considered in the decision making process and the corporate strategic behaviours is relatively neglected. Different stages at which the tax implications are considered might cause different corporate strategic behaviour. An example is that the different stages at which the tax implications are considered are likely to have an influence on FDI location decisions. If tax issues are considered before the location decision, then strategic decisions might not be made only from the perspectives of business strategy because tax issues are also taken into account. However, if the tax implications are only considered after the location decisions, then the decision making will be mainly focused on the corporate strategy, hence the tax implications will be possibly neglected in the decision making. By comparing the two situations in which the tax decisions are considered at different stages, the former decision making process might result in different location decisions from the latter procedure because tax policies are obviously capable of affecting the volume and location of FDI (Hines, 1999, p. 308). However, the tax issues might be considered both before and after the FDI decisions are made. Hence, UK firms are able to seek a combination of tax benefits before business transactions, for example, locating FDI in a tax free zone and after transactions, such as taking advantage of tax allowances and incentives offered in the host country to control and minimise tax payments.

In light of the suggestions made by Glaister and Frecknall-Hughes (2008, p. 34), three possibilities appear in the FDI decision making process for decision makers to consider the tax implications. The tax decisions might be considered:

(i) before the FDI decisions are made;
(ii) after the FDI decisions are made;
(iii) both before and after the FDI decisions.

Although Glaister and Frecknall-Hughes (2008, p. 41) found that firms first took commercial decisions and that subsequently tax advice was sought, there appears to be little empirical research evidence in the literature. It is therefore important to investigate whether the stages at which the tax implications are considered will cause different FDI strategic behaviours in terms of motives and location decisions of FDI. The relevant questions which are neglected in the literature are raised as follows.

4. Do the different stages at which tax implications are considered in the FDI decision making process have an influence on the FDI strategic decisions (e.g., motives for and location decision of FDI)?

To help explore the main research question, additional sub-questions are necessary, as follows.

4.1 Do the stages at which tax implications are considered in the decision process have an influence on the FDI motives?

4.2 Does the relative importance of the location motives for FDI vary according to the stages at which the tax implications are considered in the decision process?

2.8 Tax strategy in the stage of evaluation choice of FDI decision process

The routine of evaluation of choice in the FDI decision process consists of three sub-decisions: (i) judgement; (ii) analysis; and (iii) bargaining to examine whether the investment project fits the corporate strategy. The main purpose of this routine is to evaluate the feasibility of the investment project in a foreign market. Strategies therefore such as transfer pricing, income shifting and profit repatriation from the foreign subsidiaries might be considerations in helping managers to reach decisions or draw conclusions.

<u>2.8.1 Transfer pricing strategy</u>

In MNEs, many goods and services are routinely transferred between related entities in different tax jurisdictions (Scholes et al., 2009). It is necessary to assign a value to the transfer of products between related or associated enterprises, as there is no market price available from an external market. According to Yancey and Cravens (1998, p. 266), a transfer price is the internal value placed on the transfer of goods, technology, raw materials or services between related entities within a corporate group. Transfer prices can have a considerable impact on worldwide taxes after MNEs undertake FDI. Many studies have investigated the degree to which national tax rate differentials have lead to transfer pricing manipulation (Collins, Kemsley and Shackelford, 1997; Grubert, Goodspeed and Swenson, 1993; Grubert and Mutti, 1991; Gupta and Mills, 2002; Halperin and Srinidhi, 1987, 1991; Harris, 1993; Harris, Kriebel and Raviv, 1982; Jacob, 1996; Jensen, 1986; Klassen, Lang, and Wolfson, 1993). Much of the attention in the literature focuses on how MNEs employ transfer pricing to avoid paying income taxes, although less attention has been paid to transfer pricing as a mean to accomplish corporate objectives and thus to its effect on achieving corporate strategy.

Cravens (1997, p. 129) argued that transfer pricing is an integral part of any organisation's strategy (rather than merely an accounting technique), which falls into the implementation phase of strategy. Once the management of a multinational enterprise determines overall objectives, transfer pricing strategy as one of the stratagems may be used to accomplish the objectives. For example, assume that a UK multinational decides to undertake FDI in order to set up a foreign subsidiary in China. Since separate legal entities are involved which compete in different countries, it is necessary for the UK parent company to assign a value to the transfer of products from subsidiary to parent company to shift income, so as to pay more tax in China with lower tax rates, and less tax in the UK where tax rates are higher. From a tax perspective, the transfer pricing strategy would lead to the UK firm setting up a subsidiary in China and also achieving a lower tax burden overall for the UK multinational corporation. Transfer pricing is therefore a managed activity that contributes to achieving corporate objectives.

However, to minimise the transfer pricing manipulation where the transactions at issue are not entirely mediated by an open market price, the Organisation for Economic Co-operation and Development (OECD) Guidelines (OECD, 2001) insist that all transactions must be carried out at an 'arm's length' price.[5] For each part of the multinational entity (whether it is a branch or a subsidiary), a price is substituted for taxation purposes that would have been used in the transaction had it been with an unrelated third party rather than a related party within the same multinational entity. Owing to the changes in legislation which require the use of 'arm's length' pricing

[5] The OECD provides in its Guidelines a variety of calculations designed to act as proxies for an arm's length price and be acceptable to worldwide tax authorities.

mechanisms, the opportunities for tax strategy and planning associated with transfer pricing have been considerably minimised. Also, transfer pricing strategy has been investigated extensively in the past as the above cited, extensive literature shows, and this would not now be a main issue for UK companies.

2.8.2 Income shifting policy

Shifting income means that, as a result of FDI, income can be shifted from one tax jurisdiction to another without moving actual real assets. There is a variety of technical mechanisms whereby income may be shifted. MNEs have an incentive to increase their after-tax profits by shifting taxable income from entities operating in high tax countries to entities in low tax countries. Such behaviour certainly lowers worldwide tax liabilities for large MNEs undertaking FDI and appears to lower significantly their UK tax liabilities as well. The most popular methods of shifting income include the manipulation of the location of debt, rent on leases, royalties on licenses, and transfer pricing (Scholes and Wolfson, 1992). (Transfer pricing, as mentioned above, is a specific type of income shifting.)

A consideration of the total tax effect related to the FDI location decisions allows multinational enterprises to determine the complete tax effect of alternative location strategies. For instance, Harris et al. (1993) found evidence of the location of foreign subsidiaries occurring in a way that is consistent with tax motivated income shifting. Grubert and Slemrod (1998) emphasised that income shifting and investment location decisions are closely related. Jacob (1996) also found a positive correlation between firms' tax-driven location decisions and the volume of intra-firm international transfers. The different tax policies across countries have an incentive effect on the FDI location for a multinational company, and therefore could be expected to feed into its strategic decisions.

Many studies provide empirical evidence suggesting that the differential in tax rates across countries provides incentives for geographic income shifting by MNEs (Collins, Kemsley and Lang, 1998; Collins, Kemsley and Shackelford, 1997; Grubert, Goodspeed and Swenson, 1993; Grubert and Mutti, 1991; Gupta and Mills, 2002; Harris, 1993; Harris et al., 1993; Hines and Rice, 1994; Klassen, Lang and Wolfson, 1993). As mentioned before, the greater the difference in tax rates among regions, the larger are the tax savings achievable by locating income in the lower tax jurisdiction. Jacob (1996, p. 304) suggests that firms with a large volume of income shifting can minimise taxes and consequently pay lower corporation tax. If a jurisdiction has lower tax rates than the UK, shifting income from the UK to the overseas subsidiary would be a tax saving action. However, tax authorities monitor this sort of activity closely.

As the tax strategies of transfer pricing and income shifting have been extensively researched already (see above), and are now restricted, especially by the principle of the 'arm's length' pricing mechanism, this research will not investigate further corporate strategy related to transfer pricing strategy and income shifting policy.

2.9 Tax strategy at the stage of authorisation of FDI decision process

The final routine in the decision process considers how investment decisions are implemented in organisations. This process seeks to identify the particular stages at which tax issues are taken into considerations in the decision process, to assess the relative importance of the stage in considering tax implications, as well as to examine whether a conflict occurs between tax strategy and corporate strategy, and if so, which one is likely to take priority in terms of FDI decision making.

2.9.1 FDI decision process taking account of tax considerations

Larimo's FDI decision making process is used as an appropriate model in the study. In light of this model (Larimo, 1995, p. 34), eight stages were identified in the study.

1. Recognition of investment opportunity;
2. Investigation of investment opportunity;
3. Investigation of target market;
4. Identifying the appropriate organisational form;
5. Identifying the ways of financing the FDI;
6. Identifying the appropriate legal structure;
7. Identifying the appropriate management structure; and

8. Reviewing the choice of decision.

There is a number of theoretical and empirical studies examining the general capital investment decision making process (Larimo, 1995; Sykianakis and Bellas, 2005; Venieris and Cohen, 2004; Wei and Christodoulou, 1997). However, the process by which the investment decisions are made is an area in need of further investigation, as several researchers have indicated (Larimo, 1995; Mintzberg, Raisinghani and Thèorêt, 1976). This is because little guidance is provided to identify the relative importance of the stages of the FDI decision making process in the current literature. The FDI decision process is still something of a 'black box' from a practical perspective, particularly with respect to tax issues. This is due to the fact that very little evidence indicates how tax issues are treated throughout the FDI decision making process and how the different stages of the FDI decision process interact with tax issues in terms of the FDI strategic decisions. Glaister and Frecknall-Hughes (2008, p. 41) argued that the main process is that firms take commercial decisions and subsequently tax advice is sought and the initial decision is reviewed for tax implications. Given the nature of tax issues in the current literature, it is important to consider how tax issues interact with the stages of the FDI decision process and examine whether the relative importance of the stages of the FDI decision making process will vary with tax considerations. Therefore, a major research question is as follows.

5. In practice, what are the processes by which the FDI decisions are made with respect to tax considerations?

Further, it helps to obtain a clear picture of the relative importance of the stages of the FDI decision process varying with the tax considerations by comparing two situations – one where tax is not considered and a second where it is. Sykianakis and Bellas (2005, p. 957) noted that, "[t]he FDI decision making process is not necessarily linear, but is a repeated process". Given the iterative nature of the decision process, it is sensible to identify at what particular stages the tax issues were considered in the FDI decision process in respect of the two particular situations.

Therefore, it is necessary to examine two sub-questions in order to support the main research question.

5.1 Does the relative importance of the stages of the FDI decision process vary according to whether tax issues are either considered or ignored in the decision process?

5.2 Does the relative importance of the organisational structure-related factors vary with the stages at which tax implications are considered in the FDI decision making process?

2.9.2 Priority between tax strategy and corporate strategy

There is little evidence in the literature concerning the priority to be given when a conflict occurs between tax strategy and corporate strategy. Glaister and Frecknall-Hughes (2008, p. 43) found that strategic decisions take priority over tax decisions and not the opposite. As tax strategy is viewed as part of the corporate strategy, thus it should be made in accordance with business strategic decisions. On this basis, tax strategy should compromise with the corporate strategy when a conflict arises between the two strategies. Since there is very little research as to the priority between tax strategy and corporate strategy in the prior literature, it is important to investigate whether, where tax strategy and corporate strategy conflict, priority will be given to corporate strategy. This leads to the following research question.

6. Is corporate strategy given priority over tax strategy in terms of strategic decision making?

2.10 Interaction between tax incentives and FDI decision making process

As a result of the preceding discussion regarding the FDI decision making process and the role of tax in the FDI decision process, a basic research question can be posed from a broader perspective, as follows:

7. How does tax strategy interact with corporate strategy with respect to FDI strategic decision making?

In order to answer the main research question, additional sub-questions arise, the rationale for which is explored below.

2.10.1 The relative importance of tax strategy and corporate strategy

In the past, tax strategy was viewed as a stand-alone activity and not as an integral part of corporate strategy. Until the late 1980s, only a few scholars suggested that tax strategy was indeed a critical component of business strategy (Eccles, 1985; Spicer, 1988). However, the relative importance of tax strategy and corporate strategy is neglected in the mainstream literature. It is therefore necessary to investigate the relative importance of tax strategy and corporate strategy associated with the characteristics of the sample in the study (e.g., industry sector, geographical location and capital size of FDI).

(i) Industry sector of FDI

From a review of the literature, there is a suggestion that the type of industry is significant as regards tax rates. Stickney and McGee (1982, p. 126) suggest that firms involved in capital intensive industries using heavy equipment in manufacturing had lower effective rates than the average for all industries. However, as tax strategy is considered as part of corporate strategy, it has to be made in accordance with corporate strategy. For instance, given the nature of the industry sector, in manufacturing, such as pharmaceutical and construction, local firms are assumed to have more privileged access to the resources. Thus, the industry category has a certain impact on the MNE's preference for market entry mode or ownership pattern of FDI (Demirbag, Tatoglu and Glaister, 2008; Laurila and Ropponen, 2003; Lipsey, 2000). In this case, the tax strategy of achieving a low tax rate becomes less important than the corporate strategy in terms of the choice of market entry mode and ownership form. However, it is sensible to examine whether the relative importance of the tax strategy and the corporate strategy will vary with the industry sector of the FDI.

(ii) Geographical location of FDI

Though there is a substantial number of studies examining the association between tax implications and the location of FDI (Slemrod, 1990; Swenson, 1994; Young, 1988), the variation in importance of the tax strategy and corporate strategy with the FDI location is neglected in the literature. Tax strategy is relatively important for the FDI geographical location decision because the differential in tax treatments across nations causes different tax strategies to be adopted in the FDI decision process. For example, if the host country offers tax allowances or a relatively low tax rate, the tax strategy used in the firm might be to take advantage of the tax benefits. However, the tax issue is not the only factor to be considered in the location decision because other factors, particularly from the corporate strategic perspective, might be far more important than tax considerations. For instance, a stable economic and political environment in the host country is important to ensure that UK firms' investments are successful. Given the scarcity of evidence in the prior literature, it is important to investigate whether the relative importance of the tax strategy and corporate strategy will vary with the geographical location of FDI.

(iii) Capital size of FDI

The relative importance of tax strategy and corporate strategy associated with the capital size of FDI has not been addressed in the literature. According to Scholes, Wilson and Wolfson (1992, p. 174), larger companies use tax planning policies to a greater extent than smaller companies. This point might be associated with the fact that larger firms have more types of activity available with which to influence tax policy, obtain tax planning expertise and arrange their operations in optimal tax saving ways (Stickney and McGee, 1982). Further, Conover and Nichols (2000, p. 205) found that the largest firms significantly reduce their global taxes through the use of intra-firm transfers as compared with the smallest firms. However, compared with tax strategy, corporate strategic decisions might be relatively more important in terms of the capital size of FDI. For instance, a large investment in manufacturing might be able to achieve a relatively low unit cost of production through benefiting from economies of scale, whereas a small sized FDI may help parent firms expand overseas business but at the same time limit the potential business and financial risk in a foreign market. These examples indicate clearly that there are many corporate strategies to be considered in terms of the size of investment – and the tax issue is just one of them. It is therefore necessary to examine whether the relative importance of tax strategy and corporate strategy varies with the capital size of the FDI.

The first subsidiary question supporting for the seventh main research question is therefore as follows:

7.1 Does the relative importance of tax strategy and corporate strategy vary with the sample characteristics (e.g., industry sector, geographical location country/region, and capital size of FDI)?

2.10.2 Integration between tax strategy and corporate strategy

Although a substantial number of studies has investigated the way that taxation can influence the strategic behaviour of multinational firms (Collins and Shackelford, 1995; Devereux and Griffith, 1998; Grubert, 1998; Grubert and Mutti, 1991; Hines, 1999; Hines and Rice, 1994; Klassen, Lang and Wolfson, 1993; Shaw and Wier, 1993), little attention has been given in the literature examining the extent to which tax strategy is integrated with corporate strategy in the organisation. Glaister and Frecknall-Hughes (2008, p. 43) found that there is only marginally supportive evidence for the view that strategic decisions and tax decisions are well integrated. If tax strategy is highly integrated with corporate strategy in FDI decisions, it is possible that decision makers intend to consider tax implications both before and after the FDI decisions are made. This is because if the tax strategy is treated as an integral part of the corporate strategy, it should be considered along with the corporate strategy in the decision making process. If, however, tax strategy is marginally integrated with corporate strategy, tax implications are likely to be considered only before FDI decisions are made. In comparison, if integration between tax strategy and corporate strategy does not exist in the decision process, tax strategy might be considered after the strategic decisions are made or possibly neglected in the entire decision process. However, as little evidence is provided in the literature, this study will attempt to examine whether tax strategy is integrated with corporate strategy in terms of the decision making process.

The second and third subsidiary questions help to answer the seventh main research question as follows:

7.2 Does the relative importance of the integration of tax strategy and corporate strategy vary with the stages at which tax implications are considered in the FDI decision process?

7.3 Is tax strategy integrated with corporate strategy in terms of FDI decision making? If yes, to what extent?

2.10.3 Components of tax strategy[6]

(i) Industry sector of FDI

There is little evidence in the literature relating to the choice of tax strategies from the perspective of the industry sector of the FDI. Given the nature of the industry, the manufacturing sector may utilise different tax strategies compared with the service sector. For instance, manufacturers might prefer some type of capital allowances from the host country associated with plant and equipment, whereas service companies may be more likely to seek out low tax rate locations. Further, transfer pricing strategy might be more favoured by the manufacturing sector than the service sector. According to Cravens (1997, p. 128), transfer pricing is defined as the "[i]nternal value placed on a raw material, good, or service as it moves from one related organisational entity to another within a consolidated corporate group". Manufacturing firms have more possibilities for transferring products and technology between related divisions than service firms, hence tax strategy in the form of transfer pricing becomes relatively more important in this circumstance. However, the low tax rates offered in a host country might be comparatively more attractive to the service sector. As the prior literature provides little evidence with respect to the interactions between the tax strategies and the industry sectors of the FDI, it is therefore essential to investigate across the sample any differences between them.

(ii) Geographical location of FDI

There is little explicit discussion in the prior literature associated with the choice of tax strategies used in the firm with respect to the locations of FDI. As tax treatment varies across countries, UK firms may prefer to utilise different tax strategies in different location countries/regions. For example, the differential in tax rates across countries may cause UK firms to use a strategy aimed at achieving low tax rates by locating the FDI in particular low tax countries. Sun (1999, p. 372), for example, claimed that a large international differential in taxes would give rise to a high propensity for MNEs to use transfer pricing to reduce the tax payment in relevant countries. This is mainly due to the fact that transfer pricing can be used to minimise tax payments by facilitating income transfer to a more favourable location to achieve a low tax rate. In this case, the favourable tax strategy used in the firm might be its

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[6] The components of tax strategy involve transfer pricing policy, income shifting policy, achieving low tax rate, available tax allowances, achieving double taxation relief and choosing investment location.

transfer pricing policy if firms decide to locate FDI in those countries. Also, countries with available tax allowances are likely to motivate UK firms to take advantage of tax benefits by locating FDI in those countries. However, as prior literature does not discuss this, it is necessary to investigate whether there are differences between the choice of tax strategies and the FDI location decisions.

(iii) Capital size of FDI

There is no prior work that investigates the effect of the size of FDI on the selection of tax strategies. Companies that engage in large capital size FDI are more likely to seek tax allowances granted by the host country, whereas companies with lower value capital size FDI might prefer to achieve a low tax rate in the host country. Also, companies with large capital size FDI might have comparatively more resources to hire tax professionals and experts to manipulate tax strategies, such as transfer pricing strategy and income shifting policy to manage the tax issues. By contrast, firms with small capital size FDI may attempt to take advantage of available tax reliefs or low tax rates in the host country. As very little attention is given in the prior literature in terms of the association between the tax strategies and the capital size of the FDI, it is therefore necessary to examine whether there is a difference between these variables.

The fourth subsidiary question is therefore as set out below:

7.4 Does the relative importance of the components of tax strategy (e.g., transfer pricing policy, income shifting policy, achieving low tax rate, available tax allowances, achieving double taxation relief and choosing investment location) vary with the sample characteristics (e.g., industry sector, geographical location country/region, and capital size of FDI)?

2.10.4 Determinants of tax strategy[7]

The determinants of tax strategy are the factors used to decide the tax strategy applied in the firm, which are different from the components of tax strategy. It is apparent that there is relatively little information about the underlying determinants of tax strategy associated with the characteristics of the sample in the current literature.

[7] The determinants of tax strategy involve tax minimisation, compliance with business strategic plan, availability of tax incentives, ease of profit extraction, mitigation of risk and imitation of the action of competitors.

Therefore, it is necessary to examine the relationship between the determinants of tax strategy and the sample characteristics of the industry sector, geographical location and capital size of FDI.

(i) Industry sector of FDI

From an operational perspective, manufacturing differs substantially from service provision. For example, engaging in manufacturing generally requires a much larger investment in fixed assets, such as land and equipment, than service companies would require. As a result, incentives associated with transfer pricing of intra-firm transactions, for example, should be of less interest to service firms. Derashid and Zhang (2003, p. 48) argued that different sectors may indeed receive different tax treatments and these differences would lead to different effective tax burdens. Thus, the determinants of tax strategy would be consequently influenced by the differential in the tax treatments affecting industry sectors. An example might be of a tax holiday granted to the manufacturing industry in the host country. Thus taking advantage of tax incentives is important to determine the kind of tax strategies to be used in the firm. Similarly, if it is relatively easier for a service sector company to repatriate profits from a foreign subsidiary to the home country, the determinant of ease of profit extraction will become important in influencing the particular tax strategies to be adopted in the FDI decisions. As there is little evidence in the literature about the determinants of the tax strategy associated with the industry sector of the FDI, it is necessary to examine whether the determinants of the tax strategy vary with the industry sector of FDI.

(ii) Geographical location of FDI

The choice of the investment location might also determine the types of tax strategies to be used in FDI strategic decisions. The differential in tax treatments across different jurisdictions directly affects the determinants of the tax strategies adopted by the firm. Some countries offer low tax rates while others might offer tax incentives. In this case, the determinants of tax strategies are likely to be influenced by the tax benefits offered in the host country. Further, certain countries have a relatively good reputation in terms of business and financial stability, such as, Australia, Switzerland, and New Zealand (International Monetary Fund, 2011), hence mitigating risk as one of the determinants of tax strategy might also be important by reference to locating

FDI in those countries. Also, compliance with the business's strategic plan might stimulate UK firms to locate their FDI in a particular country in order to fulfil corporate strategic decisions. Therefore, by locating FDI in a specific country, the local tax policy and regulations will determine the tax strategies to be used in the strategic decisions. However, little attention is given to the association of the determinants of tax strategy with the geographical location of FDI in the mainstream literature, hence it is necessary to examine whether the underlying determinants of tax strategy vary with the geographical location of FDI.

(iii) Capital size of FDI

The capital size might be another influence on tax strategy. However, it is also neglected in the literature. A large capital investment might mean that the investing firm makes larger profits, though this is not guaranteed. Certainly, because of a large investment, a firm will pay great attention to the level of returns. Thus, the determinant of tax strategy, such as tax minimisation, might be relatively more important to larger capital investments than to smaller capital investments. Furthermore, there is a greater likelihood of availability of resources in terms of tax expertise and a proper tax department in companies with large capital investment than small capital investment companies. In addition, a smaller FDI often appears to fulfil the corporate strategic intention, for example, by helping parent firms enter into a new foreign market or mitigate investment risk, etc. Given the lack of evidence in the prior literature, it is necessary to explore the relationship between the determinants of tax strategy and the capital size of the FDI in order to examine whether the tax strategic determinants vary with the size of the investment.

The final subsidiary question supporting the main research question is thus as follows:

7.5 Does the relative importance of the determinants of tax strategy (e.g., tax minimisation, compliance with business strategic plan, availability of tax incentives, ease of profit extraction, mitigation of risk and imitation of the action of competitors) vary with the sample characteristics (e.g., industry sector, geographical location country/region, and capital size of FDI)?

To summarise, there is very little discussion in the literature, as outlined above, of the relationship between the strategic decisions on the part of MNEs concerning strategic tax planning in FDI. The relevant research questions examined in the study are summarised and presented in Table 2.2.

2.10 Conclusions

The central theme of the research is to investigate the interface and integration between tax strategy and corporate strategy in the FDI decision process of UK multinational firms. The current literature tends to suggest that firms should take account of different tax regimes when conducting business transactions and in considering FDI, but generally does not discuss the impact or direction of international taxation differences on strategy overall. All too often, FDI transactions appear to be structured without considering taxes or tax issues are addressed after the transaction has been completed. Many companies tend to pursue short-term solutions to tax issues instead of applying a strategic approach. The inability to align tax strategies with business strategies and the lack of a clear decision making process on tax issues in FDI will delay successful integration and will result in opportunities foregone in optimising the tax position in terms of the FDI decisions. Owing to the potential lack of alignment between corporate strategy and tax strategy, it is important to conduct additional research in order to understand if, when and how multinational firms manipulate tax strategies to minimise taxes when undertaking FDI.

Furthermore, the relevance of taxation in the FDI strategic decision process has not generally been addressed in UK academic literature, so little is known about the processes by and stages at which FDI decisions vis-à-vis taxation are made. The model of FDI decision making process introduced by Larimo (1987) was therefore employed in the study as a theoretical framework in order to identify how tax strategy can effectively fit into each stage of the FDI decision process. By drawing on this framework, this study aims to develop a better understanding of: (i) the role of tax in the FDI decision making process; (ii) the stages at which tax issues are considered in the decision making; and (iii) the processes by which FDI strategic decisions are made. This study therefore attempts to bridge the knowledge gap and contribute to the literature on the impact of tax strategy on business strategy in the context of FDI undertaken by UK MNEs, and to set out possible approaches to strategic management with reference to the tax implications of strategic decisions.

Table 2.2 Summary of research questions

Main research questions	Research sub-questions	Considered in empirical chapter
1. What is the relative importance of the stages of the FDI decision making process in practice?		Chapter 6
2. What is the relative importance of tax incentives to the strategic motives for FDI and the location decision of FDI?	2.1 Do the underlying motives for FDI vary with the characteristics of the sample (e.g., FDI geographical location country/region, industry sector and capital size of FDI)? 2.2 Does the relative importance of location motives for FDI vary with the sample characteristics (e.g., industry sector, geographical location country/region, and capital size of FDI)?	Chapter 4
3. Does the importance of the variables in the FDI decision making process vary according to the FDI strategic decisions?	3.1 Does the importance of the variables in the FDI decision making process vary according to the choice of the FDI ownership form? 3.2 Does the importance of the variables in the FDI decision making process vary with the choice of the market entry mode?	Chapter 6
4. Do the different stages at which tax implications are considered in the FDI decision making process have an influence on the FDI strategic decisions (e.g., motives for and location decision of FDI)?	4.1 Do the stages at which tax implications are considered in the decision process have an influence on the FDI motives? 4.2 Does the relative importance of the location motives for FDI vary according to the stages at which the tax implications are considered in the decision process?	Chapter 5
5. In practice, what are the processes by which the FDI decisions are made with respect to tax considerations?	5.1 Does the relative importance of the stages of the FDI decision process vary according to whether tax issues are either considered or ignored in the decision process? 5.2 Does the relative importance of the organisational structure-related factors vary with the stages at which tax implications are considered in the FDI decision making process?	Chapter 6

6. Is corporate strategy given priority over tax strategy in terms of strategic decision making?		Chapter 5
7. How does tax strategy interact with corporate strategy with respect to FDI strategic decision making?	7.1 Does the relative importance of tax strategy and corporate strategy vary with the sample characteristics (e.g., industry sector, geographical location country/region, and capital size of FDI)? 7.2 Does the relative importance of the integration of tax strategy and corporate strategy vary with the stages at which tax implications are considered in the FDI decision process? 7.3 Is tax strategy integrated with corporate strategy in terms of FDI decision making? If yes, to what extent? 7.4 Does the relative importance of the components of tax strategy (e.g., transfer pricing policy, income shifting policy, achieving low tax rate, available tax allowances, achieving double taxation relief and choosing investment location) vary with the sample characteristics (e.g., industry sector, geographical location country/region, and capital size of FDI)? 7.5 Does the relative importance of the determinants of tax strategy (e.g., tax minimisation, compliance with business strategic plan, availability of tax incentives, ease of profit extraction, mitigation of risk and imitation of the action of competitors) vary with the sample characteristics (e.g., industry sector, geographical location country/region, and capital size of FDI)?	Chapter 5

The case of Tesco shows the significance of considering how an entire corporate entity may be affected by the collective impact of a variety of business decisions with differing tax treatments. Tesco is a typical example, indicating how tax strategy and planning policy is practised and treated in reality. It was not just a tax avoidance scandal but a typical case which shed light on the issues associated with the interaction between tax strategy and corporate strategy, as well as the tax treatment from a corporate strategic perspective. That is the main reason why this study was undertaken in the first place, with the aim of investigating further the role of tax in the FDI decision making process in the real world.

In addition, the Tesco case also shows that tax strategies and planning issues do bring certain benefits to MNEs, but consequently, create some problems and pitfalls as well, such as the issues related to morality and corporate social responsibility (Christensen and Murphy, 2004). Therefore, tax professionals should consider non-tax factors in practice. This is because it does not always make sense to locate the FDI in tax havens since, as with all strategies, UK MNEs may also need to take account of the non-tax costs of the strategy. According to Glaister and Frecknall-Hughes (2008, p. 41), tax is just one of many factors to take into consideration as significant non-tax costs can arise from attempts to reduce the global tax burden.

After reviewing the literature, it is necessary to consider the method of collecting data. The following chapter elaborates the research approach and methods employed in this study.

Chapter 3: Research Approach and Methods

3.1 Introduction

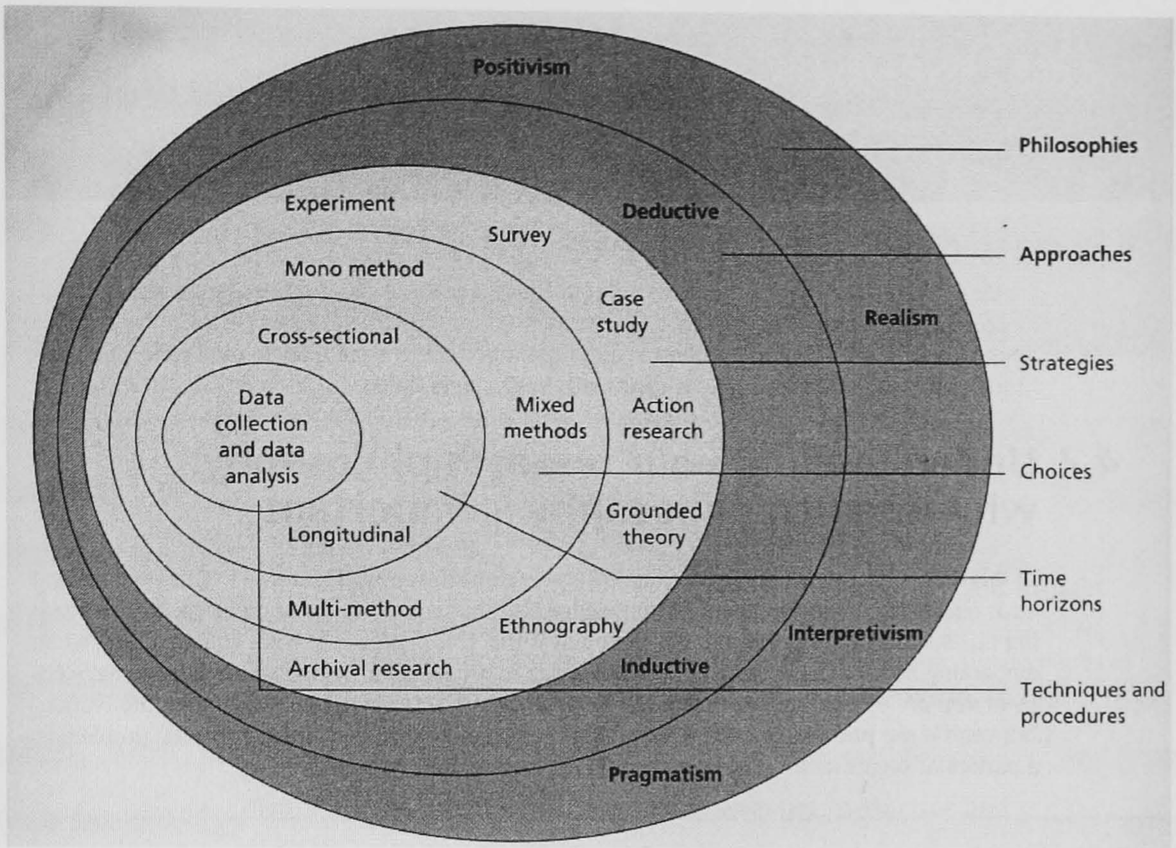
This chapter will outline the approach proposed for obtaining evidence to answer the research questions identified in Chapter 2. The choice of research approach and methods is heavily dependent on the nature of the research questions. As Kinnear and Taylor (1996, p. 129) note, a research design is the basic plan which guides the data collection and analysis phases of the research project.

The chapter is structured as follows. Section 3.2 describes the fundamental assumptions underlying particular operationalised research philosophies and approaches generally underpinning research methods. Then the discussion turns, in Sections 3.3 and 3.4, to formulating the research design to fulfil the purposes of this research and to the research strategies to be used. A deductive research approach will be adopted, in the form of a questionnaire facilitating quantitative analysis. This approach will be justified in reference to evaluating how effectively it fits the research questions and topic. After that, Section 3.5 focuses on the development of the questionnaire and the strategies for selecting respondents, as well as administration of the questionnaire, including methods and strategies for follow-ups and reminders to deal with non-responses. This section will also consider the response rate and limitations of the research method employed in this study. Finally, Section 3.6 will discuss preparation of the data for analysis and offer some concluding thoughts.

3.2 Understanding research philosophies and approaches

This chapter is concerned with the way in which the researcher collects data to answer the research questions. Saunders, Lewis and Thornhill (2009, p. 106) suggest that research design may be considered as a research 'onion' as depicted in Figure 3.1.

Figure 3.1: Research 'onion' – understanding philosophies and approaches
(Source: Saunders, Lewis and Thornhill, 2009, p. 108)



Before coming to this central issue of how to collect data needed to answer research questions, the researcher argues that there are important layers of the onion that need to be peeled away. The first layer relates to the question of the research philosophy to adopt; the second considers the subject of research approach that flows from the research philosophy; the third examines the research strategy most applicable; the fourth layer refers to the choices of research method; the fifth layer relates to the time horizon a researcher applies to his/her research; and the last layer refers to the data collection methods to be used.

3.2.1 Research philosophies

All social researchers approach their subject via explicit or implicit assumptions about the nature of the social world and the way in which it may be investigated. Therefore, the way chosen to answer the research questions identified in Chapter 2 will be influenced by an underpinning research philosophy and approach. According to Saunders, Lewis and Thornhill (2009, p. 119), there are three assumptions relating to the nature of what can be researched and what constitutes knowledge, as follows.

(i) The ontological assumption, which concerns the nature of reality, here the way the tax issues are managed with respect to FDI strategic decisions.

(ii) The epistemological assumption, which concerns what is regarded as knowledge, and here related to tax strategy and corporate strategy in the FDI decision process.

(iii) The axiological assumption, which concerns the impact of the researcher's own personal values and aims.

By considering the various underlying assumptions in the context of the tax implications of the FDI decision process, the most appropriate philosophical assumption appears to be positivism. This is because the principles of positivism adopt the philosophical stance taken by natural scientists to develop hypotheses which will be tested, and lead to the further development of theory (Saunders, Lewis and Thornhill, 2009, p. 113). The objectives of this study are to investigate the interface between tax strategy and corporate strategy in the FDI decision process, the nature of which permits the development of hypotheses to examine a particular relationship between variables and to produce models of their relationships. A researcher should be convinced that the most appropriate philosophical assumption is being used, and this choice depends mainly on the overall research objectives (Saunders, Lewis and Thornhill, 2009, p. 109). Also, in accordance with the assumptions of positivism, the researcher will be independent of the process of data collection in the sense that there is little that can be done to alter the substance of the data collected. Hence positivism is the most appropriate philosophical assumption for this research.

3.2.2 Research approaches

Saunders, Lewis and Thornhill (2009, p. 124) distinguish between the research approaches of deduction and induction. The differences between deductive and inductive approaches are illustrated in Table 3.1.

Table 3.1: Differences between deductive and inductive approaches to research (Source: Saunders, Lewis and Thornhill, 2009, p. 127)

Deductive approach
▪ Scientific principles ▪ Moving from theory to data ▪ The need to explain causal relationships between variables ▪ The collection of quantitative data ▪ The application of controls to ensure validity of data ▪ The operationalisation of concepts to ensure clarity of definition ▪ A highly structured approach ▪ Researcher independence of what is being researched ▪ The necessity to select samples of sufficient size in order to generalise conclusions
Inductive approach
▪ Gaining an understanding of the meanings humans attach to events ▪ A close understanding of the research context ▪ The collection of qualitative data ▪ A more flexible structure to permit changes of research emphasis as the research progresses ▪ A realisation that the researcher is part of the research process ▪ Less concern with the need to generalise

The most important criterion for choosing a research approach is the nature of the research topic (Creswell, 2003, p. 21) and here the deductive approach will be suitable for this study. Given that an important characteristic of the deductive approach is to explain causal relationships between variables, it is anticipated that the deductive approach will be able to establish a relationship between the tax implications and the FDI strategic decisions and explain the inter-linkage. Consequently, the researcher will be able to develop research questions which will uncover whether tax implications play an important role in the FDI decision process, and whether tax is an influencing factor or a determining factor.

3.3 Formulating the research design

Peeling away the outside layers of the 'onion', the central point of the research 'onion' is reached. The research design is a general plan to obtain data to answer the research questions derived from and informed by the literature review.

3.3.1 Research strategies

Saunders, Lewis and Thornhill (2009, p. 141) (see Figure 3.1 above) suggest seven different research strategies, including experiment, survey, case study, action research, grounded theory, ethnography and archival research. The choice of research strategy will be guided by the research questions and objectives, the extent of existing knowledge, the amount of time and other resources available, as well as the philosophical underpinning. By considering the different research strategies, apart from survey an obvious alternative research method might be case study. Robson (2002, p. 178) defines "case study as a strategy for doing research involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence". Although the case study method enables the researcher to gain in-depth understanding of one case or perhaps a small number of cases, one of the disadvantages of using case study as a research method is its difficulty for the researcher to establish the sense of representativeness based on the single case or multiple cases. While quantitative measures may sometimes be used to infer from one case to a large population (Silverman, 2010, p. 128). Sanders, Lewis and Thornhill (2009, p. 482) noted, it is important to understand which research methods are able to analyse the data meaningfully as no research strategy is inherently superior or inferior to any other.

Given the nature of this study, particular characteristics of the survey strategy suggested that this was most suitable for the following reasons.

(i) A survey strategy allows the collection of a large amount of data from a sizeable population in an economical way.

(ii) A survey strategy enables the research to be completed within a reasonably rigid time frame.

(iii) The use of standardised survey questions can facilitate more precise analysis by obtaining uniform responses from participants.

(iv) A survey strategy enables the researcher to develop and test theory and hypotheses using a survey questionnaire, which can be distributed widely to obtain generalisable data.

Therefore, it was decided to administer a survey questionnaire to elicit the required data from as large a sample as possible.

3.3.2 Research method choice

The three research method choices in Figure 3.1 consist of mono method, mixed method and multiple methods. As a survey has been chosen as the appropriate strategy, and will be the only means used to obtain data, the choice is therefore mono method.

3.4 Time horizon

The time horizon assumes the research to be either a 'snapshot' taken at a particular time, or a 'diary' that is a representative of events over a given period (Saunders, Lewis and Thornhill, 2009, p. 155). The 'snapshot' time horizon is also referred to as cross-sectional while the 'diary' perspective is referred to as longitudinal. The time horizon adopted in the study is cross-sectional. This is because a particular phenomenon is studied at a particular time. Easterby-Smith, Thorpe and Lowe (2008, p. 91) and Robson (2002, p. 157) also emphasise that cross-sectional studies often employ a survey strategy. They believe that cross-sectional studies are useful when seeking to describe the incidence of a phenomenon, for example, as here, the role of tax in FDI, or to explain how factors are related in different organisations, for example, the relationship between tax strategy and corporate strategy in UK multinational companies.

3.5 Data collection

As the chosen research strategy is a survey, the use of a questionnaire as the research instrument to gather data from a large number of respondents is an obvious choice. A survey questionnaire is not just a list of questions or a form to be filled out, but requires careful construction and preparation, as well as various techniques and strategies to monitor administration. This is because the researcher is not in control of the process after distributing the questionnaires, so it requires a substantial amount of effort and follow-up strategies to ensure that the maximum possible number of responses is obtained. Also, as the researcher is not present during completion, this means that there is no way to gloss over construction deficiencies (Dillman, 1978, p.

184). The process and technique for data collection are therefore critical to the success in data gathering. The procedures undertaken to obtain data are discussed below.

3.5.1 Questionnaire development

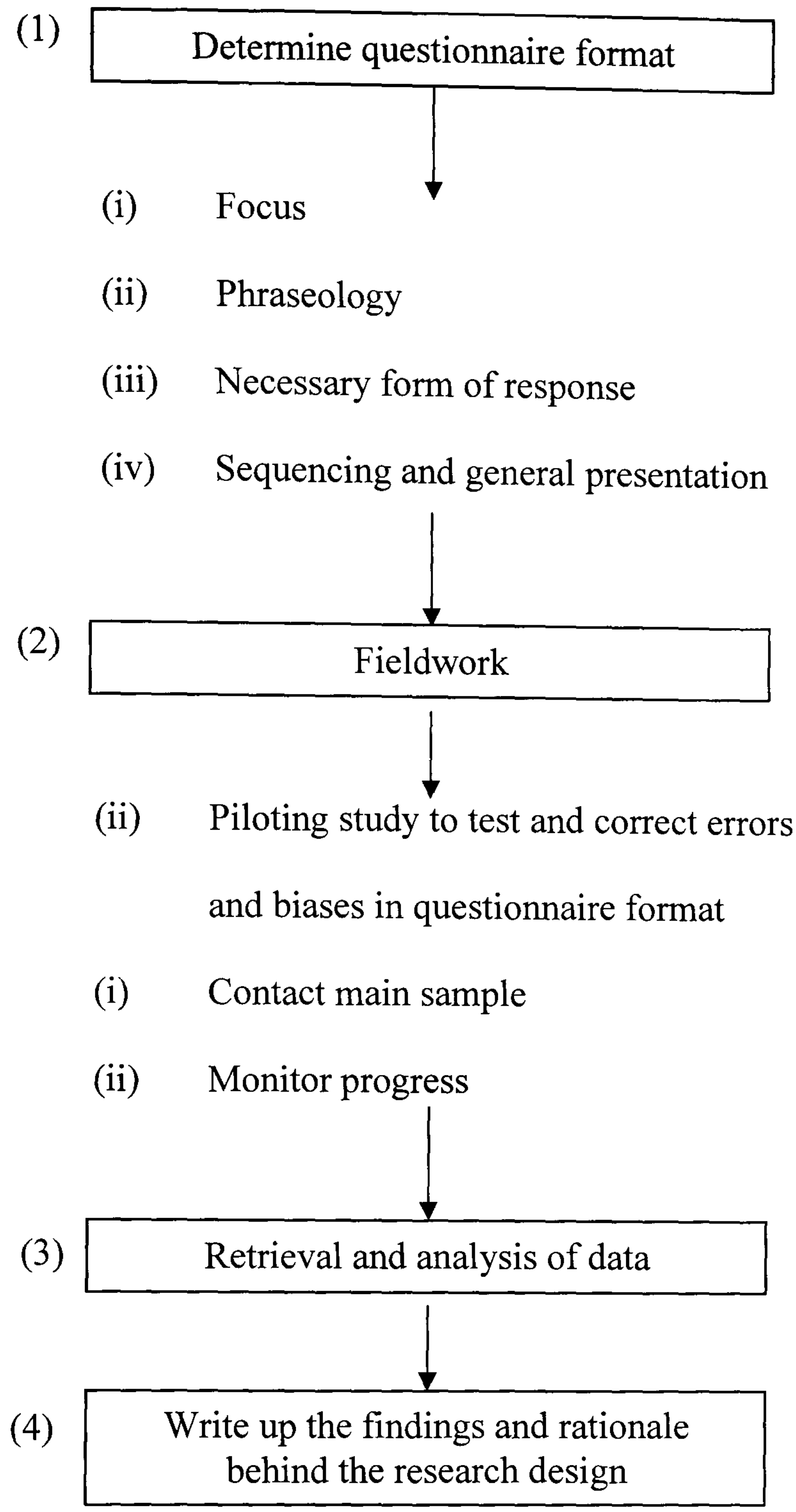
The objective in designing any research questionnaire will be to maximise the number of participants answering the questionnaire (the response rate), and to obtain accurate and relevant information. If research questions cannot be specified clearly, the research will be unfocused and that there will be uncertainty about what the research addresses and the purpose for which data are collected. The research questions adopted in this study are derived by reference to the literature review. As Blaikie (2000, p. 71) noted: "[t]he aim of the literature review is to indicate what the state of knowledge is with respect to each research question, or group of questions". The questionnaire has been developed according to procedures outlined by Gill and Johnson (2002, p. 115), which are shown in Figure 3.2.

Following Gill and Johnson (2002, p. 115), particular attention was paid to questionnaire focus, question phrasing, the form of response, question sequencing and overall presentation, as indicated in Figure 3.2. The questionnaire administered for this research was divided into in six sections in order to obtain data on:

1. the respondent and participating organisation;
2. FDI general information;
3. motives for FDI;
4. the finance and costs of FDI;
5. the FDI decision process; and
6. management of tax strategy and corporate strategy.

This questionnaire consisted of 43 questions in total, with most questions being composed of multiple parts (please refer to Appendix I, which is a copy of the questionnaire). The length of time required to complete the questionnaire was approximately 20 minutes.

Figure 3.2: The questionnaire format
(Source: Gill and Johnson, 2002, p. 115)



In order to confirm understanding of the main research issues on the part of potential respondents and to make sure that the content and format of the questionnaires were clear and unambiguous, a pilot test was undertaken in July 2009. A total of 30 companies were approached for this pilot test study. Feedback from the respondents indicated that the questionnaire was adequately designed, was comprehensive and would obtain detailed data on the role of tax in the FDI decision process.

Each question was carefully designed so as to be easy to complete. The questions incorporated in the instrument are broadly of two types: (i) categorical questions of a factual nature; and (ii) questions designed to measure the attitude and perceptions of the respondents. Categorical questions were mostly placed in the background section and asked for factual data, for example, year of investment, annual sales, etc. In line with prior research, all the other research questions were of an ordinal nature. Ordinal classification of attitude and perception was considered a more realistic task for respondents than the use of interval or ratio measures (Geringer, 1991, p. 51). While there is a number of possible different rating measures to choose from, given that the time available to the target respondents (senior tax specialists) to complete the questionnaire would be limited, an easily understood Likert-type scale appeared to be the most feasible choice. Questions were restricted to a five point scale since it was felt that more numerous response categories would make it too onerous for respondents to discriminate, leading to 'noise' rather than more precise data (Geringer, 1991, p. 51; Glaister and Buckley, 1998, p. 100).

3.5.2 Respondent selection

Careful sample selection is vital to any data collection, especially as it was intended to administer the questionnaire in web-based format, using Survey Monkey (see later). Dillman (2000, p. 400) argues that one of the dangers of web-based data collection is that researchers sometimes design a web-based instrument and solicit data from anyone willing to complete the survey. Such unfocused data sampling runs the risk of obtaining a very low response rate and useless data.

To obtain enough data from tax specialists, the FAME database for UK and Irish companies (to which access is provided via the University of Sheffield library) was used as a sampling frame. FAME is a comprehensive database of listed companies in the UK and Ireland, which contains 10 years of detailed information and includes summary data for subsidiaries, as well as information for liquidated companies. It can be used to compare and collate data for different companies. Also, the Hemscott Company Guru database was used to provide detailed information on directors, organisational management and the activity status of firms.

The sampling frame of UK companies selected from the FAME database was 4,068 companies. The initial selection criterion was a minimum annual turnover of £200,000 which aimed to filter out very small businesses. Then the 3,500 companies (out of the 4,068) for which the FAME database contained e-mail addresses were initially contacted by e-mail to request participation in the survey. Since the questionnaires were sent out by e-mails with a direct link to the on-line questionnaire, all the respondent companies were required to have e-mail addresses. The objective of sending such requests was to identify participants who would/could respond and also prepare for the distribution of the questionnaire. The results from this initial contact are set out below in Table 3.2.

Table 3.2: Initial contact results

		N
Initial contact to request participation		3,500
Non-participation		
Due to: (i) no FDI	272	
(iii) no FDI in the last five years	65	
(iii) company policy not to participate in any survey	41	
(iv) insufficient time or human resources	65	
(v) no interest/irrelevant	175	
(vi) e-mail addresses invalid	27	
(vii) unwilling to get involved in the research	135	
		(780)
Potential respondents		2,720

Out of 3,500 companies contacted initially, some firms did not reply to the request. Non-participation of 780 firms resulted. A total of 2,720 on-line questionnaires was then distributed to the potential respondents. Feedback from the pilot test and initial contact described above indicated that the best persons to complete the questionnaire were Chief Financial Officers (CFOs) or Group Directors of Taxation rather than tax managers. This was because tax managers found it a struggle to answer several of the questions as they had not been involved in the FDI decision making process, hence they could only make a limited contribution to this survey. Further, the results of the initial contacts made the researcher realise the difficulties of obtaining responses owing to:

(i) the nature of the research topic, that is, taxation;

(ii) the type of questions – taxation-specific and concerning the FDI decision process;

(iii) the manner of the questionnaire distribution – on-line and web-based;

(iv) the attitude of the target respondents – busy and cautious; and

(v) the time horizon, namely, FDI undertaken within the last five years.

There were only 22 responses obtained from the initial distribution of questionnaires to the 2,720 target companies identified above.

Given the obstacles existing as regards the data collection, the researcher noted the importance to the success of the data collection of a strong and effective distribution channel for the questionnaire and for any follow-ups. To increase the number of responses, two UK professional organisations, the Chartered Institute of Taxation (CIOT) and the Institute of Chartered Accountants of Scotland (ICAS) were contacted to request support for this research by assisting with the distribution of the questionnaires to their industry and company members. The total number of firms provided by ICAS and CIOT and contacted by e-mail with a request to complete the questionnaire was 1,072 and 1,373 firms respectively. This total of 2,445 companies given by the institutes was included on the FAME database, and is a sub-set of the 2,720 firms in the sampling frame. To encourage potential respondents to complete the questionnaires, ICAS provided its logo on the covering letter to give an indication of its professional support for this study.

To improve further the response rate, after two rounds of reminder e-mails had been sent to the 2,720 companies, the researcher employed the follow-up technique of telephone calls to chase up the non-respondents. At this stage, the list of 2,720 companies was reviewed again with the objective of selecting large companies based on the 'name' of the firm, for example, all firms with 'international' or 'group plc' in the title. Such firms might reasonably be assumed to have FDI activities and, as such, would have to deal with different tax issues. The companies were also selected by browsing the companies' official websites to see if they had overseas branches or investments. Both public limited companies and private enterprises were incorporated in the sampling frame. Each company selected was logged on an Excel spreadsheet with company address, name of the CFO/Director of Taxation, telephone numbers, website and e-mail addresses. This led to a list of 1,020 companies being created. The 1,020 companies were first contacted by e-mail and then the e-mail was followed up by a direct telephone call to ask if they would be willing to complete the on-line, Survey Monkey questionnaire. The number of completed questionnaires returned indicated that making a direct telephone call was the most effective method to follow up this type of non-respondent, as well as increasing the response rate, which provides evidence to support the argument in the literature that telephone reminders are effective (Silva, Smith and Bammer, 2002).

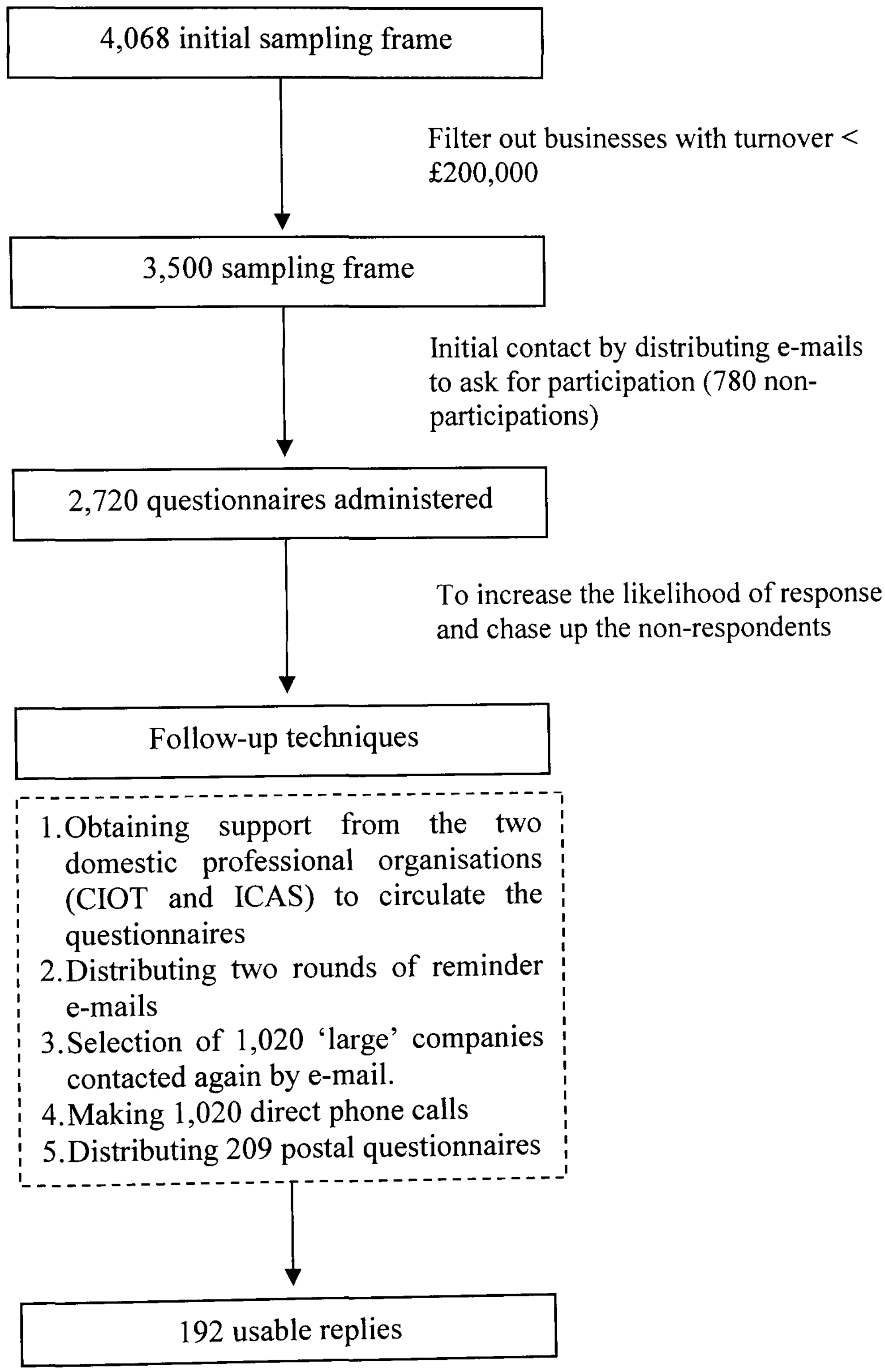
To try to increase the number of responses and test the effectiveness of the distribution method using a web-based questionnaire, a follow-up mode of distribution was used, whereby a small number of questionnaires (209) was sent out by post. There was a 4.3 per cent response rate for the mail questionnaire compared with a 6.7 per cent response rate for the web-based questionnaire, which does not generally support the argument in the literature that a postal survey has a better response rate than an on-line survey (Handwerk, Carson and Blackwell, 2000; Kaplowitz, Hadlock and Levine, 2004). The process of selecting and contacting the sample is summarised in Figure 3.3 below.

3.5.3 Administering the questionnaire

One of the most effective methods of administering a web-based survey is by using Survey Monkey to develop a professional looking on-line questionnaire, create a link and then include that link in e-mails sent to potential respondents. Also, the use of Survey Monkey should make inputting data obtained much easier and less time consuming. Furthermore, the most obvious advantage of e-mail surveys is their low cost and efficient use of time, and the ability to reach all parts of the country and all potential sample members. Therefore, it should be possible to collect data from large industrial populations at a low cost within a short time frame, thus allowing quantitative analysis to test hypotheses and also the potential to generalise the findings. However, the most serious problem of any on-line questionnaire is that of poor response rate. The question of how to secure a high response rate from a web-based survey becomes vital to the researcher. Churchill (1987), de Chernatony (1990), Diamantopoulos and Schlegelmilch (1996), Dillman (1978; 2000), and Jobber and

O'Reilly (1996) have suggested various techniques for enhancing the response rate. To improve the response rate of the web-based survey, the researcher administered the main questionnaire as follows, incorporating the suggested techniques, as appropriate.

Figure 3.3: Flow diagram of respondent selection



- **Covering letter**

To ensure the likelihood of good quality responses, e-mails were sent out with covering letters to the CFOs and Group Directors of Taxation in UK multinational companies. The covering letter identified the researcher, explained the research objective, assured confidentiality and created a direct link to the on-line questionnaire. A copy of the covering letter is provided in Appendix II. Also, full colour university letterhead was used to demonstrate the university's and department's sponsorship to try to affect the response rate positively. Saunders, Lewis and Thornhill (2009, p. 389) point out that a good response is dependent on the recipient being motivated to answer the questionnaire and to send it back. Thus the covering letter was designed to encourage potential respondents as much as possible to complete the questionnaire by stressing the importance generally of the work and offering them a summary of the research results.

- **Survey sponsorship**

The likelihood of obtaining participation in a questionnaire becomes higher if there is some kind of approval from an organisation valued by potential respondents (Bruvold and Comer, 1988; Diamantopoulos, Schlegelmilch and Webb, 1991; Schneider and Johnson, 1995). This research was supported by two professional organisations: the CIOT and ICAS, which was stated in the text of the covering letter. The full colour ICAS logo was also used on the covering letter, with that body's permission. By seeing these, the recipients would be assured that this was a serious piece of research. Also, the university sponsorship may result in a higher response rate owing to the non-profit nature of the sponsoring organisation. Diamantopoulos and Schlegelmilch (1996, p. 517) suggest that company executives in particular are more positively disposed towards surveys emanating from academics, although other researchers have argued that the use of university letterhead would not have a significant effect on the response rate (Ketchen and Bergh, 2007, p. 51).

- **Anonymity/confidentiality**

Assurances were provided that all responses would be treated confidentially and that neither the respondents nor their organisations would be identified during the analysis and report stage of the study. Such assurances were incorporated in to the covering letter and served to put the potential respondent's mind at ease regarding subsequent disclosure of information. A promise of anonymity/confidentiality was also reiterated at the beginning of the questionnaire.

- **Non-monetary incentives**

Only one type of non-monetary reward, an offer of a summary of the study's results (with anonymity maintained), was given to respondents to try to influence positively the likelihood of response.

- **Follow-up techniques**

There is a range of techniques suggested and extensively tested for increasing response rates from industrial populations, but only two techniques have consistently been found to affect response rates positively, namely, follow-ups and monetary incentives (Diamantopoulos and Schlegelmilch, 1996; Jobber and O'Reilly, 1996; and Kanuk and Berenson, 1975). To deal with the non-respondents from the 1,020 companies, follow-up techniques were employed three weeks after the initial emails were sent to all potential respondents. A follow-up e-mail then thanked early respondents and reminded non-respondents about completing the questionnaire. A second follow-up was to telephone companies which had not responded after four weeks. On the telephone, the researcher identified the objectives of the research and explained the importance of the respondents' participation, and further emphasised that no sensitive and confidential information was being requested.

The follow-up strategy played an important role in generating sufficient responses for this study. The researcher spent four months telephoning companies. The success of this follow-up strategy is mainly due to the fact that individuals respond better when direct communication is established, as oral communication is generally more persuasive and personal than e-mail.

The 209 postal questionnaires generally shared the same methods to enhance the response rate. The 209 were judgementally selected by the researcher. However, the methods in terms of postal questionnaires and reminders are discussed below.

- **Postal contact**

The postal questionnaires were processed through the University of Sheffield postal system and were posted second class within the UK. A pre-addressed and stamped envelope was included, because the inclusion of a stamped return envelope is recognised as important in terms of encouraging responses.

- **Follow-up reminder letters**

Three weeks after sending off the 209 postal questionnaires, the researcher distributed 183 reminder letters as 26 companies had declined to participate. Following the returns of six completed questionnaires and a further 40 who declined to complete the questionnaire, a second follow-up reminder was sent out. Three completed questionnaires were returned and a further 15 companies declined to participate. A total of 119 companies did not reply.

3.5.4 Dealing with overlap in the data collection

Owing to the various methods and approaches mentioned above employed to obtain enough data for the research, it is possible that a potential overlap exists (i) between the combined ICAS/CIOT companies themselves; and (ii) between the 1,020 companies to which follow-up phone calls were made and the ICAS/CIOT companies. This is because the same company could appear on more than one list or be contacted more than once in the data collection process. However, it is important to note that the same company did not answer the same questionnaire more than once although it may have been contacted more than once. A few respondents, for example, did reply by e-mail to say that they had returned the questionnaires before they were contacted again or received reminders or follow-up phone calls. The overlap apparent in the data collection, therefore, will not affect the response rate.

3.5.5 Response rate

Of the total of 2,720 questionnaires sent out, the response rate of both the on-line and postal questionnaires is summarised in Table 3.3.

Table 3.3: Summary of responses and non-responses to the questionnaire

		Total	
		N	%
Questionnaire sent out		2,720	
Non-participation			-
Due to: (i) no FDI	200		-
(ii) no FDI in last five years	73		-
(iii) company policy	20		-
(iv) time constraints	28		-
(v) no interest/relevant	237		-
(vi) e-mail/postal addresses unknown	18		-
(vii)largely incomplete	134		-
		710	26.1
Usable replies		**192**	**7.1**
No reply		1,818	66.8
Grand total		2,720	100.0

Given that the focus of this study is taxation, this is a relatively good response rate, especially in terms of obtaining on-line questionnaire responses from a commercial and industrial population. According to Saunders, Lewis and Thornhill (2009, p. 179), organisations are less likely to cooperate where the topic of the research is regarded as relatively sensitive. Further, for regular mail surveys without a telephone follow-up/pre-contact, response rates vary between 6 and 16 per cent (Harzing, 1997). Cycyota and Harrison (2006, p. 140) have pointed out a low rate of response from executives in such circumstances. Other academic studies which obtained data from company executives demonstrated a similar response rate. For example, Graham and Harvey (2001) achieved a response rate of nearly 9 per cent from CFOs. Some studies have reported lower response rates than that reported in this study. For instance, Koch and McGrath's (1996) study had a 6.5 per cent response rate as did that by Lepak, Takeuchi and Snell (2003).

In relation to the nature of the research topic, the manner of distribution, the nature of the target population and the subject area (taxation), a response rate of 7.1 per cent appears to be reasonably good. Moreover, as a very rough 'rule of thumb', 200 responses should provide an acceptable degree of survey accuracy under most assumptions and parameters for a survey project – except for analysis within any particular segment (i.e., age group) (Bennekom, 2007). The 192 usable responses returned in this research should therefore provide fairly representative and generalisable results.

3.5.6 Limitations of the research method

There are some limitations apparent in the research method used in this research.

(1) Any research questionnaire relying on standardisation compels the researcher to develop questions general enough to be minimally appropriate for all respondents, possibly missing what is most appropriate and applicable to particular respondents.

(2) The research questionnaire here is only applicable to UK companies that have undertaken FDI in the previous five years (from 2005 to 2009). Any FDI undertaken outside that time period would not be included in this research.

(3) The on-line questionnaire was limited in that not every e-mail address proved valid, which meant that some questionnaires were not delivered.

(4) Respondents may harbour suspicions about on-line survey administration and may have concerns about confidentiality that discourages participation.

To address the above limitations in the data collection process, the researcher adopted a number of tactics. For example, to identify valid company e-mail addresses, the researcher accessed various information sources, such as the company official websites, on-line databases, for example, the FAME and the Hemscott Company Guru databases or directly called companies to ask for the relevant information. To overcome the respondents' concerns and suspicions about the on-line data administration, the researcher tried to provide more information about it either in the covering letter or on the telephone in an attempt to build up the respondents' confidence in becoming involved in the survey. However, regarding the first two points, all surveys of this kind suffer from the same limitations because each survey has its own criteria for selecting appropriate potential respondents, and also each research method would have its own advantages and disadvantages. The importance is that the researcher knows how to fit different methods into different kinds of research to utilise its advantages and overcome its disadvantages.

3.5.7 Preparation for data analysis

The primary data analysis reported in later chapters was conducted using the SPSS statistical package for Windows (Version 12) which is installed on the University of Sheffield computer system. An important issue in data analysis is the examination of data by reference to a number of criteria. This examination was undertaken in line with the suggestions by Pallant (2007). The data was examined with respect to normality, linearity, homogeneity of variance, and outliers and missing values. The initial examination also checked for any violation of assumptions of parametric statistical tests by means of graphical and descriptive summary statistical measures such as histograms, scatter-plots, skewness and kurtosis. The statistical methods employed include frequencies, cross-tabulations, the Chi-squared test of independence, two-sample *t*-tests, paired sample *t*-tests, ANOVA, factor analysis, multinomial logistic regression, and binomial logistic regression.

3.6 Conclusions

This chapter has aimed to show the development of a logical research procedure with sound methodological underpinning in order to obtain valid and reliable primary data. The FAME database served to provide the main sampling frame for the collection of primary data. The issue of which survey method to employ to collect primary data involved a consideration of cost and time involved in the data collection. Given the nature of information being sought (which was both factual and opinion–based covering several key areas of interaction between tax strategy and corporate strategy in the FDI decision making process), in order to elicit the required information from as large a sample as possible within the cost and time constraints of the study, it was decided to administer a primarily web-based questionnaire combined with a small number of mail questionnaires (to follow up the non-responses). The questions were derived by reference to the literature review in Chapter 2. In terms of administration, the survey questionnaire attempted to follow the guidelines suggested by previous researchers in order to enhance the response rate. The total response rate for this study of 7.1 per cent may be considered to be reasonably good for the type of survey employed by this study.

This chapter has explained the overall operational pattern or framework of the research that stipulated the data which were to be collected, from which sources, and by which procedure. The analysis of the primary data begins in Chapter 4, which investigates the role of tax incentives in the motives for and location of FDI.

Chapter 4: An analysis of the role of tax incentives in the motives for and location of FDI

4.1 Introduction

This chapter investigates the role of tax incentives in the location-specific decisions and strategic motives of a sample of UK multinational companies for engaging in FDI. This analysis uses a sample of 192 UK multinational enterprises to examine the way in which tax implications interact with FDI location-specific and strategic motivational decisions. In other words, it analyses the taxation factor as a determinant of the motives for and location of FDI. Relatively few empirical studies in the relevant literature have examined the interface between tax incentives and corporate strategy in reference to the location-specific and motivational factors in the FDI decision making process, particularly from the perspective of UK multinational companies. This chapter therefore attempts to identify the tax implications for corporate strategy from the perspectives of the motives for and the location factors of FDI. This chapter aims to serve three main goals, as follows:

(i) to identify the relative importance of tax incentives as a motive for FDI and the FDI location decision;

(ii) to provide a set of distinct non-overlapping FDI strategic motives and location-specific determinants for the sample studied by means of factor analysis; and

(iii) to consider these determinants in the context of the sample characteristics: geographical investment location, the industry sector and the capital size of the FDI.

The reminder of the chapter is structured as follows. Section 4.2 considers the prior literature relating to motives and location choice of multinational firms in relation to the tax implications and sets out the research questions. Section 4.3 sets out the key characteristics of the sample which is the subject of analysis of this chapter. The following sections 4.4 and 4.5 present the results and discussion of the findings for both the host country location influences and strategic motives for the FDI. A summary and conclusions are provided in the final section (4.6).

4.2 Research questions in respect of motives for and location factors of FDI

The research questions developed from Chapter 2 will be examined in this chapter, as follows:

(i) Do the underlying motives for FDI vary with the industry sector of FDI?

(ii) Do the underlying motives for FDI vary with the geographical location of FDI?

(iii) Do the underlying motives for FDI vary with the capital size of FDI?

(iv) Does the relative importance of location motives for FDI vary with the industry sector of FDI?

(v) Does the relative importance of location motives for FDI vary with the geographical location of FDI?

(vi) Does the relative importance of location motives for FDI vary with the capital size of FDI?

4.3 Characteristics of the sample

The respondents numbered 192 multinational companies undertaking FDI. The characteristics of the sample are summarised in Table 4.1.

The distribution of the sample of FDI by host countries/regions can be categorised into four sub-groups according to the geographical location of the FDI, namely Europe, Middle East and Asia, North America and Rest of the World. The size of FDI is classified by reference to the asset value of the FDI. However, the data show that the outliers positively skewed the distribution, that is, the long slope of curve is in the positive direction. Since outliers can affect the measure of the mean (Field, 2009, p. 98), therefore, the median was considered to be the best representation of the capital size of the FDI. Also, to reduce the effects of outliers skewing the results, seven outliers were removed from the sample. Thus the range of the minimum and maximum of the asset value extends from £0 to £1,300 million. The median value was thus adjusted to £7 million, hence any asset value from £0 to £7 million is categorised as small sized FDI whereas from £8 to £1,300 million is classified as large sized FDI.

Table 4.1 Characteristics of the sample

Year of FDI formation	Total		%	
2009	44		22.9	
2008	60		31.3	
2007	44		22.9	
2006	21		10.9	
2005	13		6.8	
2004	10		5.2	
		192		100
Country of location of FDI				
Europe				
European Community (EC)	55		28.7	
Non-EC Europe	30		15.6	
		85		44.3
Middle East and Asia				
India	10		5.2	
China	16		8.3	
Japan	3		1.6	
Other Far East	12		6.3	
Middle East	6		3.1	
		47		24.5
North America				
USA	31		16.1	
Canada	4		2.1	
		35		18.2
Rest of the World				
Australia	8		4.2	
New Zealand	1		0.5	
Central America	2		1.0	
South America	5		2.6	
Africa	9		4.7	
		25		13.0
Grand total		192		100

Asset value of FDI (£)	Total		%	
0 – 7 million	96		51.9	
8 – 1,300 million	89		48.1	
		185[a]		100
Industry category of FDI				
Manufacturing sector				
Food and drink	11		5.7	
Metal and minerals	7		3.7	
Energy	19		9.9	
Construction	7		3.7	
Chemicals	2		1.0	
Pharmaceuticals	4		2.1	
Computers	11		5.7	
Telecommunications	3		1.6	
Other electrical	2		1.0	
Automobiles	3		1.6	
Aerospace	3		1.6	
Other manufacturing	28		14.5	
		100		52.1
Service sector				
Transport	10		5.2	
Distribution	6		3.1	
Financial services	19		9.9	
Other services	57		29.7	
		92		47.9
Grand total		192		100

Notes:
[a]Missing values = 7

4.3.1 The motives for FDI

The questionnaire (see Appendix I, Section 3, Question 3.1) presented a list of 16 motives for FDI, – 15 specific and one 'other'. The 15 motivation-specific influences in the order they appeared on the questionnaire are shown in Table 4.2. Respondents were asked: 'How important were the following motives in your organisation's decision to undertake the FDI?' Responses were assessed using a five point Likert scale (where 1 = 'of no importance' and 5 = 'of great importance').

Table 4.2 The motives for FDI: items listed by order of appearance on the questionnaire

(1)	To enable business expansion
(2)	To access materials/natural resources
(3)	To reduce business risk
(4)	To reduce financial risk
(5)	To introduce modern managerial techniques
(6)	To cope with increasing industry competition
(7)	To facilitate the transfer of your company's technology
(8)	To benefit from overseas government incentives
(9)	To overcome potential difficulties/problems with licensing, patent agreements and exporting
(10)	To take advantage of opportunities for diversification
(11)	To improve economic efficiency
(12)	To establish local R&D capabilities
(13)	To establish local manufacturing capabilities
(14)	To train local staff/workforce
(15)	To take advantage of tax incentives

4.3.2 Host country location motives

The questionnaire (see Appendix I, Section 3, Question 3.2) presented a list of 18 host country location-specific motives, 17 specific and one 'other'. The 17 location motives in the order they appeared on the questionnaire are shown in Table 4.3 below. Respondents were asked: 'How important were the following factors in the decision to locate the FDI in the country chosen?' Responses were also assessed using a five point Likert scale, (where 1 = 'of no importance' and 5 = 'of great importance').

4.3.3 Statistical analysis

The research questions were examined by considering differences in means of the importance of motives for the FDI and the FDI location-specific determinants of UK multinational firms. Given the reasonable sample size and assumption that the sample is from a normal distribution, it was appropriate to use parametric tests. The relative importance of taxation by reference to the characteristics of the sample, was therefore tested by implementing two-tailed *t*-tests or ANOVA as appropriate. as well as multinomial logistic regression.

Table 4.3 Strategic FDI location motives: items listed by order of appearance on the questionnaire

(1)	Entering a new market
(2)	Market size
(3)	Level local market competition
(4)	Lower cost location
(5)	Access to material inputs
(6)	Access to skilled workforce
(7)	Access to flexible workforce
(8)	Employee training incentives
(9)	Local government policy towards FDI, e.g., favourable tariff
(10)	Favourable tax regime, e.g., double tax relief, transfer pricing, etc.
(11)	Ability to repatriate profits
(12)	Economic stability to the foreign country
(13)	Political stability of the foreign country
(14)	Trade agreements
(15)	Access to neighbouring countries
(16)	National cultural similarity
(17)	Level of infrastructure development

4.4 Findings and discussion of the motives for FDI

4.4.1 Motives for FDI

The rank order of the strategic motives for FDI, based on the mean measure of the importance of the 15 motives is shown in Table 4.4.

For the full set of the motives for the FDI, with means being greater than or close to the median point (2.5) on the scale, three motives of which, namely 'enable business expansion' (4.71), 'improve economic efficiency' (2.85), and 'facilitate the transfer of your company's technology' (2.81) constitute the first three with the highest degree of importance. The most significant motivational element in this group is 'to enable business expansion' which is leading the first group of three and is far ahead of the rest of the motives. It is clear from Table 4.4 that the highest ranked motives for the FDI are concerned with business expansion, economic efficiency and technology transfer.

Table 4.4 Strategic motives for FDI: motives ranked by mean measure of importance

Motivation-specific influences	Rank	Mean	SD
To enable business expansion	1	4.71	0.72
To improve economic efficiency	2	2.85	1.45
To facilitate the transfer of your company's technology	3	2.81	1.44
To establish local R&D capabilities	4	2.44	1.42
To reduce business risk	5	2.28	1.30
To introduce modern managerial techniques	6	1.99	1.21
To reduce financial risk	7	1.98	1.21
To benefit from overseas government incentives	8	1.96	1.31
To access materials/natural resources	9	1.74	1.32
To train local staff/workforce	10	1.73	1.30
To take advantage of tax incentives	11	1.63	1.01
To establish local manufacturing capabilities	12	1.61	1.03
To overcome potential problems with licensing, patent agreement and exporting	13	1.51	0.99
To cope with increasing industry competition	14	1.47	0.90
To take advantage of opportunity for diversification	15	1.39	0.87
N = 192			

Notes:

1. The mean is the average on a Likert scale of 1 (= 'of no importance') to 5 (= 'of great importance').
2. SD = standard deviation

The second group of FDI motives (those ranked 4 to 10) are below the median of the scale but above or close to 2 on the scale. The leading motivations in the second group are 'establish local R&D capability' (2.44) and 'reduce business risk' (2.28). Most of the motives for FDI in this group aim to get benefit from the host country market in terms of risk management and access to the incentives or resources, namely, 'introduce modern managerial techniques' (1.99), 'reduce financial risk' (1.98), 'benefit from overseas government incentives' (1.96), 'access materials/natural resources' (1.74) and 'train local staff/workforce' (1.73).

The third and lowest ranked group (11 to 15) consist of a number of distinct motives which are well below the median of the scale. The issues of benefit from the host country policies or incentives both in terms of 'take advantage of tax incentives' (1.63) and 'establish local manufacturing capabilities' (1.61) are ranked relatively low. Neither the availability of 'to overcome potential problems with licensing, patent agreement and exporting' (1.51) nor 'cope with increasing industry competition' (1.47) is an important motivation-specific determinant for FDI. The strategic motive of 'take advantage of opportunity for diversification' (1.39) is the lowest ranked motivating determinant out of the 15 strategic motives.

4.4.2 Factor analysis of motives for FDI

Table 4.5 shows that the correlation matrix of the 15 FDI motives revealed a number of low to moderate inter-correlations between motives. Owing to potential conceptual and statistical overlap, an attempt was made to identify a set of variables to determine the underlying primary dimensions governing the full set of 15 FDI motives. An exploratory factor analysis using the varimax rotation technique was used to extract the underlying factors. According to Pallant (2007, p. 179), factor analysis is used to reduce or summarise a large set of variables to a small set of factors or components. It allows a large set of variables or scale items to be condensed down to a smaller, more manageable number of dimensions or factors (Pallant, 2007, p. 102).

The motives with factor loadings greater than 0.3 were grouped for each factor derived. The significance of a factor loading will depend on the sample size (Field, 2009, p. 643). Stevens (2002) suggested that for a sample of size of 200 a loading of greater than 0.364 can be considered significant. Also, as Merenda (1997, p. 160) notes, from the general literature in the social and behavioural sciences, a threshold factor loading of 0.3 is the minimum that is traditionally used when deciding to accept an item or variable as belonging to a factor or component. For a sample of 192, therefore a loading of an absolute value of 0.3 is reasonable and significant. The factor analysis produced four underlying factors which make reasonable conceptual sense and explained a total of 58.0 per cent of the observed variance, as shown in Table 4.5. Further, an internal reliability test showed strong Cronbach alpha values for the underlying factors ranging from 0.37 to 0.94, suggesting adequate reliability for an exploratory study of this nature.

Table 4.5 Factors of strategic motives for FDI

Factors	Factor loads	Eigen-value	% Variance explained	Cumulative %	Cronbach alpha
Factor 1: Risk reduction and modern managerial techniques		4.56	30.4	30.4	0.94
To reduce financial risk	0.935				
To introduce modern managerial techniques	0.934				
To reduce business risk	0.805				
Factor 2:Benefits from local incentives and competitiveness		1.79	11.9	42.3	0.71
To benefit from overseas government incentives	0.768				
To take advantage of tax incentives	0.718				
To establish local R&D capabilities	0.609				
To cope with increasing industry competition	0.608				
Factor 3:Corporate strategic behaviours		1.30	8.7	51.0	0.66
To access materials/natural resources	0.662				
To take advantage of diversification	0.619				
To train local staff/workforce	0.592				
To overcome problems with licensing, etc	0.575				
To establish local manufacturing capabilities	0.504				
Factor 4:Business expansion and economic improvement		1.06	7.0	58.0	0.37
To facilitate the transfer of technology	0.679				
To improve economic efficiency	0.660				
To enable business expansion	0.615				

Notes:
Principal components factor analysis with varimax rotation.
K-M-O Measure of Sampling Adequacy = 0.733.
Bartlett Test of Sphericity = 1355.899; $p < 0.000$.

The results of the factor analysis are shown in Table 4.5. To investigate further the underlying nature and pattern of the motives for FDI, the analysis was developed by considering the motives in terms of the characteristics of the sample. Each of the relevant characteristics of the sample under consideration, as shown below in Tables 4.6, 4.8 and 4.10, shows the means and standard deviations of the four factors and the individual motives consisting of each factor and the appropriate test statistic for comparing differences in mean scores, that is, one-way ANOVA and independent-samples *t*-test. To explore and predict the associations among the variables, the motivational factors were assumed to be the set of independent variables, while the geographical location countries/regions and the capital size of the FDI were considered as dependent variables, and the industry categories of the FDI were regarded as the control variables in the test statistics. A multinomial logistic regression model seems the most appropriate analytical technique to be used for testing the inter-relationship between variables and assessing the relative strength of each factor, because it allows a more sophisticated exploration of the inter-relationship among a set of variables (Pallant, 2007, p. 146), and also tells the researcher specifically what the effect is (Field, 2009, p. 309). Feeney and Bozeman (2010, p. 1665) suggest that multinomial logistic regression is especially appropriate when the dependent variables are non-ordinal categories, when at the same time the independent variables are ordinal or categorical variables, that is, factors.

Before the analysis, the assumptions of the model were checked, including collinearity within the data and the Durbin-Watson test was used to check whether the residuals in the model are independent. The correlation matrix was assessed to test whether the assumptions were met or not, which is indicated in Table 4.6.

Table 4.6 reports the descriptive statistics and correlation matrix of the FDI motivational variables. The pair-wise correlations do not seem to present serious collinearity[8] problems for the multivariate statistical analysis, as none of the variables has a correlation coefficient above 0.50. According to Wetherill (1986, p. 105), the correlations between relevant pairs of variables should not be large because this might restrict the generality and applicability of the estimated model.

[8] The effect of collinearity would be to inflate the variance of the least squares estimator and possibly any predictions made, and also to restrict the generality and applicability of the estimated model (Wetherill, 1986, p. 82).

Table 4.6 Descriptive statistics and correlation of motives for FDI

Variables	Mean	SD	1	2	3	4	5	6	7
1. Industry sector of FDI	1.49[9]	0.50	1.00						
2. Geographical locations	2.17[10]	1.14	0.12	1.00					
3. Capital size of FDI[a]	0.50[11]	0.50	-0.17*	-0.04	1.00				
4. Risk reduction and modern managerial techniques	2.09	1.16	-0.07	0.10	-0.13	1.00			
5. Benefits from local incentives and competitiveness	1.89	0.89	-0.14*	0.14*	-0.01	0.43**	1.00		
6. Corporate strategic behaviours	1.63	0.77	-0.32**	0.07	0.02	0.43**	0.43**	1.00	
7. Business expansion and economic improvement	3.46	0.83	0.05	-0.05	-0.02	0.14	0.27**	0.26**	1.00

Notes:
$N = 192$
SD = standard deviation
[a] UK sterling
$*p < 0.05$; $**p < 0.01$ (two-tailed).

[9] The industry sector of FDI is categorised into manufacturing and service sectors in the study. The manufacturing sector was coded as 1 and service sector was coded as 2. Hence the mean value of 1.49 (less than the median point of 1.5) shows that the number of manufacturing firms is slightly higher than of the service firms.

[10] The geographical locations are partitioned into 4 investment destinations: Europe, Middle East and Asia, North America and Rest of the World. The location of Europe was coded as 1, Middle East and Asia was coded as 2, North America was coded as 3 and the location of Rest of the World was coded as 4. The mean value of 2.17 which is less than the median point of 2.5 indicates that there are more companies investing in the locations of Europe and Middles East and Asia than the locations of North America and Rest of the World.

[11] The capital size of FDI is measured by asset value of FDI in this study. The asset value is grouped into two capital sizes of FDI: small (£0–7 million) and large (£8–1,300 million). The small sized FDI was coded as 0 and the large sized FDI was coded as 1. Hence the mean value of 0.5 indicates that the number of the companies undertaking the two capital sizes of FDI is almost the same.

4.4.3 Taxation effects and motives by industry sector of FDI

To facilitate the statistical testing of the strategic motivation for the FDI, the industry sectors were categorised in a conventional way by distinguishing between the manufacturing and the service sectors in the following manner.

Manufacturing sector: food and drink; metal and minerals; energy; construction; chemicals; pharmaceuticals; computers; automobiles; other electrical; telecommunication; aerospace; and other manufacturing.

Service sector: transport; distribution; financial services; and other services.

The motives for the industry sector of the FDI are shown in Table 4.7.

Table 4.7 Motives for the industry sector of FDI

	Industry Sector of FDI			
Motives	Group	Mean	SD	*t*-value
Risk reduction and modern managerial techniques	Manufac	2.17	1.13	
	Service	2.00	1.18	1.00
Benefits from local incentives and competitiveness	Manufac	2.01	0.91	
	Service	1.76	0.84	1.99**
Corporate strategic behaviours	Manufac	1.87	0.86	
	Service	1.38	0.56	4.55***
Business expansion and economic improvement	Manufac	3.42	0.86	
	Service	3.50	0.80	-0.66
N = 192	*Manufac = 100; Service = 92*			

Notes:
The mean for the factors is the mean of the factor scores.
$^{**}p < 0.05$; $^{***}p < 0.01$ (two-tailed).

Table 4.7 shows a moderate support for the argument that the relative importance of motives will vary with the industry sector of the FDI. Two of the four factors, namely, *benefits from local incentives and competitiveness* ($p < 0.05$) and *corporate strategic behaviours* ($p < 0.01$) show significant difference in the mean of the factor scores, with the mean scores of both factors being significantly higher for FDI in the manufacturing sector compared with the FDI in the service sector.

In reference to the results of the *t*-test, it is apparent that the strategic motives vary in importance with the industry sector of the FDI, with motives being more important for investment in the manufacturing sector than for the service sector. Hence, this finding provides evidence to support the prior relevant study by Glaister and Buckley (1998, p. 223) which suggested that the strategic motives for FDI are relatively more important for ventures in the manufacturing sector than for service sector ventures. The two motives of *benefits from local incentives and competitiveness* and *corporate strategic behaviours* are relatively more important for the manufacturing sector. This is not particularly surprising. Both factors appear in principle to be a set of factors oriented more towards manufacturing industry than to the service industry sector. From an objective-based perspective on FDI, MNEs aim to access cost effective resources and a workforce in foreign markets in order to exploit their comparative advantages, which appear more pertinent to the manufacturing sector than to the service sector because the motives of *benefits from local incentives and competitiveness* and *corporate strategic behaviours* enable a manufacturing-oriented enterprise to achieve more competitive advantages than a service company in the global market.

In terms of taxation as one of the motives for the FDI, it is important to look at the tax implications of strategic decision making as one of the motivational factors. By running the *t*-test for the strategic motive 'take advantage of tax incentives', the results show a statistically significant difference between industry sectors of the FDI, being more important for manufacturing industry than the service sector (manufacturing: $\bar{x} = 1.82$, SD = 1.11; service: $\bar{x} = 1.40$, SD = 0.79; *t*-value = 3.00; $p < 0.01$). The findings suggest that the manufacturing sector tends to place more emphasis on taxation effects than the service sector. This might be because tax exemptions and allowances are probably of more interest to the manufacturing sector than the service sector, owing to major expenditures on plant and fixed assets in the former. However, compared with a strategic motive such as 'access materials/natural resources', the influence of taxation effects has a relatively lower mean value (manufacturing: $\bar{x} = 2.28$, SD = 1.60; service: $\bar{x} = 1.21$, SD = 0.61; *t*-value = 5.95: $p < 0.01$). In addition, in reference to Table 4.4 in which the motivational factors are ranked by the mean value of the response, of the 15 motives identified for FDI, that of 'taking advantage of tax incentives' is ranked eleventh, and is part of the third and lowest ranked group, indicating that this is perceived as a relatively less important motive compared with most of the other identified motives for FDI nevertheless. The findings indicate that the tax incentive varies with the industry sector of FDI, being more important to the manufacturing sector than the service sector.

4.4.4 Taxation effects and motives by location of FDI

As noted earlier, the country/region of the FDI was divided into four sub-groups comprising Europe, Middle East and Asia, North America, and Rest of the World. The sample was partitioned according to the geographical proximity of the location of the FDI. The motives for FDI by the geographical locations are shown in Table 4.8 below.

Table 4.8 Motives by geographical location countries/regions of FDI

	Geographical location countries/regions			
Motives	Group	Mean	SD	*F*-ratio
Risk reduction and modern managerial techniques	Europe	1.95	1.15	
	Middle East and Asia	2.22	1.12	
	North America	1.87	0.99	
	Rest of the World	2.42	1.32	1.95
Benefits from local incentives and competitiveness	Europe	1.79	0.82	
	Middle East and Asia	1.88	0.88	
	North America	1.72	0.77	
	Rest of the World	2.26	1.06	2.81**
Corporate strategic behaviours	Europe	1.59	0.71	
	Middle East and Asia	1.70	0.74	
	North America	1.40	0.66	
	Rest of the World	1.85	0.95	2.31*
Business expansion and economic improvement	Europe	3.48	0.78	
	Middle East and Asia	3.60	0.84	
	North America	3.22	0.89	
	Rest of the World	3.47	0.86	1.46
N = 192	*Europe = 85; Middle East and Asia = 47; North America = 35; Rest of the World = 25*			

Notes:
The mean for the factors is the mean of the factor scores.
$*p < 0.1$; $**p < 0.05$ (two-tailed).

There is a moderate support for the viewpoint that the relative importance of motives will vary with the location of the FDI, with the mean of the factor scores being significantly different for two of the four motives: *benefits from local incentives and competitiveness* ($p < 0.05$) and *corporate strategic behaviours* ($p < 0.1$). Table 4.8 shows that the factor of *benefits from local incentives and competitiveness* ($p < 0.05$) is significantly different among the investment locations, being relatively more important for the FDI located in the Rest of the World than the other locations. Similarly, the factor of *corporate strategic behaviours* ($p < 0.1$) has means significantly different between location countries/regions. *Corporate strategic behaviours* are also relatively more important for FDI located in the Rest of the World as compared with other investment locations.

To explore further the association between the motives and the location choices of the FDI, the multinomial logistic regression model was used to assess the strength of each underlying factor in order to examine the motivational factors which significantly predict the location categories, as well as to investigate specifically what the effect of the motive is on predicting the FDI locations. The results are shown in Tables 4.9 to 4.12 below.

As shown in Tables 4.9 to 4.12, the multinomial logistic regression models were used to test for explanatory factors in order to predict the FDI location choices. To investigate the inter-relationships of the motivational factors and geographical locations in different logit regression models, for example, Europe versus Middle East and Asia or North America versus Europe, the statistical tests were conducted by setting up each location group as a reference category. The findings report the same measures of model χ square and Pseudo R-square for all models. It is important to note that the results do not indicate any significant differences in means between the motivational factors in the comparisons between the locations of Europe, Middle East and Asia and North America except when they are compared with the location of the Rest of the World. This result suggests that motivational factors are relatively unimportant for location selections in Europe, Middle East and Asia and North America, whereas the motives become relatively more important when the UK firms are making choices between the Rest of the World and other location countries/regions. It is therefore sensible to concentrate on Table 4.9 to evaluate the strength of the relative importance of the four motivational factors associated with the location categories in order to avoid repetition in analysing the findings.

The results indicate that the model has high overall explanatory power with significant χ square values ($p < 0.05$). Pseudo R-square measures also confirm that the models have adequate explanatory power. The primary interpretation is based on estimated odds ratios (exponentiated β), which relate independent variables of the four motivational factors for the region categories in relation to their impact on a reference category (Feeney and Bozeman, 2010, p. 1665).

The comparison of Europe with the Rest of the World leads to a significant coefficient at the 5 per cent level with respect to the motivational factor of *benefits from local incentives and competitiveness*. The negative (positive) and significant coefficient of *benefits from local incentives and competitiveness* in Table 4.9 and Table 4.10 signifies that economic incentives are relatively more important for the location of the Rest of the World than Europe whereas the factors of *risk reduction and modern managerial techniques*, *corporate strategic behaviours* and *business expansion and economic improvement* are not significant.

In the comparison of the locations of Middle East and Asia with Rest of the World, a significant coefficient was obtained at the 5 per cent level with respect to the *benefits from local incentives and competitiveness*. The negative (positive) sign of this coefficient in Table 4.9 and Table 4.11 indicates that beneficial incentives and competitive advantages in the host country are more important motives varying with the Rest of the World rather than the Middle East and Asia. The other three motivational factors are not significant to FDI location decisions.

Table 4.9 Multinomial logistic regression of motivational factors by geographical location of FDI
Model 1: Rest of the World as reference category

Variables	Europe vs Rest of World		Middle East & Asia vs Rest of World		North America vs Rest of World	
	Coefficient	Odds Ratio	Coefficient	Odds Ratio	Coefficient	Odds Ratio
Intercept	1.13		0.14		1.94	
Factor 1: Risk reduction and modern managerial techniques	-0.15	0.86	-0.01	0.99	-0.20	0.82
Factor 2: Benefits from local incentives and competitiveness	-0.68	0.51**	-0.63	0.53**	-0.61	0.54*
Factor 3: Corporate strategic behaviours	-0.43	0.65	-0.11	0.90	-0.67	0.51
Factor 4: Business expansion and economic improvement	0.38	1.46	0.38	1.46	0.05	1.05
Control variable:						
Industry categories of the FDI	1.45	4.25***	0.67	1.96	1.22	3.37**
Model chi-square $\chi^2(15)$	26.46**					
2 Log likelihood	432.15					
Correct classification	0.40					
Pseudo *R*-square: Cox & Snell	0.13					
Nagelkerke	0.14					
McFadden	0.05					
N	187					

Notes:
The reference category is location of the Rest of the World.
*$p < 0.1$; **$p < 0.05$; ***$p < 0.01$ (two-tailed).

Table 4.10 Multinomial logistic regression of motivational factors by geographical location of FDI
Model 2: Europe as reference category

Variables	Middle East and Asia vs Europe		North America vs Europe		Rest of World vs Europe	
	Coefficient	Odds Ratio	Coefficient	Odds Ratio	Coefficient	Odds Ratio
Intercept	-0.99		0.81		-1.13	
Factor 1: Risk reduction and modern managerial techniques	0.14	1.15	-0.05	0.95	0.15	1.16
Factor 2: Benefits from local incentives and competitiveness	0.04	1.05	0.06	1.06	0.68	1.96**
Factor 3: Corporate strategic behaviours	0.32	1.38	-0.24	0.79	0.43	1.54
Factor 4: Business expansion and economic improvement	0.00	1.00	-0.33	0.72	-0.38	0.69
Control variable:						
Industry categories of the FDI	-0.77	0.46*	-0.23	0.79	-1.45	0.24***
Model chi-square $\chi^2(15)$	26.46**					
2 Log likelihood	432.15					
Correct classification	0.40					
Pseudo R-square: Cox & Snell	0.13					
Nagelkerke	0.14					
McFadden	0.05					
N	187					

Notes:
The reference category is location of Europe.
*$p < 0.1$; **$p < 0.05$; ***$p < 0.01$ (two-tailed).

Table 4.11 Multinomial logistic regression of motivational factors by geographical location of FDI
Model 3: Middle East and Asia as reference category

Variables	Europe vs Middle East & Asia		North America vs Middle East & Asia		Rest of World vs Middle East & Asia	
	Coefficient	Odds Ratio	Coefficient	Odds Ratio	Coefficient	Odds Ratio
Intercept	0.99		1.80		-0.14	
Factor 1: Risk reduction and modern managerial techniques	-0.14	0.87	-0.19	0.82	0.01	1.01
Factor 2: Benefits from local incentives and competitiveness	-0.04	0.96	0.02	1.02	0.63	1.88**
Factor 3: Corporate strategic behaviours	-0.32	0.72	-0.56	0.57	0.11	1.12
Factor 4: Business expansion and economic improvement	-0.00	1.00	-0.34	0.72	-0.38	0.68
Control variable:						
Industry categories of the FDI	0.77	2.17*	0.54	1.72	-0.67	0.51
Model chi-square $\chi^2(15)$	26.46**					
2 Log likelihood	432.15					
Correct classification	0.40					
Pseudo *R*-square: Cox & Snell	0.13					
Nagelkerke	0.14					
McFadden	0.05					
N	187					

Notes:
The reference category is location of the Middle East and Asia.
*$p < 0.1$; **$p < 0.05$ (two-tailed).

Table 4.12 Multinomial logistic regression of motivational factors by geographical location of FDI
Model 4: North America as reference category

Variables	Europe vs North America		Middle East & Asia vs North America		Rest of World vs North America	
	Coefficient	Odds Ratio	Coefficient	Odds Ratio	Coefficient	Odds Ratio
Intercept	-0.81		-1.80		-1.94	
Factor 1: Risk reduction and modern managerial techniques	0.05	1.05	0.19	1.21	0.20	1.22
Factor 2: Benefits from local incentives and competitiveness	-0.06	0.94	-0.02	0.98	0.61	1.85*
Factor 3: Corporate strategic behaviours	0.24	1.27	0.56	1.75	0.67	1.96
Factor 4: Business expansion and economic improvement	0.33	1.39	0.34	1.40	-0.05	0.96
Control variable:						
Industry categories of the FDI	0.23	1.26	-0.54	0.58	-1.22	0.30**
Model chi-square $\chi^2(15)$	26.46**					
2 Log likelihood	432.15					
Correct classification	0.40					
Pseudo R-square: Cox & Snell	0.13					
Nagelkerke	0.14					
McFadden	0.05					
N	187					

Notes:
The reference category is location of the North America.
$*p < 0.1$; $**p < 0.05$ (two-tailed)

Finally, the locations of North America and Rest of the World are compared. This comparison again leads to only one significant coefficient of *benefits from local incentives and competitiveness* ($p < 0.1$). As the Rest of the World is a reference category, the negative (positive) sign of this coefficient in Table 4.9 and Table 4.12 implies that the relative importance of the incentives and competitive advantages in the host country varies with the Rest of the World than North America. The other three factors are again not significant for the decision making.

Referring to the results of the one-way ANOVA and the multinomial logistic regression, it is clear that the relative importance of identified factors and the individual motives vary with the particular FDI location. Such results are consistent with the previous empirical study by Glaister and Buckley (1996). Out of the four critical motivational factors, the significant levels of the coefficients ($p < 0.05$) suggest that the motive of *benefits from local incentives and competitiveness* varies with the location of FDI. The negative coefficients between the factor of *benefits from local incentives and competitiveness* and the location countries/regions in Table 4.9 suggest that the motives associated with the economic incentives are relatively more important for the locations of the Rest of the World such as Australia, Africa, Central and South America, etc. The reasons for this factor being important for the FDI location decisions might be because economic advantages obtained from the host countries are fundamental motives stimulating UK firms to undertake FDI.

From the viewpoint of taking advantage of the local governmental policies and favourable incentives, tax exemptions and allowances in the host country become significant in increasing the firms' competitiveness in the global market. For example, a UK multinational firm might locate its FDI in regions such as Africa and South America which have promoted investor-favoured policies to attract and sustain FDI inflows.

It is important to identify the role of tax in the association between the motives and location to predict how cross-country differences in tax treatment vary with the FDI locations. The one-way ANOVA of the motive of 'take advantage of tax incentives' was therefore assessed. The findings show that the mean measure of importance for the strategic motive is significantly higher for the locations of the Middle East and

Asia and the Rest of the World compared with other destination locations (Europe: $\bar{x} = 1.40$, SD = 0.72; Middle East and Asia: $\bar{x} = 1.84$, SD = 1.13; North America: $\bar{x} = 1.21$, SD = 0.48; Rest of the World: $\bar{x} = 2.20$; SD = 1.30; F-ratio = 9.04; $p < 0.01$). The result suggests that the motive of taxation incentives is relatively more important for FDI located in the Middle East and Asia and Rest of the World compared with other locations. In reference to the motives ranked by the mean value of the response shown in Table 4.4, the motive of 'take advantage of tax incentives' is ranked in the lowest group of the FDI motives. This finding implies that, while the relative importance of tax incentives varies with the FDI location, the tax incentives are still perceived as a less important motive for the location decisions compared with other location motives such as business expansion (Europe: $\bar{x} = 4.68$, SD = 0.76; Middle East and Asia: $\bar{x} = 4.81$, SD = 0.45; North America: $\bar{x} = 4.74$, SD = 0.75; Rest of the World: $\bar{x} = 4.61$; SD = 0.84; F-ratio = 0.60).

4.4.5 Taxation effects and motives by capital size of FDI

Table 4.13 displays a comparison in the mean value of the perceived effects on the motives for the two different capital sizes of FDI.

As discussed earlier, the size in terms of monetary value of the FDI is judgementally classified into two groups with regard to their FDI asset value stated in UK sterling. Owing to the outliers skewing the distribution of the FDI asset value, the sample was adjusted to remove the outliers and split by the median value (£7 million) into two sub-groups composed of small (£0 – 7 million) and large (£8 – 1,300 million) capital size of the FDI.

Table 4.13 provides moderate support for the viewpoint that the relative importance of motives will vary with the capital size of FDI. Two factors, that is, *risk reduction and modern managerial techniques* ($p < 0.05$) and *corporate strategic behaviours* ($p < 0.1$) have mean factor scores that are significantly different between the two size groups, with the mean factor scores being significantly higher for small capital size than for large size of the FDI.

Table 4.13 Motives by the capital size of FDI

Motives	Capital Size of FDI			
	Group[a]	Mean	SD	*t*-value
Risk reduction and modern managerial techniques	0 – 7 million	2.25	1.26	
	8 – 1,300 million	1.90	0.98	2.11**
Benefits from local incentives and competitiveness	0 – 7 million	1.89	0.83	
	8 – 1,300 million	1.80	0.91	0.77
Corporate strategic behaviours	0 – 7 million	1.69	0.81	
	8 – 1,300 million	1.57	0.72	1.05*
Business expansion and economic improvement	0 – 7 million	3.50	0.75	
	8 – 1,300 million	3.39	0.93	0.83
N = 185	*0 – 7 million = 96; 8 – 1,300 million = 89*			

Notes:
The mean for the factors is the mean of the factor scores.
[a] UK sterling
* $p < 0.1$; ** $p < 0.05$ (two-tailed).

To predict the relationship between the capital size of the FDI and the different motivational factors, the multinomial logistic regression model was employed in this case. The regression model of FDI motives on capital size is shown in Table 4.14 below.

As shown in Table 4.14 below, the χ square model ($p < 0.05$) indicates that the discriminatory power of the model with respect to the four motivational factors may be be characterised as good. The odds ratio (exponentiated β) shows a marginally significant effect at the 10 per cent level of the factor of *risk reduction and modern managerial techniques*, whereas the other three motivational factors have no significant effects on the capital size of the FDI. Since the large capital size of the FDI serves as reference category, the positive and significant coefficient of *risk reduction and modern managerial techniques* ($p < 0.1$) indicates that risk control and managerial techniques in the host country are more important for small sized FDI than large sized FDI for UK firms.

Table 4.14 Multinomial logistic regression of motivational factors on capital size of FDI

Variables	Small sized FDI vs large size of FDI	
	Coefficient	Odds Ratio
Intercept	-0.58	
Factor 1: Risk reduction and modern managerial techniques	0.29	1.33*
Factor 2: Benefits from local incentives and competitiveness	-0.38	0.96
Factor 3: Corporate strategic behaviours	0.26	1.29
Factor 4: Business expansion and economic improvement	0.05	1.06
Control variable:		
Industry sectors of the FDI	-0.83	0.44***
Model chi-square $\chi^2(5)$	11.96**	
2 Log likelihood	213.54	
Correct classification	0.54	
Pseudo R-square: Cox & Snell	0.06	
Nagelkerke	0.09	
McFadden	0.05	
N	180	

Notes:
The reference category is the large capital size for FDI.
$*p < 0.1$; $**p < 0.05$; $***p < 0.01$ (two-tailed).

By combination of both the results of the t-test and the multinomial logistic regression, it is apparent that the factor of *risk reduction and modern managerial techniques* is more important for small sized FDI than large sized FDI. Both statistical results also show that the *risk reduction and modern managerial techniques* factor is positively associated with the capital size of the investment. It therefore suggests that the relative importance of the risk control and management techniques in the host country varies with the small sized FDI in the particular location. Owing to the cross-border alliance resulting from FDI, UK firms are enabled to spread their risk by diversifying the investment to foreign subsidiaries in order to achieve risk control, particularly from the viewpoint of financial risk management. This might be due to the fact that UK firms are able to set up a foreign subsidiary by an intra-group financing structure instead of borrowing from an external financial body, such as a bank. This conservative capital structure dramatically reduces the financial risk of becoming insolvent.

Further, by reference to the result of the t-test in Table 4.13, it shows that the factor of *corporate strategic behaviours* ($p < 0.1$) is also more important to small sized FDI than to large sized FDI. Many multinational corporations undertaking FDI aim to take advantage of the benefits in the host country, for example, access to local natural resources or to overcome potential problems with licensing. The findings suggest that the strategic behaviours in terms of taking advantages of the foreign market is more important to small sized FDI than large sized FDI.

The analysis mainly focuses on the fact of whether tax issues will vary with the capital size of FDI. To identify the interaction between taxation and the size of capital, the motive 'take advantage of tax incentives' was assessed by running the t-test. The result does not show that the relative importance of the tax motive has a statistically significant difference between size groups: £0 –7 million capital size ($\bar{x}$ = 1.64 and SD = 1.00), £8 – 1,300 million ($\bar{x}$ = 1.55 and SD = 0.93) and t-value (0.64). The finding indicates that taxation effects do not vary with the capital size of FDI. Such a finding is in accordance with the motives ranked by the mean value shown in Table 4.4. This might be due to the fact that tax exemptions and allowances offered in the host country are not strong incentives in terms of the capital size of the FDI as compared with other incentives which are more business or industry-oriented, such as introducing modern managerial techniques (£0 – 7 million capital size: $\bar{x}$ = 2.14 and SD = 1.31; £8 – 1,300 million: $\bar{x}$ = 1.78 and SD = 1.01; t-value = 2.05***, $p < 0.05$), etc. Overall, the findings show that the taxation incentive does not vary by the capital size and the geographical locations of the FDI.

4.5 Findings and discussion of the motives for the FDI location decision

4.5.1 FDI location motives

The strategic FDI location motives were ranked in order based on the mean measure of the importance of the 17 location-specific determinants, as shown in Table 4.15.

For the full set of the location-specific motives, with means being above the median of the scale, four motives, namely 'market size' (3.74), 'entering a new market' (3.47), 'economic stability of the foreign country' (3.30), and 'political stability of the foreign country' (3.15), obtain the highest degree of importance in the rank order. It is clear from Table 4.15 that the highest ranked host country location motives are concerned with market size, new market exploration and economic stability.

The second group of strategic FDI location motives (those ranked 5 to 9), which are above 2 on the scale, are concerned with the level of market competition, profit repatriation and labour supply. The location motives with the highest degree of importance in this group are: 'level of local market competition' (2.94), 'access to skilled workforce' (2.83), 'ability to repatriate profits' (2.73), 'level of infrastructure development' (2.41), and 'access to neighbouring countries' (2.23).

Table 4.15 Motives for FDI location: motives ranked by mean measure of importance

Location-specific influences	Rank	Mean	SD
Market size	1	3.74	1.43
Entering a new market	2	3.47	1.60
Economic stability of the foreign country	3	3.30	1.14
Political stability of the foreign country	4	3.15	1.15
Level of local market competition	5	2.94	1.31
Access to skilled workforce	6	2.83	1.38
Ability to repatriate profits	7	2.73	1.23
Level of infrastructure development	8	2.41	1.29
Access to neighbouring countries	9	2.23	1.33
Access to flexible workforce	10	2.13	1.26
National cultural similarity	11	2.12	1.23
Lower cost location	12	2.10	1.32
Trade agreement	13	2.01	1.20
Favourable tax regime	14	1.97	1.19
Access to material inputs	15	1.83	1.28
Local government policy towards FDI	16	1.71	1.08
Employee training incentives	17	1.37	0.76
N = *192*			

Notes:
1. The mean is the average on a Likert scale of 1 (= 'of no importance') to 5 (= 'of great importance').
2. SD = standard deviation

The third and lowest ranked group (10 to 17) consist of a number of distinct motives which are well below the median point on the scale. The geographical location of the host country in terms of 'access to flexible work force' (2.13), 'national cultural similarity' (2.12) and 'lower cost location' (2.10) are not seen as important driving forces. Similarly the location motives of 'trade agreement' (2.01) and 'favourable tax regime' (1.97) do not feature as being important. The availability of 'access to material inputs' (1.83), 'local government policy towards FDI' (1.71), and 'employee training incentives' (1.37) are the lowest ranked location motives.

4.5.2 Factor analysis of FDI location motives

The results of the factor analysis of the FDI location motives are shown in Table 4.16.

Table 4.16 Factors of strategic location factors for FDI

Factors	Factor loads	Eigen-value	% Variance explained	Cumulative %	Cronbach alpha
Factor 1:Local policy incentives		5.35	31.5	31.5	0.77
Local government policy towards FDI	0.870				
Favourable tax regime	0.723				
Employee training incentives	0.665				
Trade agreements	0.528				
Factor 2: Environmental stability and profit repatriation		2.16	12.7	44.2	0.86
Economic stability of the foreign country	0.935				
Political stability of the foreign country	0.903				
Ability to repatriate profits	0.600				
Factor 3:Strategic locational advantages		1.74	10.2	54.4	0.67
Level of infrastructure development	0.653				
Access to neighbouring countries	0.614				
National cultural similarity	0.602				
Access to material inputs	0.550				
Factor 4: Market power and entrance		1.26	7.4	61.8	0.74
Market size	0.877				
Level of local market competition	0.783				
Entering a new market	0.777				
Factor 5: Labour supply and cost efficiency		1.03	6.1	67.9	0.71
Access to skilled workforce	0.816				
Access to flexible workforce	0.747				
Lower cost location	0.608				

Notes:
Principal components factor analysis with varimax rotation.
K-M-O Measure of Sampling Adequacy = 0.744.
Bartlett Test of Sphericity = 1477.073; $p < 0.000$.

The correlation matrix of 17 FDI location-specific factors revealed a number of low to moderate inter-correlations between location factors. Due to potential conceptual and statistical overlap, an attempt was made to identify a parsimonious set of variables to determine the underlying primary dimensions governing the full set of 17 host country location factors. Exploratory factor analysis using varimax rotation was used to extract the underlying factors. Host country location selection criteria with factor loadings greater than 0.3 were grouped for each factor derived. The factor analysis produced five underlying factors which make good conceptual sense and explained a total of 67.9 per cent of the observed variance with Cronbach alpha values ranging from 0.67 to 0.86, as shown in Table 4.16. The five factors may be summarised as: *local policy incentives*, *environmental stability and profit repatriation*, *strategic locational advantages*, *market power and entrance* and *labour supply and cost efficiency*.

To investigate further the underlying nature and pattern of the host country location factors of the FDI, the analysis was developed by considering the motives in terms of the characteristics of the sample. For each of the relevant characteristics of the sample, Tables 4.18, 4.19 and 4.24 show the means and standard deviations of the five factors and the appropriate test statistic for comparing differences in mean scores. Before approaching the statistical methods, it is important to assess the collinearity between the FDI locational variables.

Table 4.17 provides the descriptive statistics and correlation matrix of the FDI locational variables used in the sample. Since the majority of the correlation coefficients of the variables are lower than 0.50, the effects of collinearity in the explanatory variables for the data set do not present a problem.

4.5.3 Taxation factors and industry sector of FDI

The host country location factors by two types of industry category of the FDI are shown in Table 4.18.

Table 4.17 Descriptive statistics and correlation of location motives of FDI

Variables	Mean	SD	1	2	3	4	5	6	7	8
1. Industry sector of FDI	1.49	0.50	1.00							
2. Geographical locations	2.17	1.14	0.12	1.00						
3. Capital size of FDI	0.50	0.50	-0.17*	-0.04	1.00					
4. Local policy incentives	1.76	0.82	-0.03	0.08	-0.09	1.00				
5. Environmental stability and profit repatriation	3.06	1.04	-0.09	0.08	-0.06	0.45**	1.00			
6. Strategic locational advantages	2.17	0.91	-0.16*	0.11	-0.15*	0.43**	0.40**	1.00		
7. Market power and entrance market size	3.40	1.17	0.04	0.06	0.01	-0.01	0.17*	0.11	1.00	
8. Labour supply and cost efficiency	2.34	1.05	-0.03	0.14*	-0.13	0.45**	0.31**	0.46**	0.11	1.00

Notes:
$N = 192$
SD = standard deviation
[a] UK sterling
$*p < 0.05$; $**p < 0.01$

Table 4.18 Location-specific factors for the industry sector of FDI

Location motives	Industry Sector of FDI			
	Group	Mean	SD	*t*-value
Local policy incentives	Manufac	1.78	0.82	
	Service	1.74	0.83	0.37
Environmental stability and profit repatriation	Manufac	3.15	0.91	
	Service	2.96	1.15	1.28
Strategic locational advantages	Manufac	2.31	0.99	
	Service	2.01	0.80	2.24**
Market power and entrance	Manufac	3.36	1.22	
	Service	3.44	1.11	-0.50
Labour supply and cost efficiency	Manufac	2.38	1.06	
	Service	2.30	1.05	0.46
N = 192	*Manufac = 100 ; Service = 92*			

Notes:
The mean for the factors is the mean of the factor scores.
$**p < 0.05$ (two-tailed).

Table 4.18 demonstrates relatively weak support for the argument that the relative importance of location motives will vary with the industry sector of FDI. Only one out of five factors, that is, *strategic locational advantages* ($p < 0.05$), has a statistically significant difference in the means of the factor scores, with the mean score being significantly higher for the manufacturing sector than the service sector.

The finding suggests that the factor of *strategic locational advantages* is important for location decisions in respect of the FDI industry sectors, being relatively more important for the manufacturing sector than for service sector. The significance of the *strategic locational advantages* factor suggests that development of infrastructure and material resources in the host country act as driving forces for the location decision in reference to manufacturing industry. This factor mainly focuses on the advantages to be obtained by locating the FDI in such countries, which encompass the access to material inputs or high quality of the local infrastructure. The development of local infrastructural facilities, for example, transportation, public and technological infrastructures, will assist UK firms in upgrading their production efficiency in order to enhance increasing industry competition, particularly in the manufacturing sector. Also, to ensure an efficient production and operation, the manufacturing sector must have access to a stable supply of raw materials from the host country. The availability of natural resources or material inputs in the host country is paramount in attracting UK firms to locate their manufacturing industry in a particular country. Furthermore, a knowledgeable and highly skilled labour force in the host country will often attract relatively more FDI from manufacturing sector firms than service firms. This might be because an adequately skilled workforce is a driver of FDI productivity and allows UK enterprises to maintain competitiveness in the global market. The factor of *strategic locational advantages* is therefore an important location motive varying with the industry sector of the FDI.

Compared with other influences, this study aims to look at the taxation effects in regard to location motives for the industry decisions. A *t*-test for the motive 'favourable tax regime' was therefore carried out. The statistical results show that the tax determinant has no significant difference in the mean score of importance between the manufacturing and the service sectors (manufacturing: $\bar{x} = 1.97$, SD = 1.16; service: $\bar{x} = 1.94$, SD = 1.20; *t*-value = 0.14). The finding indicates that taxation is not an important motive in determining the host country location decision for the industry sector of the FDI. However, such results present a challenge to the analysis by mainstream literature which addresses the association between tax effects and industry sectors (Derashid and Zhang, 2003; McIntyre and Nguyen, 2000; Omer, Malloy and Ziebart, 1993). Referring to the location factors ranked by the mean value of the response shown in Table 4.15, both results are consistent. Of the 17 location factors identified in the FDI location motives, that of 'favourable tax regime' is ranked fourteenth, indicating that this is perceived as a relatively less important location motive compared with other influences. On this basis, it appears reasonable to argue that the decision to select a location to set up FDI in regard to the two industry sectors is almost independent of taxation in the case of UK multinational firms. This might be due to the fact that other influences such as profit repatriation (manufacturing: $\bar{x} = 2.88$, SD = 1.14; service: $\bar{x} = 2.54$, SD = 1.30; *t*-value = 1.86; $p < 0.1$) works more effectively than tax incentives to determine how much profit the UK firms are likely to obtain by setting up FDI. Hence the tax motive in terms of the location decisions will not vary with the industry sector of FDI.

4.5.4 Taxation factors and location of FDI

The FDI location-specific influences are shown in Table 4.19.

Table 4.19 location-specific influences by geographical location of FDI

	Geographical location countries/regions			
Location motives	Group	Mean	SD	F-ratio
Local policy incentives	Europe	1.69	0.84	
	Middle East and Asia	1.89	0.82	
	North America	1.46	0.54	
	Rest of the world	2.04	0.91	3.60**
Environmental stability and profit repatriation	Europe	3.04	0.99	
	Middle East and Asia	3.01	1.04	
	North America	2.78	0.97	
	Rest of the world	3.42	1.11	2.36*
Strategic locational advantages	Europe	2.11	0.90	
	Middle East and Asia	2.11	0.90	
	North America	2.03	0.89	
	Rest of the world	2.48	0.95	1.81
Market power and entrance	Europe	3.25	1.19	
	Middle East and Asia	3.61	1.06	
	North America	3.33	1.16	
	Rest of the world	3.49	1.25	1.03
Labour supply and cost efficiency	Europe	2.13	0.93	
	Middle East and Asia	2.62	1.15	
	North America	2.02	0.85	
	Rest of the world	2.73	1.15	5.04***
N = 192	*Europe = 85; Middle East and Asia = 47; North America = 35; Rest of the world = 25*			

Notes:
The mean for the factors is the mean of the factor scores.
*$p < 0.1$; **$p < 0.05$; ***$p < 0.01$ (two-tailed).

Table 4.19 shows reasonable support for the viewpoint that the relative importance of location motives will vary with the location of the FDI. Three of the five factors, namely, *labour supply and cost efficiency* ($p < 0.01$), *local policy incentives* ($p < 0.05$) and *environmental stability and profit repatriation* ($p < 0.1$), show a statistically significant difference in the mean of the factor scores. The finding indicates that the factor of *labour supply and cost efficiency* has means significantly different between investment locations, meaning that it is more important for UK firms to locate their

FDI in the regions of the Middle East and Asia and the Rest of the World compared with other countries/regions. Similarly, the factors of *local policy incentives* and *environmental stability and profit repatriation* are also more important for the geographical locations of Middle East and Asia and the Rest of the World in comparison with the other FDI locations.

The test of multinomial logistic regression was used to analyse the inter-relationship between the location-specific factors and the FDI location selections, as presented in Tables 4.20 to 4.23.

The results of the multinomial logistic regression presented in Tables 4.20 to 4.23 indicate that the likelihood-ratio test leads to a significant result at the 1 per cent level, so that the discriminatory power of the model with respect to the five FDI location factors has to be characterised as reasonably good. Pseudo R-square measures obtained in the four models also confirm that the statistical results have adequate explanatory power. The primary interpretation is based on the estimated odds ratios (exponentiated β), which relate the five independent location factors for the region group to their impact on each reference category.

An overall perspective on the four models shows that the locations of the Middle East and Asia and Rest of the World are the most attractive destinations to UK firms. The findings suggest that when the UK firms choose locations between Europe and Middle East and Asia, the location factors of *market power and entrance* ($p < 0.1$) and *labour supply and cost efficiency* ($p < 0.01$) are relatively more important for decision makers. The negative/positive signs of the coefficients in Table 4.21 and Table 4.22 suggest that the location of the Middle East and Asia is more attractive to the UK firms than Europe. When the location decisions are made between North America and Middle East and Asia, three location factors of *local policy incentives* ($p < 0.05$), *strategic locational advantages* ($p < 0.1$) and *labour supply and cost efficiency* ($p < 0.05$) appear more important for the location decisions. The negative/positive and significant coefficients in Table 4.22 and Table 4.23 indicate that the Middle East and Asia are favoured more by the UK firms than the location of North America.

Table 4.20 Multinomial logistic regression of location-specific factors by geographical location of FDI
Model 1: Rest of the World as reference category

Variables	Europe vs Rest of World		Middle East & Asia vs Rest of World		North America vs Rest of World	
	Coefficient	Odds Ratio	Coefficient	Odds Ratio	Coefficient	Odds Ratio
Intercept	2.83		0.82		2.91	
Factor 1: Local policy incentives	-0.14	0.87	0.23	1.26	-0.67	0.51
Factor 2: Environmental stability and profit repatriation	-0.16	0.85	-0.37	0.69	-0.36	0.70
Factor 3: Strategic locational advantages	-0.01	0.99	-0.48	0.62	0.17	1.19
Factor 4: Market power and entrance	-0.14	0.87	0.19	1.21	-0.05	0.95
Factor 5: Labour supply and cost efficiency	-0.55	0.58**	0.15	1.16	-0.51	0.60*
Control variable:						
Industry categories of the FDI	0.92	2.52**	0.43	1.54	0.68	1.98
Model chi-square $\chi^2(18)$	36.25***					
2 Log likelihood	438.16					
Correct classification	0.44					
Pseudo R-square: Cox & Snell	0.18					
Nagelkerke	0.19					
McFadden	0.07					
N	186					

Note:
The reference category is the region of Rest of the World.
*$p < 0.1$; **$p < 0.05$; ***$p < 0.01$ (two-tailed).

Table 4.21 Multinomial logistic regression of location-specific factors by geographical location of FDI
Model 2: Europe as reference category

Variables	Middle East and Asia vs Europe		North America vs Europe		Rest of World vs Europe	
	Coefficient	Odds Ratio	Coefficient	Odds Ratio	Coefficient	Odds Ratio
Intercept	-2.01		0.08		-2.83	
Factor 1: Local policy incentives	0.37	1.45	-0.53	0.59	0.14	1.15
Factor 2: Environmental stability and profit repatriation	-0.21	0.81	-0.20	0.82	0.16	1.18
Factor 3: Strategic locational advantages	-0.48	0.62	0.18	1.19	0.01	1.01
Factor 4: Market power and entrance	0.33	1.39*	0.09	1.09	0.14	1.15
Factor 5: Labour supply and cost efficiency	0.70	2.00***	0.04	1.04	0.55	1.73**
Control variable:						
Industry categories of the FDI	-0.49	0.61	-0.24	0.79	-0.92	0.40**
Model chi-square $\chi^2(18)$	36.25***					
2 Log likelihood	438.16					
Correct classification	0.44					
Pseudo *R*-square: Cox & Snell	0.18					
Nagelkerke	0.19					
McFadden	0.07					
N	186					

Note:
The reference category is the location region of the Europe.
$*p < 0.1$; $**p < 0.05$; $***p < 0.01$ (two-tailed).

Table 4.22 Multinomial logistic regression of location-specific factors by geographical location of FDI
Model 3: Middle East and Asia as reference category

Variables	Europe vs Middle East &Asia		North America vs Middle East & Asia		Rest of World vs Middle East & Asia	
	Coefficient	Odds Ratio	Coefficient	Odds Ratio	Coefficient	Odds Ratio
Intercept	2.01		2.10		-0.82	
Factor 1: Local policy incentives	-0.37	0.69	-0.90	0.41**	-0.23	0.80
Factor 2: Environmental stability and profit repatriation	0.21	1.23	0.01	1.01	0.37	1.45
Factor 3: Strategic locational advantages	0.48	1.61	0.65	1.92*	0.48	1.62
Factor 4: Market power and entrance	-0.33	0.72*	-0.24	0.78	-0.19	0.82
Factor 5: Labour supply and cost efficiency	-0.70	0.50***	-0.66	0.52**	-0.15	0.86
Control variable:						
Industry categories of the FDI	0.49	1.63	0.43	1.54	-0.43	0.65
Model chi-square $X^2(18)$	36.25***					
2 Log likelihood	438.16					
Correct classification	0.44					
Pseudo R-square: Cox & Snell	0.18					
Nagelkerke	0.19					
McFadden	0.07					
N	186					

Note:
The reference category is the location region of the Middle East and Asia.
*p < 0.1; **p < 0.05; ***p < 0.01 (two-tailed).

Table 4.23 Multinomial logistic regression of location-specific factors by geographical location of FDI
Model 4: North America as reference category

Variables	Europe vs North America		Middle East & Asia vs North America		Rest of World vs North America	
	Coefficient	Odds Ratio	Coefficient	Odds Ratio	Coefficient	Odds Ratio
Intercept	-0.08		-2.10		-2.91	
Factor 1: Local policy incentives	0.53	1.70	0.90	2.47**	0.67	1.96
Factor 2: Environmental stability and profit repatriation	0.20	1.22	-0.01	0.99	0.36	1.44
Factor 3: Strategic locational advantages	-0.18	0.84	-0.65	0.52*	-0.17	0.84
Factor 4: Market power and entrance	-0.09	0.92	0.24	1.28	0.05	1.06
Factor 5: Labour supply and cost efficiency	-0.04	0.97	0.66	1.94**	0.51	1.67*
Control variable:						
Industry categories of the FDI	0.24	1.27	-0.25	0.78	-0.68	0.51
Model chi-square $\chi^2(18)$	36.25***					
2 Log likelihood	438.16					
Correct classification	0.44					
Pseudo R-square: Cox & Snell	0.18					
Nagelkerke	0.19					
McFadden	0.07					
N	186					

Note:
The reference category is the location region of the North America.
*$p < 0.1$; **$p < 0.05$; ***$p < 0.01$ (two-tailed).

A basic conclusion to be drawn from the above discussion is that certain location factors become relatively more important only when UK firms are selecting locations between Middle East and Asia and other location countries or between the Rest of the World and other destinations, while the comparisons between the rest of the locations, for example, Europe versus North America or between the Middle East and Asia and the Rest of the World, are not significant for the location factors.

The comparison of Europe with Rest of the World shows a significant coefficient ($p < 0.05$) with respect to the FDI location factor of *labour supply and cost efficiency*. The negative and significant coefficient suggests that the advantages of labour supply and cost effectiveness are more likely to increase the probability of UK firms locating FDI in the Rest of the World rather than in Europe. The coefficients of the factors of *local policy incentives, environmental stability and profit repatriation, strategic locational advantages and market power and entrance* show no significant effects on the choice of the FDI location decision.

The comparison between North America and Rest of the World (refer to Table 4.23) leads to a significant coefficient at the 10 per cent level with respect to the FDI location factor of *labour supply and cost efficiency*. The negative sign of the coefficient implies that the Rest of the World is more important than North America possibly owing to the advantages of labour supply and cost effectiveness in the host countries. The other four coefficients are again not significant.

Considering both the results of the multinomial logistic regression and the one-way ANOVA, it is apparent that there is a significant and inter-related association between the underlying location factors and the geographical locations of the FDI. The interaction between the *labour supply and cost efficiency* factor and the geographical locations indicates that the components of labour supply and cost of production in the host country have a significant and positive influence on the choice of FDI locations. It implies that labour supply and cost effectiveness in the host country are important for FDI location decisions.

Most countries are utilising investment incentives as part of their campaigns to enable low-cost production and operation in order to attract FDI inflows. The importance of cost effectiveness lies in its ability to ensure the competitiveness of UK multinational enterprises in the global market. The regions in the Rest of the World, such as Africa and South America, as well as the countries in the Middle East and Asia, for example, China and India, are all well known for their very large internal market and relatively low cost labour and material inputs which make them attractive for FDI. For example, Central American countries, such as the Dominican Republic, Costa Rica and Panama, have established free-trade zones that allow investors to operate in a low cost production environment by offering 100 per cent tax free allowances in areas such as income tax, construction tax and value added tax (Atlee, 2009).

Particular to the results of the one-way ANOVA shown in Table 4.19, the factors of *environmental stability and profit repatriation* and *local policy incentives* are evaluated as important location factors in determining FDI location selection. A stable economic and political environment in the host country is the key to ensuring that UK firms achieve successful FDI. Further, environmental stability in the host country can give UK firms confidence in investing in a particular country. Similarly, the *local policy incentives* factor suggests that the local government policy towards FDI, for example, tax incentives and trade agreements, are significant for the FDI location decision. To attract FDI to their countries, the regions of the Middle East and Asia and the Rest of the World have developed various investment strategies and policies to attract a large portion of FDI to flow through to the countries. For instance, over the last two decades, governments in South America have placed renewed emphasis on the role of FDI as a catalyst for development (Dufey, 2004).

The above evidence suggests that the factor of *labour supply and cost efficiency* is the most important determinant for the FDI location decisions. The other two factors of *environmental stability and profit repatriation* and *local policy incentives* also have considerable influences on the determinants of the FDI locations.

In contrast with other FDI location motives shown in Table 4.19, it is important to analyse the role of tax in relation to geographical locations for FDI. Therefore, the one-way ANOVA of the motive 'favourable tax regime' was employed to identify whether the tax motive will vary with the FDI locations. The result does not show that the tax motive has means significantly different between location countries (Europe:

$\bar{x} = 1.89$, SD = 1.23; Middle East and Asia: $\bar{x} = 2.16$, SD = 1.26; North America: $\bar{x} = 1.65$, SD = 0.88; Rest of the World: $\bar{x} = 2.14$; SD = 1.17; F-ratio = 1.60). This finding indicates that the tax incentives do not vary with the FDI location decision. Conversely, such results are contrary to the findings in the mainstream literature which suggested that taxation policy deters FDI or induces firms to invest in high incentive regions (Meyer and Nguyen, 2005; Szanyi, 2001). The result challenges some of the findings from previous research carried out in the tax field, which found that taxes play an important role in determining the allocation of capital internationally (Grubert and Mutti, 1991, p. 289). In comparison with the rankings of the location factors presented in Table 4.15, this result is in accordance with them, indicating that the determinant of 'favourable tax regime' is a less important location motive for FDI location decisions compared with other motives. Clearly, other motives or influences dominate the FDI location selection, such as market-oriented or cost-effective factors rather than tax incentives. Taxation effects, therefore, do not appear to affect significantly FDI location decisions.

4.5.5 Taxation factors and capital size of FDI

The location-specific factors for the UK multinational firms by two different size categories of FDI are shown in Table 4.24 below.

As discussed in Section 4.4.5, the size of FDI was partitioned into two sub-groups: small (£0 – 7 million) and large (£8 – 1,300 million). Table 4.24 shows that there is reasonable support for the argument that the relative importance of location motives will vary with the capital size of the FDI, with the means of the capital size being significantly different for three of the five factors: *local policy incentives* ($p < 0.1$), *strategic locational advantages* ($p < 0.01$) and *labour supply and cost efficiency* ($p < 0.05$). The mean score for these three factors is significantly higher for small sized FDI compared with large sized FDI.

Table 4.24 Location-specific influences for the capital size of FDI

Location motives	Capital Size of FDI			
	Group[a]	Mean	SD	t-value
Local policy incentives	0 – 7 million	1.85	0.83	
	8 – 1,300 million	1.65	0.77	1.70*
Environmental stability and profit repatriation	0 – 7 million	3.10	1.13	
	8 – 1,300 million	3.01	0.93	0.59
Strategic locational advantages	0 – 7 million	2.35	0.90	
	8 – 1,300 million	1.96	0.88	2.91***
Market power and entrance	0 – 7 million	3.34	1.16	
	8 – 1,300 million	3.43	1.21	-0.47
Labour supply and cost efficiency	0 – 7 million	2.49	1.10	
	8 – 1,300 million	2.12	0.93	2.39**
N = 185	*0 – 7 million = 96; 8 – 1,300 million= 89*			

Notes:
The mean for the factors is the mean of the factor scores.
[a] UK pounds
*$p < 0.1$; **$p < 0.05$; ***$p < 0.01$ (two-tailed).

To assess further the association between the capital size of the FDI and the location-specific factors, the multinomial logistic regression model was used again, as shown in Table 4.25.

As can be seen in Table 4.25 below, the results of the multinomial logistic regression show that the model has high overall explanatory power with significant model χ square values ($p < 0.01$). Pseudo R-square measures show that the model has relatively good explanatory power. The odds ratio (exponentiated β) shows a highly significant effect at the 1 per cent level of the factor of *strategic location advantages* on the determinant of the capital size of the FDI, whereas the rest of the four location factors are not significant. Since the large capital size of the FDI serves as a reference category, the positive and significant coefficient of *strategic locational advantages* ($p < 0.01$) indicates that the strategic location-related factor is more important for small sized FDI than large sized FDI. Further, the positive relationship implies that the strategic locational advantages in the host country vary with small sized FDI rather than large sized FDI in the particular location. This result is consistent with the statistics of the t-test in Table 4.24.

Table 4.25 Multinomial logistic regression of location-specific factors on capital size of the FDI

Variables	Small sized FDI vs large size of FDI	
	Coefficient	Odds Ratio
Intercept	-0.37	
Factor 1: Local policy incentives	-0.03	0.97
Factor 2: Environmental stability and profit repatriation	-0.14	0.87
Factor 3: Strategic locational advantages	0.64	1.89***
Factor 4: Market power and entrance	-0.13	0.88
Factor 5: Labour supply and cost efficiency	0.21	1.23
Control variable:		
Industry sectors of the FDI	-0.89	0.41***
Model chi-square $\chi^2(6)$	19.97***	
2 Log likelihood	224.32	
Correct classification	0.54	
Pseudo R-square: Cox & Snell	0.11	
Nagelkerke	0.14	
McFadden	0.08	
N	179	

Note:
The reference category is large capital size for FDI.
***$p < 0.01$ (two-tailed).

In relation to the results of both the regression model and the statistics t-test, the factor of *strategic locational advantages* is significantly positive in association with small sized FDI. The strength and importance of the *strategic locational advantages* factor implies that utilising advantages from the host country is one of the primary motivations for the UK firms to set up FDI. The strategic locational advantages encompass motives of access to neighbouring countries or national cultural similarities, etc. The main purpose for UK firms to pursue the strategic advantages offered by host countries is to increase competitiveness in the global market by locating the FDI in particular locations. Therefore, a relatively small sized FDI is more important than a large sized FDI with respect to gaining advantages from the host countries.

In particular, the results of the statistics t-test evaluates that the *local policy incentives* factor is also relatively more important for the small sized FDI than large sized FDI. A highly protected and restrictive government policy, for example, a trade agreement, may put constraints on the promotion of the FDI. Open and favourable local investment policies are one of the major determinants stimulating UK firms to make an investment in any particular country. Also, the *labour supply and cost efficiency* factor is indicated as an important location factor. The reason for the two factors being more important for small sized FDI than large sized FDI might be due to the fact that a small sized investment does not only allow the UK firm to benefit from taking advantages of the local incentives and beneficial effects, but also enables the UK firms to reduce to some extent anticipated business risk in setting up a foreign affiliate.

To identify the taxation effects on the location factors of FDI capital size, the t-test of the motive 'favourable tax regime' was carried out. It is found that the mean scores of the tax motive are significantly higher for small sized FDI than for large sized FDI (£0 – 7 million capital size: $\bar{x} = 2.09$ and SD = 1.21; £8 – 1,300 million: $\bar{x} = 1.83$ and SD = 1.15; t-value = 1.47*, $p < 0.1$). It suggests that the relative importance of the tax incentives varies with the capital size of the FDI. In contrast to the rankings of the location factors shown in Table 4.15, the motive of 'favourable tax regime' is ranked as fourteenth in terms of the mean value of the response and perceived as a less important determinant. Overall, it appears reasonable to argue that the taxation effects vary with the capital size of the FDI. A basic conclusion from the evidence of this study is that tax incentives are more important for small sized FDI compared with large sized investment. However, it is important to note that taxation is not an important influence because other motives play a more dominant roles in the decision making process, for example, access to neighbouring countries (£0 – 7 million capital size: $\bar{x} = 2.57$ and SD = 1.40; £8 – 1,300 million: $\bar{x} = 1.91$ and SD = 1.17; t-value = 3.43; $p < 0.01$), etc.

4.6 Summary and conclusion

This chapter examines the strategic motives for FDI and host country location factors of the FDI with a specific examination of the role of tax incentives as a motivating force. With a reasonable sample size, this chapter investigates the underlying nature of the interface between taxation factors and investment motives and location-specific influences for FDI, undertaken by 192 respondents. The chapter examined the motives across a range of sample characteristics, namely, the industry category of the FDI, geographical location country/region and capital size of the FDI. Due to the potential for conceptual and statistic overlap among the 15 identified strategic motives and the 17 host country-specific items identified, factor analysis was conducted to produce a set of distinct, non-overlapping motivational factors and host country location factors. The analysis of the motives for FDI yielded four non-overlapping factors which explained almost 58.0 per cent of the observed variance in the sample data.

Tests of research questions in respect of the FDI motives indicate that the relative importance of the motives varies most with the geographical location, to a moderate extent with the capital size of the FDI and also to a modest extent with the industry category. This study also found that taxation factors had a significant relation with the industry category of the FDI and geographical location. However, no significant support was found concerning the variation of the taxation factors with the capital size of FDI. The results of research questions of the FDI location motives show that the relative importance of the location-specific factors vary most with the capital size and the industry category of the FDI, but to a moderate extent only with the geographical location. There was a significant association between the taxation factor and the capital size of the FDI. However, the relative importance of the location factors of the industry category and geographical location does not appear to be significantly related to tax incentives. Further investigation of the interaction of tax strategy and corporate strategy in the FDI decision process is called for. The following chapter examines the relationship between tax strategy and corporate strategy in the FDI decision making process.

Chapter 5: The interaction between tax strategy and corporate strategy in the FDI decision process

5.1 Introduction

Each strategic decision with financial implications will usually have a tax impact. When multinational enterprises invest abroad or engage in international trade, they will usually be affected by jurisdictional differences in tax treatments. The most critical complication for UK multinational firms is how to implement comprehensive tax planning in relation to a wide range of activities to help accomplish the strategic objectives of the firm. UK firms are faced with the complex challenge of considering how to integrate tax planning in a strategic context, rather than determining an individual tax planning scheme. It is essential to consider how tax strategy interacts with the corporate strategy in the FDI decision process. This chapter aims to develop a better understanding of how tax strategies adopted by the UK sample firms impact on the FDI strategic decisions, of the integration between tax strategy and corporate strategy, as well as of the relative importance of the tax strategy and corporate strategy.

The reminder of the chapter is structured as follows. Section 5.2 revisits the research questions in respect of how the components and determinants of tax strategies vary with the key characteristics of the sample, the integration between tax strategy and corporate strategy, as well as the priority and relative importance of tax strategy and corporate strategy. Section 5.3 identifies the key sample characteristics which are the subject of analysis of the chapter, as well as the statistical tests that are employed in the analysis. The following sections, 5.4 and 5.5, present the results and discussion of the findings about the association between the tax strategy and the corporate strategy, along with the findings about the integration between the two strategies, and also the impact of the stages at which the tax implications are considered in the decision making process relating to FDI strategic behaviour. A summary and conclusions are provided in the final section.

5.2 Research questions developed in the literature review

The research questions raised in Chapter 2 will be examined in this chapter. listed as follows:

(i) Does the relative importance of the components of tax strategy vary with the industry sector of FDI?

(ii) Does the relative importance of the components of tax strategy vary with the geographical location of FDI?

(iii) Does the relative importance of components of tax strategy vary with the capital size of FDI?

(iv) Does the relative importance of the determinants of tax strategy vary with the industry sector of FDI?

(v) Does the relative importance of the determinants of tax strategy vary with the geographical location of FDI?

(vi) Does the relative importance of the determinants of tax strategy vary with the capital size of FDI?

(vii) Do the stages at which tax implications are considered in the decision process have an influence on the FDI motives?

(viii) Does the relative importance of the location motives for FDI vary according to the stages at which the tax implications are considered in the decision process?

(ix) Is tax strategy integrated with corporate strategy in terms of FDI decision making? If yes, to what extent?

(x) Does the relative importance of the integration of tax strategy and corporate strategy vary with the stages at which tax implications are considered in the FDI decision process?

(xi) Does the relative importance of tax strategy and corporate strategy vary with the industry sector of FDI?

(xii) Does the relative importance of tax strategy and corporate strategy vary with the geographical location of FDI?

(xiii) Does the relative importance of tax strategy and corporate strategy vary with the capital size of FDI

(xiv) Is corporate strategy given priority over tax strategy in terms of strategic decision making?

5.3 Measure of variables

5.3.1 Components of tax strategy

A total of six tax strategies used in the FDI decision process was measured using a five point Likert scale (where 1 = 'of no importance' and 5 = 'of great importance').

Respondents were asked to evaluate the relative importance of each tax strategy in their organisations. The strategic components listed by order of appearance on the questionnaire are (Section 6, Question 6.8):

(i) transfer pricing policy;
(ii) income shifting policy;
(iii) achieving low tax rate;
(iv) availability of tax allowances;
(v) achieving double taxation relief;
(vi) choosing investment location.

5.3.2 Determinants of tax strategy

The factors determining the tax strategies employed in the FDI decision process were also assessed. Six determinants of tax strategy were measured using a five point Likert scale (where 1 = 'of no importance' and 5 = 'of great importance'). Respondents were asked 'How important are the following factors in determining the tax strategy in the organisation?' The six determining factors in the order they appeared on the questionnaire are (Section 6, Question 6.7):

(i) tax minimisation;
(ii) compliance with business strategic plan;
(iii) availability of tax incentives;
(iv) ease of profit extraction;
(v) mitigation of risk e.g., business and finance risk;
(vi) imitation of the action of competitors.

5.3.3 Stage at which tax strategies considered

After identifying the components and determinants of tax strategy in the firm, it is necessary to investigate the stage at which the tax implications were considered in the FDI decision process. Respondents were given three options to determine the particular stage at which the tax strategy is taken into consideration. The three options were (Section 6, Question 6.9):

(i) before the FDI decision;
(ii) after the FDI decision;
(iii) both before and after the FDI decision

5.3.4 Integration between tax strategy and corporate strategy

In addition to subjective measures of tax strategy, respondents were asked 'To what extent is tax strategy an integral part of the corporate strategy in the organisation?', using a five point Likert scale, ('1 = not an integral part' and '5 = fully integrated').

5.3.5 The relative importance of tax strategy and corporate strategy

Based on the measure of the integration between tax strategy and corporate strategy, it is important to assess further the relative importance of both strategies in terms of the FDI decision. Respondents were asked 'What was the relative importance of (i) corporate strategy and (ii) tax strategy in the FDI decision making process?', measured using five point Likert scale, (where 1 = 'of no importance' and 5 = 'of great importance'). (See Section 6 of the questionnaire, Question 6.11)

5.3.6 Priority between tax strategy and corporate strategy

Further, the respondents were asked to identify which one would be given priority if there should be a conflict between corporate strategy and tax strategy in making an FDI decision. Four options were given for selection (See Section 6, Question 6.12):

(i) corporate strategy;
(ii) tax strategy;
(iii) both given equal priority;
(iv) neither given priority

5.3.7 Statistical analysis

To test whether responses vary across the characteristics of the sample, a test of difference in means was conducted. Given the reasonable sample size and assumptions that the sample is from a normal distribution, it was appropriate to use parametric tests. The relative importance of taxation by reference to the key characteristics of the sample was therefore tested by implementing two-tailed *t*-tests or one-way ANOVA as appropriate.

5.4 Findings and discussion of the relationship between tax strategies and sample characteristics

5.4.1 Components of tax strategy

The rank order of the tax strategies adopted by UK firms, based on the mean values of the importance of the six strategies, is shown in Table 5.1.

Table 5.1 The importance of tax strategies adopted by firms

Tax strategies	Rank	Mean	SD
Achieving low tax rate	1	3.58	0.94
Transfer pricing policy	2	3.41	1.19
Availability of tax allowances	3	3.38	1.11
Achieving double taxation relief	4	3.34	1.13
Choosing investment location	5	2.31	1.19
Income shifting policies	6	2.19	1.18
N = *192*			

Notes:
1. The mean is the average on a Likert scale of 1 (= 'of no importance') to 5 (= 'of great importance').
2. SD = standard deviation

For the full set of six tax strategies adopted by UK firms, with means being above the median of the scale, the two strategies of 'achieving low tax rate' (3.58) and 'transfer pricing policy' (3.41) obtain the highest degree of importance in rank order. Both tax strategies of 'availability of tax allowances' (3.38) and 'achieving double taxation relief' (3.34) are found to be of relatively less importance. Neither 'choosing investment location' (2.31) nor 'income shifting policies' (2.19) is considered as an important tax strategy by the respondent UK multinational firms.

To assess the relative importance of the tax strategy relative to the industry sector of the FDI, a two-tailed *t*-test was employed. The statistical results are shown in Table 5.2.

Table 5.2 Tax strategies for the industry sector of the FDI

Tax strategies	Industry sector of FDI			
	Group	Mean	SD	t-value
Achieving low tax rate	Manufac	3.64	0.90	
	Service	3.51	0.99	0.75
Transfer pricing policy	Manufac	3.36	1.20	
	Service	3.47	1.19	-0.51
Availability of tax allowances	Manufac	3.52	1.01	
	Service	3.22	1.21	1.45
Achieving double taxation relief	Manufac	3.50	1.07	
	Service	3.13	1.19	1.74*
Choosing investment location	Manufac	2.32	1.21	
	Service	2.29	1.17	0.13
Income shifting policy	Manufac	2.12	1.15	
	Service	2.27	1.22	-0.65
N = 192	*Manufac = 100; Service = 92*			

Notes:
$^*p < 0.1$ (two-tailed)

(i) Tax strategies and industry sector of FDI

Table 5.2 shows very little support for the view that the relative importance of tax strategies adopted by firms will vary with the industry sector of FDI, in that for only one of the six tax strategies – 'achieving double taxation relief' ($p < 0.1$) – is there a significant difference in the mean scores, being significantly higher for the manufacturing sector compared with the service sector. Double taxation arises when income is taxed both by the taxpayer's country of residence and by the country in which the income arises. The most common United Kingdom approach to relieving double taxation is to tax the foreign income of a UK resident but to allow a deduction for the foreign tax paid on the item of income, subject to the specific requirements put in place by any double tax treaty.

A double taxation treaty is usually implemented to develop and strengthen cooperation and partnership between two countries. Very often the agreement leads to favouring certain industries by removing all or some of the financial, economic and tax obstacles facing a particular industry's operations, especially those industries that lack technology or resources in the host country. The financial and tax benefits generated by this type of agreement therefore enable UK firms in particular industry sectors to take advantage of a double taxation agreement between the two countries with respect to the choice of industry sector of the FDI. However, it is important to note that the tax strategy of achieving double taxation relief is ranked fourth with a mean of 3.34, which is considered as relatively less important compared with other tax strategies, as shown in Table 5.1. It is clear from the responses that the tax strategy of achieving double taxation relief is more important for manufacturing industry than service sector. However, overall, it appears reasonable to argue that the relative importance of tax strategies will not vary with the industry sector of the FDI.

(ii) Tax strategies and geographical location of FDI

The statistical results show relatively weak support for the view that the relative importance of tax strategies adopted by firms will vary with the geographical location of FDI, as shown in Table 5.3.

Table 5.3 below shows that two out of the six tax strategies, 'achieving low tax rate' ($p < 0.05$) and 'availability of tax allowances' ($p < 0.1$), show statistically significant differences in the mean scores. The findings show that the mean values are significantly higher for the locations of Europe and North America in terms of achieving a low tax rate in the host country/region, while the locations of Europe and Middle East and Asia are more important when firms attempt to take advantage of available tax allowances in the host country.

Certain countries in Europe and North America are in favour of offering low tax rates. According to the OECD Tax Database (2010), the countries with low corporation tax rates include Bulgaria (10%), Canada (19.5%), Cyprus (10%), Hungary (16%), Ireland (12.5%), Latvia (15%), Montenegro (9%), Poland (19%), Romania (16%), Serbia (10%), Slovakia (19%), and the United States of America (15%). The low tax rates applied in these countries might be the main reasons for them to be favoured for investment locations. This finding provides support for the argument in the literature that the differential in tax rates across nations can influence the location selection of FDI (Boskin and Gale, 1987; Hartman, 1984; Hines, 1999; Young, 1988). Therefore, achieving a low tax rate by locating FDI in particular countries as a tax strategy becomes important for UK firms.

Table 5.3 Tax strategies for geographical location of FDI

Tax strategies	Geographical location countries/regions			
	Group	Mean	SD	*F*-ratio
Achieving low tax rate	Europe	3.80	0.92	
	Middle East and Asia	3.47	0.97	
	North America	3.71	0.81	
	Rest of the World	3.06	0.94	3.15**
Transfer pricing policy	Europe	3.33	1.19	
	Middle East and Asia	3.37	1.33	
	North America	3.46	1.10	
	Rest of the World	3.61	1.15	0.26
Availability of tax allowances	Europe	3.64	1.06	
	Middle East and Asia	3.37	1.03	
	North America	3.30	1.11	
	Rest of the World	2.89	1.23	2.07*
Achieving double taxation relief	Europe	3.34	1.16	
	Middle East and Asia	3.23	1.19	
	North America	3.58	0.97	
	Rest of the World	3.17	1.20	0.59
Choosing investment location	Europe	2.35	1.27	
	Middle East and Asia	2.55	1.18	
	North America	2.04	1.07	
	Rest of the World	2.17	1.15	0.89
Income shifting policy	Europe	2.22	1.24	
	Middle East and Asia	2.30	1.15	
	North America	2.17	1.34	
	Rest of the World	1.94	0.87	0.35
N = 192	*Europe = 85; Middle East and Asia = 47; North America = 35; Rest of the World = 25*			

Notes:
$*p < 0.1$; $**p < 0.05$ (two-tailed).

When UK firms decide to undertake FDI in Europe and the Middle East and Asia, taking advantages of available tax allowances in the host countries is another important tax strategy for the firms. This is because many countries in Europe and the Middle East and Asia grant tax relief and allowances to foreign investors in order to attract the inflow of FDI. For example, in Malaysia the rate of investment tax allowances (ITA) is 60 per cent on qualifying capital expenditure incurred on plant and machinery and is used to offset up to 70 per cent of the statutory income (PKF, 2009). Similarly, China offers foreign technologically advanced enterprises (TAE) (with an operating period of not less than 10 years and located in a Hi-Tech Industry

Development Zone designated by the State Council) two years' full exemption on corporate income tax starting from the first profit making year (PKF, 2010). In Hungary, the government offers development tax allowances (DTA) to foreign investment, which entitles the taxpayers to reduce annual corporation tax by 80 per cent during a period of 10 financial years (Allen and Overy, 2008). The available tax allowances granted by the host countries are intended to encourage UK firms to invest in those particular locations. Consequently, the benefits from the available allowances are important to the UK investor to help decide the type of tax strategies to be used in the firm.

(iii) Tax strategies and capital size of FDI

The statistical results of the association of the tax strategies with the capital size of the FDI are shown in Table 5.4.

Table 5.4 below shows no support for the view that the relative importance of tax strategies adopted by firms varies with the capital size of FDI, with no significant differences in means obtained between the FDI capital sizes. This might be because all types of tax strategies are perceived equally important to either large or small capital sizes of FDI. No particular tax strategy is found to vary with the capital sizes of investment. Therefore, it appears reasonable to argue that the relative importance of tax strategy does not vary with the capital size of investment.

Table 5.4 Tax strategies for capital size of FDI

Tax strategies	Capital size of FDI Group[a]	Mean	Mean	t-value
Achieving low tax rate	0 – 7 million	3.48	1.00	
	8 – 1,300 million	3.69	0.88	-1.18
Transfer pricing policy	0 – 7 million	3.48	1.29	
	8 – 1,300 million	3.35	1.07	0.55
Availability of tax allowances	0 – 7 million	3.38	1.11	
	8 – 1,300 million	3.39	1.13	-0.03
Achieving double taxation relief	0 – 7 million	3.40	1.17	
	8 – 1,300 million	3.26	1.12	0.63
Choosing investment location	0 – 7 million	2.35	1.20	
	8 – 1,300 million	2.27	1.16	0.37
Income shifting policy	0 – 7 million	2.29	1.22	
	8 – 1,300 million	2.08	1.16	0.91
N = 185[b]	*0 – 7 million = 96; 8 – 1,300 million =89*			

Notes:
[a] UK sterling
[b] Missing values = 7

5.4.2 Determinants of tax strategy

The variables influencing the determinants of the tax strategy were ranked in order of the mean measure of the importance of the six determinants, as shown in Table 5.5.

Table 5.5 Determinants of tax strategy

Determinants	Rank	Mean	SD
Tax minimisation	1	4.06	0.74
Compliance with strategic plan	2	3.75	0.99
Mitigation of risk	=3	3.54	0.97
Ease of profit extraction	=3	3.54	0.89
Availability of tax incentives	5	2.90	1.06
Imitation of competitors	6	1.62	0.89
N = *192*			

Notes:
1. The mean is the average on a Likert scale of 1 (= 'of no importance') to 5 (= 'of great importance').
2. SD = standard deviation

For the full set of the tax strategic determinants, the determinants of 'tax minimisation' (4.06) and 'compliance with strategic plan' (3.75) are most important in terms of influencing the selection of the tax strategy used by the firms. By contrast, the determinants of 'mitigation of risk' (3.54) and 'ease of profit extraction' (3.54) have the same mean values, being perceived as less important determinants for tax strategic decisions. Neither the determinant of 'availability of tax incentives' (2.90) nor 'imitation of competitors' (1.62) is considered as an important determinant because both score mean values below the median of the scale. The results clearly indicate that the primary objective of selecting a tax strategy is to achieve tax minimisation. Subsequently, firms are likely to consider whether the tax strategy is in accordance with the corporate strategic plan.

To assess the association between the determinants of tax strategy and the sample characteristics, a statistical *t*-test and one-way ANOVA were employed. The relationship between the tax strategic determinants and the industry sectors of FDI is shown in Table 5.6.

(i) Determinants of tax strategy and industry sector of FDI

Table 5.6 Determinants of tax strategies by industry sector of FDI

	Industry sector of FDI			
Determinants of tax strategies	Group	Mean	SD	*t*-value
Tax minimisation	Manufac	4.05	0.77	
	Service	4.08	0.70	-0.21
Compliance with strategic plan	Manufac	3.91	0.99	
	Service	3.57	0.97	1.87**
Availability of tax incentives	Manufac	2.95	0.97	
	Service	2.83	1.17	0.64
Ease of profit extraction	Manufac	3.62	0.92	
	Service	3.43	0.84	1.16
Mitigation of risk	Manufac	3.77	0.94	
	Service	3.27	0.95	2.82***
Imitation of competitors	Manufac	1.65	0.87	
	Service	1.60	0.91	0.29
N = 192	*Manufac = 100; Service = 92*			

Notes:
**$p < 0.05$; ***$p < 0.01$ (two-tailed)

The findings in Table 5.6 suggest only weak support for the viewpoint that the relative importance of the determinants of tax strategy will vary with the industry sector of FDI. Two out of six factors, 'compliance with strategic plan' ($p < 0.05$) and 'mitigation of risk' ($p < 0.01$), are important for the determinants of tax strategy in respect of the industry sector of FDI, being relatively more important for the manufacturing sector than the service sector.

It is not surprising to find that the tax determinant of 'compliance with strategic plan' is more important for the manufacturing sector than for the service sector. As mentioned before, the manufacturing sector differs substantially from service operations, particularly in terms of the level of resource commitment required (Brouthers, Brouthers and Werner, 2002), which has direct tax implications. Thus, if a UK firm is engaging in a manufacturing industry, given the nature of the industry, the tax strategy used in the firm should be decided from the corporate strategic perspective rather than merely in line with the view of minimising taxation. Further, different tax rates are applied in the industry sectors (Derashid and Zhang, 2003, p. 48). According to McIntyre and Nguyen (2000, p. 9), oil companies in the USA enjoy the lowest tax rate of all companies. Also, certain sectors, such as the pharmaceutical industry, usually have large R&D expenditures on developing new products in accordance with market demands. Thus tax incentives related to capital allowances, for example, R&D allowances or tax relief on extraction of natural resources offered in the host countries, might be of more interest to manufacturing firms than service companies. In addition, such ideas are in accordance with the findings in Table 5.2, which indicate that the tax strategy of *achieving double taxation relief* is relatively more important for the manufacturing sector than the service sector. On this basis, it appears reasonable to argue that the relative importance of the tax determinant of 'compliance with the strategic plan' will vary with the industry sector of the FDI.

The determinant of 'mitigation of risk' (financial or business risk) was also found to be more important for the manufacturing industry than the service sector. Put the sample, FDI in manufacturing is a larger investment than in the service sector (FDI in manufacturing: $\bar{x} =$ £438 million; FDI in service: $\bar{x} =$ £109 million) because of the large requirement for facilities, equipment and raw materials purchased for production and operations. Therefore, mitigating investment risk as one of the factors determining the tax strategy is more important for the manufacturing sector than the service sector. Hence, an argument can be made from the findings that the relative importance of the tax determinant of 'mitigation of risk' will vary with the industry sector of the FDI.

(ii) Determinants of tax strategy and geographical location of FDI

As shown in Table 5.7, there is little evidence to support the view that the relative importance of the determinants of tax strategy will vary with the geographical location of FDI.

Only one element, *imitation of competitors* ($p < 0.1$) is important for the determinants of tax strategy with respect to the selection of geographical location of FDI, with means being significantly higher for the locations of Middle East and Asia and Rest of the World compared with other locations. The rest of the determinants do not have statistically significant differences in means between the geographical location of the FDI.

This finding suggests that except for the determinant of 'imitation of competitors', all the influences determining the tax strategies are equally important for all the FDI locations. In other words, UK firms are likely to view equally all the determinants in terms of FDI location decisions, rather than only depend on one or a few determinants, to select the type of tax strategies to be used in the firms. Interestingly, in respect of imitating competitors, the locations of Middle East and Asia and Rest of the World are relatively more important than other locations. However, it is important to note that, by reference to Table 5.4, the determinant of 'imitation of the competitors' was ranked lowest by the mean value of the responses, indicating that it is perceived as a less important determinant for tax strategy compared with other determinants. The basic conclusion to be drawn from the findings is that the relative importance of the determinants of tax strategy hardly varies with the geographical location of FDI.

Table 5.7 Determinants of tax strategies by geographical location of FDI

Determinants of tax strategies	Geographical location countries/regions			
	Group	Mean	SD	*F*-ratio
Tax minimisation	Europe	4.13	0.76	
	Middle East and Asia	3.93	0.79	
	North America	4.08	0.65	
	Rest of the World	4.06	0.73	0.45
Compliance with strategic plan	Europe	3.82	0.94	
	Middle East and Asia	3.73	1.08	
	North America	3.67	1.05	
	Rest of the World	3.72	0.96	0.14
Availability of tax incentives	Europe	2.93	1.05	
	Middle East and Asia	3.07	1.20	
	North America	2.87	0.97	
	Rest of the World	2.56	0.92	0.90
Ease of profit extraction	Europe	3.67	0.80	
	Middle East and Asia	3.47	1.11	
	North America	3.58	0.88	
	Rest of the World	3.28	0.67	0.92
Mitigation of risk	Europe	3.62	0.83	
	Middle East and Asia	3.57	1.04	
	North America	3.52	1.16	
	Rest of the World	3.33	0.97	0.38
Imitation of competitors	Europe	1.49	0.77	
	Middle East and Asia	1.90	1.09	
	North America	1.39	0.58	
	Rest of the World	1.78	1.00	2.07*
N = 192	*Europe = 85; Middle East and Asia = 47; North America = 35; Rest of the World = 25*			

Notes:
The mean for the factors is the mean of the factor scores.
*$p < 0.1$ (two-tailed).

(iii) Determinants of tax strategy and capital size of FDI

The statistical results of the relationship between the determinants of tax strategy and the capital size of the FDI are shown in Table 5.8.

Table 5.8 Determinants of tax strategies by capital size of FDI

Determinants of tax strategies	Capital size of FDI			
	Group[a]	Mean	SD	*t*-value
Tax minimisation	0 – 7 million	4.10	0.71	
	8 – 1,300 million	4.02	0.79	0.53
Compliance with strategic plan	0 – 7 million	3.71	1.07	
	8 – 1,300 million	3.86	0.85	-0.81
Availability of tax incentives	0 – 7 million	2.94	1.18	
	8 – 1,300 million	2.86	0.90	0.38
Ease of profit extraction	0 – 7 million	3.54	0.86	
	8 – 1,300 million	3.53	0.95	0.06
Mitigation of risk	0 – 7 million	3.46	1.03	
	8 – 1,300 million	3.66	0.90	-1.09
Imitation of the competitors	0 – 7 million	1.60	0.91	
	8 – 1,300 million	1.61	0.81	-0.09
N = 185[b]	*0 – 7 million = 96; 8 – 1,300 million= 89*			

Notes:
[a] UK sterling
[b] Missing values = 7

Table 5.8 shows that there is no support for the argument that the relative importance of the determinants of tax strategy will vary with the capital size of FDI, because none of the mean values are significantly different between the capital sizes of investment. It appears that the determinants of tax strategy are treated as equally important for both large and small capital size of FDI. In reference to the statistical results of the relationship between the components of tax strategy and capital size of FDI shown in Table 5.4, both findings are consistent with the view that neither the components nor the determinants of tax strategy vary with the capital size of FDI.

5.5 Findings and discussion of the integration between tax strategy and corporate strategy

5.5.1 Influence of the stages at which tax implications are considered on FDI strategic behaviour

The rank order of the stages at which the tax implications of the strategic decision were considered in the FDI decision process, based on the percentage of responses is shown in Table 5.9.

Table 5.9 Stages at which tax implications are considered in the FDI decision process

Stages	Rank	Percentage of responses (%)
Both before and after the FDI decisions made	1	59.8
Before the FDI decisions made	2	27.8
After making the FDI decisions	3	10.7
No consideration	4	3.0

$N = 192$

More than half of respondents claimed to consider tax issues both before and after the FDI decisions were made, while almost 30 per cent of companies thought through the tax implications before the FDI decisions were made. Fewer than 14 per cent of companies did not consider tax issues or considered them after making the FDI decisions.

To examine how the different stages at which the tax implications are considered in the decision making process impact on corporate strategic behaviour, the FDI motives and location motives discussed in Chapter 4 were adopted in the analysis.

(i) Influence of the stages at which tax implications are considered on FDI motives

The four FDI motives were extracted by using factor analysis in Chapter 4. To examine whether the stages at which tax implications are considered in the decision making process have an influence on the FDI motives, one-way ANOVA as a statistical test was employed, as shown in Table 5.10.

Table 5.10 FDI motives by the stages at which tax implications are considered

Motives	The stage at which tax implications are considered			
	Group	Mean	SD	F-ratio
Risk reduction and modern managerial techniques	Before FDI decisions made	1.97	1.10	
	After FDI decisions made	2.22	1.50	
	Both before and after FDI decisions made	1.98	1.09	1.77
Benefits from local incentives and competitiveness	Before FDI decisions made	1.78	0.84	
	After FDI decisions made	1.76	0.76	
	Both before and after FDI decisions made	1.81	0.90	1.47
Corporate strategic behaviours	Before FDI decisions made	1.47	0.72	
	After FDI decisions made	1.76	1.01	
	Both before and after FDI decisions made	1.60	0.75	2.03
Business expansion and economic improvement	Before FDI decisions made	3.60	0.90	
	After FDI decisions made	3.43	0.83	
	Both before and after FDI decisions made	3.39	0.78	0.72
N = 187[a]	*Before FDI = 53; After FDI = 20; Both before and after = 114*			

Notes:
The mean for the factors is the mean of the factor scores.
[a] 5 companies stated no consideration of tax implications in the decision process, and were excluded from the analysis.

Table 5.10 shows no support for the view that the relative importance of the FDI motives will vary with the different stages at which tax implications are considered in the FDI decision making process, because none of the mean values is significantly different between the stages. The results suggest that the stages at which tax issues are considered in the decision making process are unlikely to make any differences to the strategic motives for the FDI.

(ii) Influence of the stages at which tax implications are considered on FDI location motives

The five location motives were also extracted by using the factor analysis, as discussed in Chapter 4. The variation in importance of the location motives with the four different stages at which the tax implications are considered in the decision making process is shown in Table 5.11.

Table 5.11 Location motives by the stages at which tax implications are considered

	The stage at which tax implications are considered			
Location motives	Group	Mean	SD	*F*-ratio
Local policy incentives	Before FDI decisions made	1.66	0.63	
	After FDI decisions made	1.85	1.07	
	Both before and after FDI decisions made	1.76	0.80	0.85
Environmental stability and profit repatriation	Before FDI decisions made	2.95	1.16	
	After FDI decisions made	3.33	0.99	
	Both before and after FDI decisions made	3.01	1.01	0.55
Strategic locational advantages	Before FDI decisions made	2.18	0.96	
	After FDI decisions made	2.23	0.96	
	Both before and after FDI decisions made	2.08	0.89	0.86
Market power and entrance	Before FDI decisions made	3.21	1.10	
	After FDI decisions made	3.53	1.16	
	Both before and after FDI decisions made	3.42	1.13	1.22
Labour supply and cost efficiency	Before FDI decisions made	2.43	1.04	
	After FDI decisions made	2.51	1.01	
	Both before and after FDI decisions made	2.26	1.04	1.88
N = 187[a]	*Before FDI = 53; After FDI = 20; Both before and after = 114*			

Notes:
The mean for the factors is the mean of the factor scores.
[a] 5 companies stated no consideration of tax implications in the decision process, and were excluded from the analysis.

Table 5.11 indicates that there is no support for the view that the relative importance of the location motives of the FDI will vary with the stages at which the tax implications are considered in the decision making process, because none of the mean values is significantly different between the stages. Such results suggest that the different stages at which the tax implications are considered are not important to the location motives of the FDI. In other words, the location motives of the FDI will not vary with the particular stages at which the tax implications are considered in the FDI decision process.

In reference to the results in both Tables 5.10 and 5.11, a conclusion that can be drawn is that the stages at which the tax implications are considered in the decision making process are unlikely to cause different corporate strategic behaviours in terms of the motives and location motives of the FDI.

5.5.2 Stages at which tax implications are considered and integration of tax strategy and corporate strategy

With respect to how well integrated the tax strategy and corporate strategy are, the mean value of the integration of both the strategies was assessed ($\bar{x} = 3.20$ and SD = 0.94). The finding is consistent with the result of the empirical study by Glaister and Frecknall-Hughes (2008, p. 43), in which the integration of strategic decision and tax decisions obtained a mean of 3.39. As the mean value obtained in this study is 3.20, which is slightly higher than the median point on the scale, it indicates that tax strategy is relatively well integrated with corporate strategy in the FDI decision process for UK firms.

The association between the stages of taking tax strategy into consideration in the FDI decision process and the integration of tax strategy and corporate strategy was also assessed, as shown in Table 5.12 below.

As can be seen in Table 5.12, the results of the one-way ANOVA show that there are statistically significant differences in means for the stages of considering tax implications in the decision process, with means being significantly higher for the stages of before the FDI decisions are made and both before and after the FDI decisions are made compared with other stages in the decision process. This supports the view that the relative importance of the integration of tax strategy and corporate strategy will vary with the stages at which the tax implications are considered in the FDI decision process.

Table 5.12 Integration of tax strategy and corporate strategy by stages at which tax implications are considered

	The stage at which tax implications are considered			
	Group	Mean	SD	*F*-ratio
Integration of tax and corporate strategy	Before FDI decisions made	3.58	0.79	
	After FDI decisions made	2.59	1.00	
	Both before and after FDI decisions made	3.27	0.90	7.56***
N = 187[a]	*Before FDI = 53; After FDI = 20* *Both before and after = 114*			

Notes:
****p*<0.01 (two-tailed).
[a] 5 companies stated no consideration of tax implications in the decision process, and were excluded from the analysis.

5.5.3 The relative importance of tax strategy and corporate strategy

The relative importance of tax strategy and corporate strategy was ranked based on the mean measure of the importance as shown in Table 5.13.

Table 5.13 The relative importance of tax strategy and corporate strategy

Importance of strategies	Rank	Mean	SD
Importance of corporate strategy in FDI	1	4.68	0.57
Importance of tax strategy in FDI	2	2.80	1.05
N = 192			

Notes:
1. The mean is the average on a Likert scale of 1 (= 'of no importance') to 5 (= 'of great importance').
2. SD = standard deviation

It can be seen that the mean value of the relative importance of the corporate strategy is much higher than of the tax strategy in terms of the FDI decision process. It is interesting to note that the mean of the relative importance of the corporate strategy is considerably higher than the median point on the scale, while the relative importance of the tax strategy is below the median point. This finding suggests that corporate strategy is considered much more important than tax strategy in terms of the FDI decisions. By reference to the results of the integration of tax strategy and corporate strategy in Section 5.5.2, tax strategy is perceived as an integral part of corporate strategy, with the mean measure slightly above the median point on the scale. The consideration of both statistical results implies that tax strategy is an integral part of the corporate strategy, but it is certainly not a dominant factor in FDI decision making because of the relative importance of corporate strategy. Importantly, these findings are in line with the findings in the study by Glaister and Frecknall-Hughes (2008, p. 42). A basic conclusion is that the corporate strategy is relatively more important than the tax strategy in FDI decision making.

To assess further the relationship of the relative importance of the tax strategy and corporate strategy with the characteristics of the sample, the statistical *t*-test and one-way ANOVA was adopted, as shown in Tables 5.14, 5.15 and 5.16.

(i) The relative importance of tax strategy and corporate strategy by industry sector of FDI

Table 5.14 The relative importance of tax strategy and corporate strategy by industry sector of FDI

	Industry sector of FDI			
Importance of strategies	Group	Mean	SD	*t*-value
Importance of corporate strategy in FDI	Manufac	4.72	0.52	
	Service	4.63	0.62	0.85
Importance of tax strategy in FDI	Manufac	2.90	1.00	
	Service	2.68	1.11	1.14
N = 192	*Manufac = 100; Service = 92*			

Table 5.14 clearly shows no support for the suggestion pointed in the research question that the relative importance of the tax strategy and corporate strategy will vary with the industry sector of the FDI. This is because there is no significant difference in means between industry sectors. The findings suggest that the relative importance of the tax strategy and the corporate strategy will not vary with the type of industry sector of FDI.

(ii) The relative importance of tax strategy and corporate strategy by geographical location of FDI

The association between the relative importance of the tax strategy and the corporate strategy and the geographical location of FDI is shown in Table 5.15.

Table 5.15 The relative importance of tax strategy and corporate strategy by geographical locations of FDI

	Geographical location countries/regions			
Importance of strategies	Group	Mean	SD	*F*-ratio
Importance of corporate strategy in FDI	Europe	4.76	0.48	
	Middle East and Asia	4.58	0.67	
	North America	4.67	0.57	
	Rest of the World	4.67	0.59	0.58
Importance of tax strategy in FDI	Europe	2.78	0.85	
	Middle East and Asia	2.97	1.25	
	North America	2.77	1.19	
	Rest of the World	2.59	1.00	0.50
N = 192	*Europe = 85; Middle East and Asia = 47; North America = 35; Rest of the World = 25*			

It is clear that that there is no evidence to support the view that the relative importance of the tax strategy and the corporate strategy will vary with the geographical location of the FDI. From the responses, there is no significant difference in mean values between the geographical location of the FDI. It is notable that the mean values for each of the four geographical locations are higher for the relative importance of the corporate strategy than of the tax strategy with respect to the FDI location decisions. This result is in accordance with the statistical results in Table 5.13, which indicates that the corporate strategy is relatively more important than the tax strategy in terms of decision making. A conclusion that can be drawn is that corporate strategy is relatively more important than tax strategy with respect to the FDI location decisions, although the relative importance of the tax strategy and the corporate strategy does not vary with the geographical location of the FDI.

(iii) The relative importance of tax strategy and corporate strategy by capital size of FDI

Table 5.16 The relative importance of tax strategy and corporate strategy by capital size of FDI

	Capital size of FDI			
Importance of strategies	Group[a]	Mean	SD	t-value
Importance of corporate strategy in FDI	0 – 7 million	4.72	0.53	
	8 – 1,300 million	2.67	0.62	0.34
Importance of tax strategy in FDI	0 – 7 million	2.63	1.08	
	8 – 1,300 million	3.04	1.00	-2.04**
N = 185[b]	*0 -7 million = 96; 8 - 1,300 million= 89*			

**$p < 0.05$ (two-tailed)
[a]UK sterling
[b]Missing values = 7

Table 5.16 provides some evidence to support the view that the relative importance of the tax strategy will vary with the capital size of FDI, with means being relatively higher for large sized FDI than small sized FDI. This might be due to the fact that large firms are subjected to greater government scrutiny than small firms, thus to reduce these political costs, large firms use tax strategies to a greater extent than smaller firms. Generally, large firms have more resources available with which to influence political processes in their favour, develop expertise in tax planning and organise their activities in optimal tax saving ways. Thus, large firms have a better position from which to take greater advantage of tax benefits in comparison with small firms. Tax strategy is therefore relatively more important for large sized FDI than small sized FDI. Such findings suggest that the relative importance of the tax strategy will vary with the size of investment.

However, it is important to note that corporate strategy is perceived as being relatively more important than tax strategy, as shown in Table 5.13. Thus, although the relative importance of tax strategy may vary with the capital size of FDI, tax strategy is not considered as important as corporate strategy in terms of decision making.

5.5.4 Priority given to tax strategy and corporate strategy

By analysing the relative importance of the tax strategy and the corporate strategy above, it is apparent that the corporate strategy is perceived as being relatively more important than the tax strategy in terms of the FDI decision. However, if a conflict occurs between the tax strategy and the corporate strategy in the decision making process, the question is which one will be given priority. The results from the responses are shown in Table 5.17.

Table 5.17 Priority given to tax strategy and corporate strategy

Priority of strategies	Percentage of responses (%)
Corporate strategy	91.2
Tax strategy	0.6
Both given equal priority	7.0
Neither given priority	1.2

N = 192

The responses clearly show that corporate strategy will take priority over tax strategy. Almost 91 per cent of respondents claim that corporate strategy takes priority over tax strategy. A total of seven per cent of participants perceived that both the tax strategy and the corporate strategy are given equal priority. Very few respondents agreed that tax strategy would be given priority. Such results indicate that the tax strategy is unlikely to take priority when a conflict occurs between the tax strategy and the corporate strategy in terms of decision making. It provides some evidence to support the view in the literature that taxation is an important factor in terms of decision making (Yancey and Cravens, 1998, p. 251). The finding about the priority between tax strategy and corporate strategy makes it possible to gain a clear picture of relationship between the two strategies in practice.

When tax strategy is considered, corporate strategy is usually considered at the same time. In other words, tax strategy has to be in accordance with corporate strategy when making decisions. This result is consistent with the empirical study by Glaister and Frecknall-Hughes (2008, p. 43), which suggests that tax strategy is only one of the factors to be considered in FDI strategic decisions and not a dominant factor. They found strong support for the view that "[s]trategic decisions are given priority and that tax decisions follow in the wake of strategic decisions" (Glaister and Frecknall-Hughes, 2008, p. 43). When tax strategy conflicts with corporate strategy, tax strategy is usually put as secondary.

5.6 Summary and conclusion

The primary concern of this chapter has been to examine the variation in importance of the components and determinants of tax strategy with the key characteristics of the sample in the study, as well as the interaction between tax strategy and corporate strategy. The statistical *t*-test and one-way ANOVA were employed to test the research questions developed by reviewing the prior literature. However, it is important to note that the interaction between the tax strategy and the corporate strategy is an under-explored area in the mainstream literature.

Tests of the components of tax strategy indicate that the relative importance of tax strategy varies to a moderate extent with the geographical location of FDI, to a modest extent with the industry sectors and hardly varies with the capital size of the FDI. The results of the tests of the determinants of tax strategy show that the relative importance of the determinants of tax strategy vary to a moderate extent with the industry sector, to a modest extent with geographical location, and hardly vary with the capital size of the FDI.

The results of tests of the integration of tax strategy and corporate strategy indicate that tax strategy is fairly well integrated with corporate strategy in the firm. Similarly, corporate strategy was found to be relatively more important than tax strategy in terms of FDI decision making. Further, tests of the variation in importance of tax strategy and corporate strategy with the sample characteristics demonstrate that the relative importance of tax strategy and corporate strategy hardly varies with the industry sector and geographical location of FDI, but the relative importance of tax strategy varies to a moderate extent with the capital size of FDI. In addition, the results also suggest that corporate strategy takes priority over tax strategy if a conflict occurs in decision making.

Further investigation of the FDI decision making process is called for. The following chapter examines the particular stages in the FDI decision making process and investigates the role of tax in the FDI decision process.

Chapter 6: An analysis of the FDI decision making process with and without tax considerations

6.1 Introduction

FDI is a particular domain of strategic decision making. The FDI decision making process, however, has received little attention from researchers. The process by which the FDI strategic decisions are made have an impact on the success of a firm's international operations. This chapter aims to develop a better understanding of the FDI decision making process, and to explore the relative importance role of tax in the stages of the FDI decision process. Considering the interaction between tax strategy and corporate strategy in the FDI decision process enables a better understanding of how tax issues are treated in the FDI decision process and also helps identify the particular stages at which tax implications are brought into the decision making process.

The reminder of the chapter is structured as follows. Section 6.2 reviews the prior literature relating to FDI strategic decisions in terms of ownership form and market entry mode, as well as the relative importance of the stages of the FDI decision process in two situations, one in which tax issues are considered and another where they are ignored in the decision process, and sets out the relevant research questions of this chapter. Section 6.3 identifies the key characteristics of the sample which is the subject of analysis of the chapter and identifies the statistical tests employed in the study. The following sections 6.4 and 6.5 present the results and discussion of the findings. A summary and conclusions are provided in Section 6.6.

6.2 Research questions developed in the literature review

The research questions developed from Chapter 2 will be examined in this chapter, shown as follows:

(i) Does the importance of the variables in the FDI decision making process vary according to the choice of the FDI ownership form?

(ii) Does the importance of the variables in the FDI decision making process vary with the choice of the market entry mode?

(iii) What is the relative importance of the stages of the FDI decision making process in practice?

(iv) Does the relative importance of the stages of the FDI decision process vary according to whether tax issues are either considered or ignored in the decision process?

(v) Does the relative importance of the organisational structure-related factors vary with the stages at which tax implications are considered in the FDI decision making process?

(vi) Does the relative importance of the underlying factors in the FDI decision making process vary according to whether tax implications are either considered or ignored in the decision process?

6.3 Characteristics of the sample

The respondents numbered 192 multinational companies undertaking FDI. The characteristics of the sample used in this chapter are summarised in Table 6.1 below.

Table 6.1 Characteristics of the sample

	Total		%	
FDI equity ownership form				
Joint venture (JV)	39		20.3	
Wholly owned subsidiary (WOS)	132		68.8	
Branch/division	21		10.9	
		192		100
Market entry mode of FDI				
'Greenfield' investment	66		34.4	
Merger or acquisition (M&A)	126		65.6	
		192		100
Size of parent firm (no. of employees)				
3 – 1,000	97		51.6	
1,001 – 10,000	91		48.4	
		188[a]		100

Notes:
[a]Missing values = 4

The distribution of the sample of FDI by equity ownership forms can be categorised into three sub-groups, namely JV, WOS and branch/division. The market entry mode of FDI can be partitioned into 'greenfield' investment and M&A. The size of parent firm is classified by reference to the number of employees. The data, however, shows that the outliers positively skewed the distribution. According to Field (2009, p. 98), outliers can affect the measure of the mean. The median was therefore considered as the best representation of the size of parent firm in the study. Hence, four outliers were removed from the sample in order to reduce the effects of the outliers skewing the statistical results. The range of the minimum and maximum of the size of parent firm extends from 3 to 10,000 employees. The median value was thus adjusted to 1,000 employees, hence the number of employees from 3 to 1,000 is categorised as small sized firm whereas from 1,001 to 10,000 employees is classified as large sized firm.

6.3.1 FDI decision making process

The questionnaire 5.3 in Appendix I presented a list of nine determinants affecting the FDI decision making process. The nine determinants in the order they appeared on the questionnaire are shown in Table 6.2. Respondents were asked: 'How important were the following factors in affecting the FDI decision making process?' Responses were assessed using a five point Likert scale (where 1 = 'not important' and 5 = 'very important').

Table 6.2 Determinants affecting FDI decision making process: item listed by order of appearance on the questionnaire

(1)	Strategic plan of the firm
(2)	Prior international operation experience
(3)	Size of the investment
(4)	Potential target country
(5)	Available acquisition candidate
(6)	Available joint venture partner
(7)	Competition situation
(8)	Effective management
(9)	Others

6.3.2 Stages in the FDI strategic decision process

A list of eight stages in the FDI decision making process was presented in the questionnaire 5.4 in Appendix I. The eight stages in the order they appeared on the questionnaire are shown in Table 6.3. Respondents were asked 'How important were the following stages in the FDI strategic decision process?' Further, the same eight stages were used to identify the relative importance of the tax consideration at each stage of the FDI decision making process. The respondents were asked: 'How important were tax considerations at each stage of the FDI decision process?' Responses were again assessed using five point Likert scales (where 1 = 'not important' and 5 = 'very important').

Table 6.3 Stages in FDI decision process: items listed by order of appearance on the questionnaire

(1)	Recognition of investment opportunity
(2)	Investigation of investment opportunity
(3)	Investigation of target market
(4)	Identifying the appropriate organisational form
(5)	Identifying the ways of financing the FDI
(6)	Identifying the appropriate legal structure
(7)	Identifying the appropriate management structure
(8)	Reviewing the choice of decision

6.3.3 Stages of tax implications considered in the FDI decision process

Three stages were presented in the questionnaire 6.9 for determining the stages of tax implications to be considered in the FDI decision making process. The stages in the order they appeared on the questionnaire are shown in Table 6.4. Respondents were asked: 'At what stage were tax implications considered in the FDI decision making process?' Respondents were assessed by giving three options to select the particular stage at which the tax implications are taken into consideration.

Table 6.4 Stages of tax implications considered in FDI decision process

(1)	At the stage when investment proposal is raised
(2)	At the stage after the investment proposal is decided
(3)	Both before and after the investment proposal is made

6.3.4 Statistical analysis

Given the reasonable assumption that the sample is from a normal distribution, it was appropriate to use parametric tests to examine the research questions. The research questions were tested by conducting multinomial and binomial logistic regressions. This is because logistic regression is a reasonable model to describe the relationship between outcome (dependent variable) and a set of independent variables (Hosmer and Lemeshow, 1989, p. 1). Compared with the linear regression model, logistic regression is more sophisticated and used to predict the association between the dependent variables that are categorical and independent variables that are continuous or categorical (Field, 2009, p. 265). Where the dependent variables comprised more than two non-ordinal categories and independent variables were not continuous, multinomial logistic regression was employed in the analysis. Where the dependent variable was a binary and dichotomous variable which can be coded as Yes/No or 0/1, binomial logistic regression was used to implement the data analysis.

Further, logistic analysis is oriented to estimating the probability of an event occurring and has been used frequently in FDI studies (Brouthers and Brouthers, 2000, Demirbag, Tatoglu and Glaister, 2009; 2008, Shaver and Flyer, 2000). It was primarily used to assess the strength of the association between the factors derived by the exploratory factor analysis, and the dependent variables of the study which constituted the underlying sample characteristics. The sample characteristics consist of foreign market entry mode and overseas ownership form. The market entry mode can be divided into two sub-groups of 'greenfield' investment and cross-border M&A. The ownership form includes JVs, WOS and branch/division in the foreign market. The size of parent firm was used as a dummy variable. Apart from logistic regressions, particularly to investigate the determinants and stages of the FDI decision process, the tests were used to compare the differences in means in terms of the importance of the variables of the FDI decision process. To examine further the association between dependent and independent variables, based on the nature of variables, the tests were therefore implemented by one-way ANOVA for more than two categories of a variable and paired-samples *t*-test for two different conditions (Pallant, 2007, p. 236).

6.4 Findings and discussion of FDI decision making process in terms of ownership form and market entry mode

6.4.1 Variables for FDI decision making process

The rank order of the variables for the FDI decision making process based on the mean measure of the importance of the eight components is shown in Table 6.5.

Table 6.5 Variables for FDI decision making process: determinants ranked by mean measure of importance

Variables	Rank	Mean	SD
Strategic plan of the firm	1	4.71	0.72
Size of the investment	2	2.85	1.45
Potential target country	3	2.81	1.44
Available acquisition candidate	4	2.44	1.42
Prior international operation experience	5	2.28	1.30
Effective management	6	1.99	1.21
Competition situation	7	1.98	1.21
Available joint venture partner	8	1.96	1.31

$N = 192$

Notes:

1. The mean is the average on a scale of 1 (= 'of no importance') to 5 (= 'of great importance').
2. SD = standard deviation

For the full set of variables for the FDI decision making process, the variable of 'strategic plan of the firm' (4.71) obtains the highest degree of importance in the rank order, with a mean being significantly above the median point on the scale. It is clear from Table 6.5 that the most important element in the FDI decision process is primarily concerned with the corporate strategic point of view which is in line with the findings of Wilson (1990, p. 29) where the actual initiation of foreign investment proposals was mainly via the corporate strategy group.

The second group of variables of the FDI decision process (those ranked 2 to 4) are mainly concerned with cost, location and available partners: 'size of the investment' (2.85), 'potential target country' (2.81) and 'available acquisition candidate' (2.44). However, their means are below the median of the scale. Such results indicate that investigating the potential market situation and gathering relevant information are perceived as the second most important components in the FDI decision making process.

The third and lowest ranked group (5 to 8) consist of a number of distinct variables. The variable 'prior international operational experience' (2.28) is not perceived as an important driving force. Similarly, the variables of 'effective management' (1.99) and 'competition situation' (1.98) do not feature as being important. The variable of 'available joint venture partner' (1.96) is ranked lowest for the FDI decision process.

6.4.2 Factor analysis of variables for FDI decision process

In order to reduce the number of observed variables and make the analysis more meaningful, factor analysis was used to extract the underlying factors, shown in Table 6.6.

Table 6.6 Factors of FDI decision making process

Factors	Factor loads	Eigen-value	% Variance explained	Cumulative %	Cronbach alpha
Factor 1: Corporate strategic considerations		2.30	28.8	28.8	0.61
Size of the investment	0.745				
Potential target country	0.698				
Prior international operation experience	0.695				
Strategic plan of the firm	0.436				
Factor 2: Evaluation of management and competition situation		1.23	15.4	44.2	0.55
Effective management	0.835				
Competition situation	0.767				
Factor 3: Availability of foreign partners		1.14	14.2	58.4	-0.05
Available acquisition candidate	0.763				
Available joint venture partner	-0.551				

Notes:
Principal components factor analysis with varimax rotation.
K-M-O Measure of Sampling Adequacy = 0.620.
Bartlett Test of Sphericity = 183.204; $p < 0.000$.

The eight variables of the FDI decision making process represent a number of overlapping perspectives, which is confirmed partly by the existence of a number of low to moderate inter-correlations between the components. Owing to potential conceptual and statistical overlap, an attempt was made to identify a set of variables to determine the underlying primary dimensions of the components in the FDI decision process for the sample data. Exploratory factor analysis using varimax rotation was used to extract the underlying constructs. The factor analysis produced three underlying factors which make good conceptual sense and explained a total of 58.4 per cent of the observed variance, as shown in Table 6.6. It is important to note that a negative value for Cronbach alphas was obtained in the results. Thus, an internal reliability test showed that Cronbach alphas for the underlying factors range from 0.05 to 0.61. The negative Cronbach alpha apparent in the study is mainly due to the negative relationship between the two variables of 'available acquisition candidate' and 'available joint venture partner'. The covariance between the two components is subsequently negative, which directly causes the negative Cronbach alpha in the result (Field, 2009, p. 676). It suggests that if UK companies choose available acquisition candidate, then joint venture partners are unlikely to be selected. The three underlying factors may be summarised as: *corporate strategic considerations*, *evaluation of management and competition situation*, and *availability of foreign partners*.

To investigate further the underlying nature and pattern of the FDI decision making process associated with the FDI strategic decisions in terms of ownership form and foreign market entry mode, the analysis was developed by undertaking multinomial logistic regressions and binomial logistic regressions. In this case, the three underlying factors of the FDI decision making process were assumed to be a set of independent factors, while the ownership form and foreign market entry mode were considered as dependent variables, and the size of parent firm was regarded as a control variable in the statistical test. The overseas ownership forms consist of joint venture (JV), wholly owned subsidiary (WOS) and branch/division in this study. As the dependent variable can be categorised into more than two non-ordinal categories, a multinomial logistic regression was employed in the statistical test.

Before the analysis, the assumptions of the model were checked, including the collinearity within the data. The Durbin-Watson test was used to check whether the residuals in the model are independent. The correlation matrix is shown in Table 6.7.

Table 6.7 Descriptive statistics and correlation of determinant factors for FDI decision making process

Variables	Mean	SD	1	2	3	4	5	6
1. FDI ownership form	2.48[12]	0.81	1.00					
2. Foreign market entry mode	0.66[13]	0.48	0.14	1.00				
3. Size of parent firm[a]	1.48[14]	0.50	-0.20**	0.15*	1.00			
4. Corporate strategic considerations	4.04	0.67	-0.04	0.07	0.07	1.00		
5. Evaluation of management and competition situation	3.17	0.96	-0.04	0.02	0.02	0.27**	1.00	
6. Availability of foreign partners	2.81	1.03	-0.36**	0.33**	0.17*	0.34**	0.23**	1.00

Notes:
$N = 192$
SD = standard deviation
[a] Number of employees
$*p < 0.05$; $**p < 0.01$ (two-tailed).

[12] The FDI ownership form was categorised into three sub-groups: joint venture (JV), wholly owned subsidiary (WOS) and branch/division. JV was coded as 1, WOS was coded as 2, and branch/division was coded as 3. The mean value (2.48) is higher than the median point (2) on the scale, which suggests that UK firms prefer WOS to JV and branch when they select the FDI ownership form.

[13] The foreign market entry mode consists of two modes: 'greenfield' investment and merger or acquisition (M&A). The entry mode of 'greenfield' investment was coded as 0 and M&A was coded as 1. The mean value (0.66) shows that there are more firms entering the foreign market by M&A than 'greenfield' investment.

[14] The size of parent firm was measured by the number of employees in the parent firms. It was partitioned into two sub-groups: small (3 – 1,000) and large (1,001 – 10,000). The small parent firm was coded as 1 and the large parent firm was coded as 2. The value of 1.48 is slightly lower than the median point of 1.5 on the scale. This indicates that there are more small sized parent firms than large sized parent firms in the study.

Table 6.7 reports the descriptive statistics and correlation matrix of the variables in the FDI decision making process. The pair-wise correlations do not seem to present serious collinearity[15] problems for the multivariate statistical analysis, as none of the variables has a correlation coefficient above 0.50. According to Wetherill (1986, p. 105), the correlations between relevant pairs of variables should not be large because it might restrict the generality and applicability of the estimated model.

6.4.3 Determinant factors in FDI decision process and ownership form

The results of multinomial logistic regression of the determinant factors in the FDI decision process associated with the FDI ownership form are presented in Table 6.8 below.

In Table 6.8, the significant model chi-square values of 40.95 ($p < 0.01$) and log likelihood measures suggest that the three models have high overall explanatory power. Pseudo R-square measures also confirm that all the models have adequate explanatory power. Further, the models have a good fit with a classification rate of 73 per cent of the observations. Rates that are higher than that would be expected by chance. The primary interpretation is based on the estimated odds ratios (exponentiated β), which relate independent variables of the three determinant factors of the FDI decision process for the ownership form categories to their impact on a reference category (Feeney and Bozeman, 2010, p. 1665). The results shown above suggest that there is a relatively weak support for the view that the relative importance of the variables of the FDI decision process will vary with the choice of the FDI ownership form because only one factor of *availability of foreign partners* ($p < 0.01$) shows statistically significant coefficients.

[15] The effect of collinearity is to inflate the variance of the least squares estimator and possibly any predictions made, and also to restrict the generality and applicability of the estimated model (Wetherill, 1986, p. 82).

Table 6.8 Multinomial logistic regression of the factors of FDI decision making process on overseas ownership form

Variables	Model 1[a]				Model 2[b]				Model 3[c]			
	JV vs WOS		Branch vs WOS		Branch vs JV		WOS vs JV		JV vs Branch		WOS vs Branch	
	Coeffi-cient	Odds Ratio	Coeffi -cient	Odds Ratio	Coeffi-cient	Odds Ratio	Coeffi-cient	Odds Ratio	Coeffi-cient	Odds Ratio	Coeffi -cient	Odds Ratio
Intercept	-3.14		-1.06		2.09		3.14		-2.09		1.06	
Factor 1: Corporate strategic considerations	-0.38	0.69	-0.21	0.81	0.17	1.18	0.38	1.46	-0.17	0.85	0.21	1.23
Factor 2: Evaluation of management and competition situation	-0.08	0.93	-0.19	0.83	-0.11	0.89	0.08	1.08	0.11	1.12	0.19	1.21
Factor 3: Availability of foreign partners	1.35	3.85***	0.10	1.11	-1.25	0.29***	-1.35	0.26***	1.25	3.47***	-0.10	0.90
Control variable:												
Size of parent firm	-1.18	0.31*	0.57	1.76	1.75	5.74***	1.18	3.26*	-1.75	0.17***	-0.57	0.57
Model chi-square $X^2(8)$	40.95***				40.95***				40.95***			
2 Log likelihood	220.96				220.96				220.96			
Correct classificaiton	0.73				0.73				0.73			
Pseudo *R*-square: Cox & Snell	0.21				0.21				0.21			
Nagelkerke	0.26				0.26				0.26			
McFadden	0.14				0.14				0.14			
N	181				181				181			

Note:
[a] Ownership form of wholly owned subsidiary (WOS) as a reference category
[b] Ownership form of joint venture (JV) as a reference category
[c] Ownership form of branch as a reference category
$*p < 0.1$; $***P < 0.01$ (two-tailed test of significance).

The findings indicate that although all the three determinant factors of the FDI decision process affect the general strategic decision making in the FDI, the choice of the ownership form is not highly associated with the underlying factors, except for *availability of foreign partners*. The factor of *availability of foreign partners* ($p < 0.01$) was the only factor found to be statistically important to the ownership form decisions. When UK firms select the ownership forms between JV and WOS, the factor of *availability of foreign partners* obtains a positive coefficient in model 1 and a negative coefficient in model 2, which suggests that the particular factor is more important to the ownership form of JV than the WOS. Similarly, when the choice is made between branch and JV, the factor of *availability of foreign partners* obtains statistically significant coefficients. The negative coefficient in model 2 and positive coefficient in model 3 indicates that this factor is predicted as a more important determinant to the ownership form of JV than the branch/division.

Such results might be mainly due to the fact that a JV is a form of partnership. Thus, the UK firms are more likely to choose the ownership form of JV when the choice of the ownership form is made between JV and any other forms because of partner availability, whereby foreign firms are ready for the UK firms to select and co-operate with. The finding implies that if foreign partners are available, UK companies tend to choose an easy option in terms of ownership form decisions as it makes investment relatively easier by going for partnership rather than building up from scratch. It is important to note that when the ownership form decisions are made between branch and WOS, the factor of *availability of foreign partners* is no longer significant because none of the forms can take partnership form.

5.4.4 Determinant factors in FDI decision process and market entry mode

In order to examine the relationship between the variables of the FDI decision process and the FDI strategic decisions in terms of the foreign market entry mode, a binomial logistic regression was undertaken to identify the main predictors. This is because the dependent variable is a binary and dichotomous variable which can be coded as Yes/No or 0/1. A binomial logistic regression was therefore used to implement the data analysis (Pallant, 2007, p. 169). The results of binomial logistic regression are shown in Table 6.9.

Table 6.9 Binomial logistic regressions of the factors of the FDI decision making process on foreign market entry mode

Variables	Greenfield vs Merger or Acquisition (M&A = 1)	
	Coefficient	Wald statistics
Intercept	-1.25	0.29
Factor 1: Corporate strategic considerations	-0.13	0.88
Factor 2: Evaluation of management and competition situation	-0.10	0.91
Factor 3: Availability of foreign partners	0.81	2.25***
Control variable:		
Size of parent firm	0.42	1.53
Model chi-square $X^2(8)$	27.04***	
Sensitivity	0.94	
Specificity	0.48	
Correct ratio	0.79	
Pseudo *R*-square: Cox & Snell	0.13	
Nagelkerke	0.18	
N	181	

Note:
***$p < 0.01$ (two-tailed).

Table 6.9 shows weak support for the view that the relative importance of the underlying factors of the FDI decision making process will vary with the choice of the market entry mode of FDI. Only one of the three factors, that is, *availability of foreign partners*, shows a statistically significant coefficient ($p < 0.01$). In order to examine whether the variables of the FDI decision process will vary with the choice of the foreign market entry mode, the entry mode of 'greenfield' investment was used as the base mode and assigned a value of zero. The model has a highly significant explanatory power with a model chi-square of 27.04 ($p < 0.01$) and correctly classifies 79 per cent of the observations. In line with the examination, the coefficient of *availability of foreign partners* is positive, indicating that, regarding the availability of partners in the host market, the entry mode of 'greenfield' investment is relatively more important than cross-border M&A.

The findings suggest again that not surprisingly, firms might prefer to choose a comparatively easier option instead of a difficult one in terms of the choice of market entry mode. A firm can establish a subsidiary from scratch, that is so-called 'greenfield' investment, or by acquiring an enterprise in the target market, that is an M&A. From its definition it is clear that an international M&A involves multinationals in taking over firms in a foreign market. With respect to the availability of acquisition candidates in the host market, it was expected that the M&A would be preferred to 'greenfield' investment. However, the results were surprising, which suggest that UK firms are more likely to select 'greenfield' investment than M&A. This might be because M&A is relatively more challenging than 'greenfield' from the perspective of the effects of external factors and risks associated with acquisition partners (Wang, 2009, p. 242). According to Wang (2009, p. 240), M&A is an investment model which expands the internal organisation of firms through the external market trading, whereas in a 'greenfield' model, external market trading has been replaced by trading in the enterprises' internal organisation. By making a comparison between the two modes, therefore, it is apparent that 'greenfield' investment is likely to be preferred more than M&A ever where foreign partners are available in the host country. In other words, if foreign partners are available, the M&A will not necessarily be preferred to 'greenfield' in investment.

6.5 Findings and discussion of the relative importance of stages of FDI decision process with and without tax considerations

6.5.1 Comparison of the relative importance of stages of FDI decision process with and without tax considerations

To identify the relative importance of the stages of FDI decision making process, the eight steps were ranked in order based on the mean measure of the importance of the stages in the two situations of either considering or ignoring tax implications in the decision process.

(i) The relative importance of stages of FDI decision process without tax considerations

The results of the relative importance of stages of the FDI decision process without considering tax implications are shown in Table 6.10.

Table 6.10 The importance of stages in FDI decision making process: without considering tax implications

Stages	Rank	Mean	SD
Recognition of investment opportunity	1	4.35	1.00
Investigation of investment opportunity	2	4.33	1.04
Investigation of target market	3	3.89	1.03
Identifying the management structure	4	3.39	1.03
Reviewing the choice of decision	5	3.30	1.11
Identifying the ways of financing the FDI	6	3.29	1.21
Identifying the legal structure	7	3.24	1.01
Identifying the organisational form	8	3.16	1.05
N = 192			

Notes:

1. The mean is the average on a scale of 1 (= 'of no importance') to 5 (= 'of great importance').
2. SD = standard deviation

For the full set of eight stages in the FDI decision making process without tax considerations, the stages of 'recognition of investment opportunity' (4.35) and 'investigation of investment opportunity' (4.33) constitute the first two stages with the highest degree of importance. The stages of 'investigation of target market' (3.89), 'identifying the management structure' (3.39) and 'reviewing the choice of decision' (3.30) are found to be of relatively less important for the FDI decision making process. Comparatively, the third group of stages, which are considered as much less important for the FDI decision making process when tax issues are not considered in the strategic decisions consist of 'identifying the ways of financing the FDI' (3.29), 'identifying the legal structure' (3.24) and 'identifying the organisational form' (3.16).

Importantly, all the mean values of the stages in the FDI decision making process without tax considerations are above the median point of the scale, which indicate that all the stages are generally important for the FDI decision making process when tax issues are not taken into consideration. However, by contrast with the rest of the stages, the stages of recognising and investigating investment opportunity are particularly more important for the FDI decision process.

(ii) The relative importance of stages of FDI decision process with tax considerations

The rank order of the same set of variables of the FDI decision process in the condition of taking tax issues into consideration is shown in Table 6.11.

Table 6.11 The importance of stages in the FDI decision making process: with tax considerations

Stages	Rank	Mean	SD
Identifying the legal structure	1	3.52	1.38
Identifying the ways of financing the FDI	2	3.22	1.24
Identifying the organisational form	3	3.11	1.23
Reviewing the choice of decision	4	2.59	1.12
Investigation of investment opportunity	5	2.47	1.30
Recognition of investment opportunity	6	2.21	1.24
Investigation of target market	7	2.18	1.24
Identifying the management structure	8	2.03	1.15
N = 192			

Notes:

1. The mean is the average on a scale of 1 (= 'of no importance') to 5 (= 'of great importance').
2. SD = standard deviation

For the full set of eight stages in the FDI decision making process with tax considerations, the scale measure of 3 is exceeded by three stages of which 'identifying the legal structure' (3.52), 'identifying the ways of financing the FDI' (3.22) and 'identifying the organisational form' (3.11) comprise the first three stages with the highest degree of importance. Other relatively less important stages in the FDI decision process when tax issues are taken into consideration include 'reviewing the choice of decision' (2.59) and 'investigation of investment opportunity' (2.47). By contrast, neither the stage of 'recognition of investment opportunity' (2.21), 'investigation of target market' (2.18) nor 'identifying the management structure' (2.03) are perceived as an important stage for the FDI decision process when tax issues are taken into consideration.

To obtain a clear picture of the relative importance of the stages of the FDI decision process in both conditions, where tax implications are considered or ignored at each stage of the decision process, it is important to compare the results in Table 6.11 and Table 6.12.

(iii) Comparison of the relative importance of stages of FDI decision process

By comparing both sets of results, it is clear that when tax issues are not considered in the FDI decision making process, recognition and investigation of investment opportunity are particularly important stages in the decision process. Comparatively, the ways of entering the foreign market and designing the operation structures in terms of the organisational form, legal and financial structures of the FDI become important to the FDI decision process when tax issues are taken into consideration, whereas the stages of recognising and investigating the investment opportunity become less important. Such differences might be because tax issues can play an important role in the choice of the FDI organisational structure (Bucovetsky and Haufler, 2008; Desai and Hines Jr., 1999; Hamill, 1996), as well as of the financial structures of FDI (Graham, 2003; MacKie-Mason, 1990).

In order to explore further the difference between the two situations and be able to develop a better understanding of the specific stages, when tax issues are considered or ignored in the decision process, a paired-sample *t*-test was applied. The results of the mean score of importance of the stages in the FDI decision process with or without considering tax issues are shown in Table 6.12 below.

A paired-samples *t*-test was conducted to compare the various stages of the FDI decision making process when either taking tax issues into consideration or ignoring them in the decision process. The results show that in six out of eight stages there are statistically significant differences in the scores for the stages of the FDI decision process. This provides evidence to support the argument that the relative importance of the stages of the FDI decision process will vary with the two situations. The findings indicate that tax issues do have an impact on the relative importance of the stages of the FDI decision process. Specifically, the results suggest that when tax issues are brought into the FDI decision process, the relative importance of the stages is less than where the decision process does not consider tax issues. This might be mainly because decision makers attempt to balance tax and non-tax strategic decisions, hence subsequently, the relative importance of the general stages of the FDI decision process could be affected.

Table 6.12 Comparison of stages in FDI decision process with and without tax considerations

Stages in FDI decision process with and without tax considerations	Mean	SD	*t*-value
Recognition of investment opportunity (without tax considerations)	4.35	1.00	
Recognition of investment opportunity (with tax considerations)	2.21	1.24	18.10***
Investigation of investment opportunity (without tax considerations)	4.34	1.04	
Investigation of investment opportunity (with tax considerations)	2.47	1.31	15.83***
Investigation of target market (without tax considerations)	3.89	1.02	
Investigation of target market (with tax considerations)	2.20	1.24	14.97***
Identifying the organisational form (without tax considerations)	3.16	1.05	
Identifying the organisational form (with tax considerations)	3.11	1.23	0.49
Identifying the ways of financing the FDI (without tax considerations)	3.29	1.21	
Identifying the ways of financing the FDI (with tax considerations)	3.22	1.24	0.71
Identifying the legal structure (without tax considerations)	3.24	1.01	
Identifying the legal structure (with tax considerations)	3.52	1.38	-2.81***
Identifying the management structure (without tax considerations)	3.39	1.03	
Identifying the management structure (with tax considerations)	2.03	1.15	14.73***
Reviewing the choice of decision (without tax considerations)	3.30	1.11	
Reviewing the choice of decision (with tax considerations)	2.59	1.10	7.13***
$N = 192$			

Notes:
***$p < 0.01$ (two-tailed).

Table 6.12 shows that there are statistically significant differences in means at the initial stages of the FDI decision process, that is, *recognition of investment opportunity* (p < 0.01), *investigation of investment opportunity* (p < 0.01) and *investigation of target market* (p < 0.01). This suggests that tax issues are important to the early stages of the FDI decision process, particularly when recognising the FDI opportunity and investigating the target market. Similarly, the results in Table 6.13 indicate that tax considerations are important to the stage of *reviewing the choice of decision* (p < 0.01). Such results provide further evidence to argue that tax issues are usually considered both before and after the strategic decisions are made in the decision process.

Further, it can be seen in Table 6.12 that the stages of *identifying the legal structure* (p < 0.01) and *identifying the management structure* (p < 0.01) obtain statistically significant differences in means. This implies that tax issues are important to the choice of the legal structure, as well as the management structure of the FDI. Such results are not surprising. To launch a FDI in the foreign market, UK firms have to select an optimal legal form of entity to enter into the foreign country. Thus, tax strategy can lead to different strategic decisions. This is because the choice of the legal form of entity in the host country results in different tax liabilities for the UK parent firm. For instance, a subsidiary is a part of group structure but a separate tax paying entity, whereas a branch is part of the same entity as the parent, and is not a separate tax paying entity. Given the nature of the subsidiary, the parent firm therefore will not be exposed to any liabilities of the subsidiary. Indeed, the liability of the subsidiary is limited to its own assets. While organising units as branches will result in the inclusion of all branch income in the worldwide income of the UK parent firm. Tax issues therefore play an important role in the choice of the legal structure of the FDI.

Table 6.12 also indicates that the stage of *identifying the management structure* obtain a statistically significant difference in means, with a lower mean with tax considerations. The management structure might involve either a centralised or a decentralised decision structure[16]. According to Nielsen, Raimondos-Moller and

[16] In a centralised decision structure, managers can retain the major responsibilities and power. Conversely, a decentralised structure usually spreads responsibility for specific decisions across various outlets and lower level managers, including branches or units located overseas.

Schjelderup (2005, p. 13), the incentive to use transfer pricing strategy to save tax can counteract the strategic delegation incentive, rendering the centralisation and decentralisation choice of a multinational firm a function of the tax differential. However, it is important to note that this stage is not important for the FDI decision making process because it was ranked lowest in importance in terms of the mean measures, as shown in Table 6.11.

Importantly, although the two stages of *identifying the ways of financing the FDI* and *identifying the organisational structure* do not show significant differences in means, both of them obtain lower means with tax considerations. Overall, a basic conclusion that can be drawn from the analysis is that the relative importance of the stages of the FDI decision making process will be affected by taking tax issues into considerations.

In addition, by referring to Table 6.10 and Table 6.11, it is found that tax issues are part of the corporate strategy and usually considered as a secondary decision after the corporate strategy has been made. Sykianakis and Bellas, (2005, p. 966) argued that the FDI decision process is indeed a continuous process. Larimo (1995, p. 34) suggest that the FDI decision making process follows a particular sequence which consists of the stages of recognition, diagnosis, screening, development and design, and authorisation. Comparing the means in Table 6.12, the results suggest that in the continuous FDI decision making process, tax issues tend to be considered after the corporate strategy has been determined. In order to explore this point further, the organisational form of the FDI was examined in association with the stages at which tax implications were considered in the FDI decision process, as discussed in the next sub-section.

6.5.2 Organisational structure decisions in the FDI decision process

(i) Mean measure of the relative importance of the organisational structure-related influences of the FDI

For the sample as a whole, there are three organisational structure-related influences that are perceived as the most important determinants for the organisational form decisions: 'effective management structure' (3.24), 'company preferred this organisational form' (3.21), and 'how the organisational form was financed' (3.15), with means being above the median point on the scale (1 to 5). It is clear from Table 6.13 that the highest ranked influences for the organisational form of the FDI are principally concerned with the effectiveness of the structure, company preferences, as well as the way of financing the FDI.

Table 6.13 Organisational structure influences for FDI decisions: determinants ranked by mean measure of importance

Organisational structure influences	Rank	Mean	SD
Effective management structure	1	3.24	1.20
Company preferred this organisational form	2	3.21	1.38
How the organisational form was financed	3	3.15	1.30
Taxation factors	=4	3.08	1.22
Ease of profit extraction	=4	3.08	1.13
Nature of location of investment	6	2.69	1.51
Regulatory requirements	7	2.55	1.44
Risk sharing	8	2.52	1.46
Ease of cooperation between two partners	9	2.44	1.42
Compliance with legal requirement	10	2.32	1.40
N = 192			

Notes:

1. The mean is the average on a scale of 1 (= 'of no importance') to 5 (= 'of great importance').
2. SD = standard deviation

The second group of influences (those ranked 4 to 8) are mainly concerned with cost, risk sharing, nature of location, and regulatory requirements of the formation to achieve a sound organisational structure in a foreign market. These determinants are: 'taxation factors' (3.08), 'ease of profit extraction' (3.08), 'nature of location of investment' (2.69), 'regulatory requirements. (2.55) and 'risk sharing' (2.52), with the mean values being slightly above or fairly below the median of the scale.

The third and lowest ranked group (9 to 10) consists of two distinct organisational structure-related influences. The influence of 'ease of cooperation between two partners' (2.44) does not feature as being important. Similarly, the influence of 'compliance with legal requirement' (2.32) is the lowest ranked organisational structure-specific influence for the FDI undertaken by UK firms.

(ii) Factor analysis of organisational structure influences

The factor analysis of the organisational structure-related influences is shown in Table 6.14.

Table 6.14 Factors of organisational structure influences in FDI

Factors	Factor loads	Eigen-value	% Variance explained	Cumulative %	Cronbach alpha
Factor 1: Financial strategies		3.23	32.3	32.3	0.75
How the organisational form was financed	0.727				
Taxation factors	0.869				
Ease of profit extraction	0.809				
Factor 2: Corporate strategic behaviours		1.82	18.2	50.5	0.76
Risk sharing	0.844				
Nature of location of investment	0.654				
Ease of cooperation between two partners	0.835				
Factor 3: Legal concerns		1.43	14.3	64.8	0.88
Regulatory requirements	0.925				
Compliance with legal requirement	0.929				
Factor 4: Management and organisational structure		1.03	10.3	75.1	0.57
Effective management structure	0.767				
Company preferred this organisational form	0.867				

Notes:
Principal components factor analysis with varimax rotation.
K-M-O Measure of Sampling Adequacy = 0.677
Bartlett Test of Sphericity = 613.443; $p < 0.000$.

The correlation matrix of ten organisational structure specific influences revealed a number of low to moderate inter-correlations between the influences. Owing to potential conceptual and statistical overlap, an attempt was made to identify a set of variables to determine the underlying primary dimensions governing the full set of ten organisational structure-related determinants in the FDI. Exploratory factor analysis using varimax rotation was used to extract the underlying constructs. Factor analysis produced four underlying factors which make good conceptual sense and explained a total of 75.1 per cent of the observed variance. Also, an internal reliability test showed strong Cronbach alphas for the underlying factors ranging from 0.57 to 0.88. The four determinant factors may be summarised as: *financial strategies*, *corporate strategic behaviours*, *legal concerns*, and *management and organisational structure*.

To examine whether the relative importance of the organisational structure-related factors varies with the stages at which tax implications are considered in the FDI decision process, an one-way ANOVA was employed.

(iii) Interaction of the organisational structure-related factors with the stages at which tax implications are considered in the FDI decision process

Table 6.15 Factors of organisational structure by stages of considering tax implications

	Stages of considering tax implications			
Factors of organisational structure	Group	Mean	SD	F-ratio
Financial strategies	Before FDI decisions made	2.80	1.10	
	After FDI decisions made	3.53	0.75	
	Both before and after FDI decision made	3.05	1.02	2.30*
Corporate strategic behaviours	Before FDI decisions made	2.21	0.97	
	After FDI decisions made	2.78	1.45	
	Both before and after FDI decisions made	2.57	1.20	1.71
Legal concerns	Before FDI decisions made	2.35	1.15	
	After FDI decisions made	2.76	1.34	
	Both before and after FDI decisions made	2.48	1.42	0.41
Management and organisational structure	Before FDI decisions made	3.21	1.08	
	After FDI decisions made	3.32	1.04	
	Both before and after FDI decisions made	3.20	1.04	0.08
N = 187[a]	*Before FDI = 53; After FDI s = 20; Both before and after = 114*			

Notes:
The mean for the factors is the mean of the factor scores.
[a] 5 companies stated no consideration of tax implications in the decision process, so were excluded from the analysis.
*$p < 0.1$ (two-tailed).

Table 6.15 shows that there is little support for the view that the relative importance of the organisational structure-related factors varies with the stages at which tax implications are considered in the FDI decision making process. This is because only one factor, *financial strategies* ($p < 0.1$) shows a statistically significant difference in means between the various stages at which tax issues are considered, being relatively more important for the stage at which tax issues are considered after FDI decisions are made. Such results suggest that tax issues are indeed considered after the FDI strategic decisions have been made. It provides evidence to support the argument in the previous section that tax issues usually come as secondary after the corporate strategic decisions are made. A conclusion drawn from the findings is that tax decisions appear to be a second order consideration rather than a dominant influence, because the corporate strategy is the driving force of the FDI strategic decisions, which is in line with the findings of Glaister and Frecknall-Hughes (2008, p. 41).

6.6 Summary and conclusion

The strategic decisions in terms of capital investment in the foreign market, the process by which the FDI decisions are made, is a neglected research area. Little is known about the way tax issues are treated in the FDI decision process and also the specific stages at which tax implications are brought into the FDI decision making process. In an attempt to bridge the gap in the literature, this chapter has examined several research questions by using factor analysis, multinomial and binomial logistic regressions, together with one-way ANOVA and a paired-sample *t*-test.

Tests of the variables of the FDI decision process provided evidence that the relative importance of the vraiables hardly varies with the FDI strategic decisions in terms of the ownership form and market entry mode. If a JV partner is available in the foreign market, firms are more likely to select the JV formation as an ownership form compared with the forms of WOS and branch. From the perspective of available foreign partners, 'greenfield' investment is preferred more than M&A in terms of foreign market entry mode due to lack of availability of partners or external factors such as high risk involved.

Furthermore, tests of the relative importance of the stages of the FDI decision making process with or without tax considerations provided evidence to argue that the relative importance of the stages of the FDI decision process will vary with the situation where tax issues are taken into consideration in the decision process. Importantly, it was found that tax implications were usually considered after the corporate strategy had been made in the FDI decision process. Also, the findings suggest that tax can play an important role at the stages of reviewing the choice of decisions and identifying the operation structures in terms of legal structure, organisational form and financial structure.

Overall, a conclusion from the findings of this chapter is that tax strategy is usually put as secondary after corporate strategy has been made in the FDI decision process.

Chapter 7: Conclusion

7.1 Introduction

The main purpose of this chapter is to provide a summary of the thesis findings and to identify the implications to be drawn from this research, as well as the limitations of the study. Finally, areas for future research are indicated.

7.2 Aims and background to the study

The motivation of this study was to develop a better understanding of the role of tax in the FDI decision making process. The focus of the study is the investigation of the relative importance of tax strategy in the FDI decision making process, including the role of tax in the motives for and location of the FDI; the interaction between tax strategy and corporate strategy in the FDI decision process; and the FDI decision making process with or without tax considerations. The following questions are the main research questions identified in Chapter 2 arising from the literature review:

1. What is the relative importance of the stages of the FDI decision making process in practice?
2. What is the relative importance of tax incentives to the strategic motives for FDI and the location decision of FDI?
3. Does the importance of the variables in the FDI decision making process vary according to the FDI strategic decisions?
4. Do the different stages at which tax implications are considered in the FDI decision making process have an influence on the FDI strategic decisions (e.g., motives for and location decision of FDI)?
5. In practice, what are the processes by which the FDI decisions are made with respect to tax considerations?
6. Is corporate strategy given priority over tax strategy in terms of strategic decision making?
7. How does tax strategy interact with corporate strategy with respect to FDI decision making?

This study examines a sample of 192 UK based multinational companies which undertook FDI in the five years immediately prior to data collection. The distinguishing features of the thesis are that it examines the interaction between tax strategy and corporate strategy in the FDI decision process and also assesses the various stages of the FDI decision process in two conditions, when tax issues are either considered or ignored in terms of decision making. There is a lack of research evident in the extant literature in respect of these topics. Likewise, there are few studies which consider the process by which strategic decisions are made in practice.

7.3 Research method

There is no publicly available database which provides detailed information on the core issues of the role of tax in the FDI decision process, which are the key concerns of this study. In order to obtain the requisite level of detail, it was necessary to approach the UK MNEs directly. Given the specific research questions informed by the literature review in Chapter 2, the extent of existing knowledge, the amount of time and other resources available, this study employed a questionnaire survey to collect data.

The issue of which survey method to employ to collect primary data involved a consideration of the advantages and disadvantages of a postal questionnaire and on-line questionnaire. In order to elicit the required information from as large a sample as possible within the cost and time constraints of the study, it was decided to administer a web-based questionnaire using Survey Monkey as the most appropriate method, combined with a small number of postal questionnaires to follow up the non-responses. Although conducting a personal interview with the Chief Financial Officers (CFOs) or Group Directors of Taxation in each UK multinational firm would have been useful, such an approach was not feasible because it would have been very time consuming. The final form of the questionnaire was derived from a process that included questions informed by the extant literature and feedback obtained from a pilot test.

In administering the questionnaire, the Survey Monkey link was included in e-mails sent out to the potential respondents. Further, to ensure the likelihood of good quality response, a covering letter on university letter headed paper was sent with the e-mail, designed to encourage the respondents to participate in the research. The most senior and knowledgeable potential respondents in companies were identified. The questionnaire was addressed to them in the covering letter, which also had the logo of the professional organisation supporting the research. The standard practice of assuring and guaranteeing anonymity for respondents was followed. It was decided to enquire only about FDI that had been undertaken in the previous five years at the time of data collection, as data for FDI undertaken considerably earlier than that might be unavailable or be unreliable, for example, owing to memory failure, non-availability of key informants who might have moved to other firms or have retired, etc.

The detailed process by which data were obtained from respondents is given in Chapter 3. This proved a difficult and time-consuming exercise. However, with the support of the CIOT and ICAS, 192 usable responses were collected, a response rate of 7.1 per cent.

7.4 Summary of findings

Table 7.1 summarises the research questions developed in the study, the level of support obtained for the questions, and the type of statistical techniques used to test the research questions.

Table 7.1 Summary of research questions and findings

Subject	Research questions	Statistical technique used	Level of support	Link to Qs in Table 2.2
Chapter 4: The role of tax incentives in motives for and location of FDI	(i) The role of tax in motives for FDI 1: Do the underlying motives for FDI vary with the industry sector of FDI?	Independent sample *t*-test	Moderate support	Q2.1
	2: Do the underlying motives for FDI vary with the geographical location of FDI?	One-way ANOVA; Multinomial logistic regression	Moderate support	Q2.1
	3: Do the underlying motives for FDI vary with the capital size of FDI?	Independent sample *t*-test; Multinomial logistic regression	Moderate support	Q2.1
	(ii) The role of tax in location decision of FDI 4: Does the relative importance of location motives for FDI vary with the industry sector of FDI?	Independent sample *t*-test	Weak support	Q2.2
	5: Does the relative importance of location motives for FDI vary with the geographical location of FDI?	One-way ANOVA; Multinomial logistic regression	Reasonable support	Q2.2
	6: Does the relative importance of location motives for FDI vary with the capital size of FDI?	Independent sample *t*-test; Multinomial logistic regression	Reasonable support	Q2.2
Chapter 5: The interaction between tax strategy and corporate strategy in the FDI decision process	(i) Components of tax strategy 1: Does the relative importance of the components of tax strategy vary with the industry sector of FDI?	Independent sample *t*-test	Very little support	Q7.5

	2: Does the relative importance of the components of tax strategy vary with the geographical location of FDI?	One-way ANOVA	Weak support	Q7.5
	3: Does the relative importance of the components of tax strategy vary with the capital size of FDI?	Independent sample *t*-test	No support	Q7.5
	(i) <u>Determinants of tax strategy</u> 4: Does the relative importance of the determinants of tax strategy vary with the industry sector of FDI?	Independent sample *t*-test	Weak support	Q7.6
	5: Does the relative importance of the determinants of tax strategy vary with the geographical location of FDI?	One-way ANOVA	Little support	Q7.6
	6: Does the relative importance of the determinants of tax strategy vary with the capital size of FDI?	Independent sample *t*-test	No support	Q7.6
	(ii) <u>Influence of the stages at which tax implications are considered on FDI strategic decisions</u> 7: Do the stages at which tax implications are considered in the decision process have an influence on the FDI motives?	One-way ANOVA	Weak support	Q4.1
	8: Does the relative importance of the location motives for FDI vary according to the stages at which the tax implications are considered in the decision process?	One-way ANOVA	No support	Q4.2
	(iii) <u>Stages at which tax implications are considered and integration of tax strategy and corporate strategy</u> 9: Is tax strategy integrated with corporate strategy in terms of FDI decision making? If yes, to what extent?	Measure of mean and standard deviation	Moderate support	Q7.3

	10: Does the relative importance of the integration of tax strategy and corporate strategy vary with the stages at which tax implications are considered in the FDI decision process?	One-way ANOVA	Strong support	Q7.2
	(iv) The relative importance of tax strategy and corporate strategy			
	11: Does the relative importance of tax strategy and corporate strategy vary with the industry sector of FDI?	Independent sample *t*-test	No support	Q7.1
	12: Does the relative importance of tax strategy and corporate strategy vary with the geographical location of FDI?	One-way ANOVA	No support	Q7.1
	13: Does the relative importance of tax strategy and corporate strategy vary with the capital size of FDI?	Independent sample *t*-test	Some support	Q7.1
	(v) Priority given to tax strategy and corporate strategy			
	14: Is corporate strategy given priority over tax strategy in terms of strategic decision making?	Percentage of responses	Strong support	Q6
Chapter 6: FDI decision making process in two conditions – one where tax is taken into consideration and another where tax is not taken into consideration	(i) FDI decision process and strategic decisions in terms of ownership form and market entry 1: Does the importance of the variables in the FDI decision making process vary according to the choice of the FDI ownership form?	Multinomial logistic regression	Weak support	Q3.1

	2: Does the importance of the variables in the FDI decision making process vary with the choice of the market entry mode? (ii) The relative importance of stages of FDI decision process in the conditions which tax issues are considered or ignored	Binomial logistic regression	Weak support	Q3.2
	3: What is the relative importance of the stages of the FDI decision making process in practice?	Rank of mean measurement	——	Q1
	4: Does the relative importance of the stages of the FDI decision process vary according to whether tax issues are either considered or ignored in the decision process?	Mean measure; Paired-sample *t*-test	Strong support	Q5.1
	5: Does the relative importance of the organisational structure-related factors vary with the stages at which tax implications are considered in the FDI decision making process?	One-way ANOVA	Little support	Q5.2

Following the chapter order, the main findings of this study are discussed below:

7.4.1 The role of tax incentives in motives for and location of FDI

Chapter 4 provided empirical evidence on the role of tax incentives in the motives for FDI and investment location decision of the FDI. The chapter examined whether the motives for, and the location decision of, the FDI varied with the characteristics of the sample, that is, FDI geographical location country/region, industry sector and capital size of FDI. The evidence from this chapter indicates that from a strategic motive perspective, the FDI location decisions vary with tax incentives, which is in accordance with the findings in the extant literature (Altshuler, Grubert and Newlon, 1998; Boskin and Gale, 1987; Grubert and Mutti, 1991; Hartman, 1984; Hines, 1999; Hines and Rice, 1994; Slemrod, 1990; Swenson, 1994; Young, 1988). However, it is important to note that compared with other location motives, such as benefits from local incentives and competitiveness in the global market, tax incentives are perceived as a less important motive for the location decision.

From the perspective of location motives, tax incentives were found to vary with the capital size of the FDI, being relatively more important for the small sized FDI than the large sized FDI. There was only weak support for the argument that the relative importance of location motives varied with the industry sector of the FDI. Tax was not indicated as an important motive in determining the host country location decision for the industry sector of the FDI. Such findings therefore present a challenge to the analysis by the mainstream literature which addresses the relative importance of the tax effects to industry sectors (Derashid and Zhang, 2003; McIntyre and Nguyen, 2000; Omer, Malloy and Ziebart, 1993). The results suggest that the tax motive is not a major consideration in the FDI location decisions, which evidence contradicts the findings in the literature (Grubert and Mutti, 1991; Meyer and Nguyen, 2005; Szanyi, 2001). In other words, tax incentives do not play an important role in making decisions about investment locations, which point is made clear by the case of Tesco (Leigh, Guardian, 2008). The case of Tesco (Guardian, 2008), clearly shows that in practice MNEs undertake FDI not purely for tax reasons. Tax is only one of the considerations influencing strategic decision making, but it is certainly not the driver of such decision making (Glaister and Frecknall-Hughes, 2008, p. 42).

7.4.2 The interaction between tax strategy and corporate strategy in the FDI decision process

Chapter 5 investigated the interface between tax strategy and corporate strategy in the decision making process relating to FDI strategic behaviour. As the tax implications of the FDI decision process are relatively neglected in the literature, an attempt was therefore made to examine whether the relative importance of tax strategies adopted by UK firms varied with the underlying key characteristics of the sample. This chapter also identified the particular stages at which the tax implications were considered in the FDI decision process, as well as the extent to which tax strategy was integrated with corporate strategy in terms of FDI decision making. Further, this chapter explored the relative importance of tax strategy and corporate strategy, and also considered whether tax or corporate strategy is given priority, if a conflict between the two occurs.

The findings suggest little evidence or no evidence to support the view that the relative importance of the determinants of tax strategy varied with the characteristics of the sample – industry sector of FDI, geographical location and capital size of FDI. Further, the findings of the study showed only weak support for the viewpoint that the relative importance of the FDI motives varied with the three different stages at which tax implications were considered in the FDI decision making process, and no support for the proposition that FDI location motives varied with the stages of the decision process. Also, with respect to the integration between tax strategy and corporate strategy, the results suggest that tax strategy was fairly well integrated with corporate strategy in the FDI decision process, which is consistent with the results of the empirical study by Glaister and Frecknall-Hughes (2008, p. 43). Moreover, the findings indicated that, if tax strategy was fairly well integrated with corporate strategy, the stages at which tax implications are considered – before the FDI decisions were made and both before and after the FDI decisions were made – would be relatively more important.

The results also indicated that tax strategy was certainly not a dominant factor in terms of FDI decision making and was an inherent part of corporate strategy. They shed light on the fact that multinational firms undertaking foreign investment are not necessarily purely driven by tax issues, but rather by business strategic decisions, such as business expansion or the availability of access to local materials or natural resources. Importantly, this contradicts popular belief and the media allegations often made about MNEs, as in the case of the Guardian's allegations about Tesco. Therefore, a basic conclusion drawn from the findings was that corporate strategy was relatively more important than tax strategy in terms of FDI strategic decision making. This provided some support to the findings of Glaister and Frecknall-Hughes (2008, p. 42) that tax was an inherent part of the strategic decision process, but certainly did not drive the whole thing. There was no evidence to support the view that the relative importance of tax strategy and corporate strategy varied with the industry sector and the geographical location of FDI, though the findings provided some evidence of the association between the relative importance of tax strategy and corporate strategy and the capital size of FDI.

This study found that if a conflict occurred between tax strategy and corporate strategy in FDI decision making, corporate strategy took priority over tax strategy. Such findings support those of Glaister and Frecknall-Hughes (2008, p. 43), in that strategic decisions are given priority and that tax decisions follow in the wake of strategic decisions. In other words, when tax strategy conflicts with corporate strategy, tax strategy is not given priority.

7.4.3 FDI decision making process in the conditions where tax incentives are either considered or ignored

Chapter 6 developed a better understanding of the FDI decision making process with respect to the two situations when tax issues are considered or ignored in strategic decision making. The variation in importance of the stages of the FDI decision making process was examined in terms of the ownership form and foreign market entry mode. In particular, the study provided evidence of the relative importance of the three stages of the FDI decision making process with or without tax considerations. The stages of the FDI decision process were identified as 'before FDI decisions made', 'after FDI decisions made' and 'both before and after FDI decisions made'. An attempt was made to identify a set of variables to determine the underlying primary dimensions of eight determinants (i.e., strategic plan of the firm, prior international operation experience, size of the investment, potential target country, available acquisition candidate, available joint venture partner, competition situation, and effective management) of the FDI decision making process.

To assess the relationship between the determinant factors in the FDI decision making process and the ownership form, together with the foreign market entry mode, multinomial and binomial logistic regressions as statistical tests were employed in the study. The findings showed that although three determinant factors of the FDI decision process affected the general strategic decision making in FDI, the choices of the ownership form and the market entry mode were not highly associated with the underlying factors except with the factor of *availability of foreign partners*. This provided some evidence to argue that the relative importance of the variables in the FDI decision process were not likely to vary with the choice of the FDI ownership form and the market entry mode.

Further, to compare the relative importance of the stages of FDI decision making process when tax incentives were considered or ignored in the decision process, the eight steps determining the FDI decision process were ranked and compared by applying a statistical paired-sample t-test. The findings showed that the relative importance of the stages of the FDI decision process varied with the situation of taking tax issues into consideration. This provided strong support for the impact of tax incentives on the relative importance of the stages of the FDI decision process. Moreover, the chapter also attempted to explore the interaction of corporate strategy with the stages at which tax implications were considered in the FDI decision process. Similarly, an attempt was made to identify a set of variables to determine the underlying primary dimensions of the determinants measuring organisational structure.

The findings of the study indicated little support for the view that the relative importance of the organisational structure-related factors varied with the stages at which tax implications were considered in the FDI decision making process. In other words, the stages at which tax implications were considered in the decision process had little impact on corporate strategic behaviour in terms of organisational structure decisions. Additionally, the three stages of FDI decision process in the two conditions where tax incentives were considered or ignored were factor analysed in order to compare the relative importance of the three stages of the FDI decision process in those two conditions. The findings suggested that if tax incentives were not taken into consideration, the stages of *recognition of investment opportunity* and *investigation of target market* appeared the most important in the FDI decision process. Conversely, the stages of *identifying the legal structure, organisational form and financial structure*, as well as of *reviewing the strategic decisions* played dominant roles when tax issues were brought into the decision process. This leads to the suggestion that tax issues usually arise after the corporate decisions have been made in the FDI decision process, which is in accordance with the view that tax strategy is an integral part of the corporate strategy (Cravens, 1997, p. 129; Glaister and Frecknall-Hughes, 2008, p. 41).

7.5 Contribution of the study

This study makes a number of contributions to empirical knowledge. As the relevance of taxation in the FDI strategic decision process has not generally been addressed in UK academic literature, little is known about the processes by and stages at which FDI decisions vis-à-vis taxation are made. Therefore, a contribution of the research has been to bridge the gap identified in the literature and to develop a better understanding of the stages at which tax issues are considered in the decision making process, as well as of the actual processes by which FDI strategic decisions are made.

FDI strategic decisions overall were examined by considering the strategic motives, location decisions of the FDI, and entry strategies, in terms of ownership form and market entry mode. FDI strategy has received a good deal of attention from international business researchers (e.g., Brouthers and Brouthers, 2000; Dunning and Kundu, 1995; Feenstra and Hanson, 1997; Tatoglu and Glaister, 1998b; Waldkirch, 2003). However, the way in which tax issues are treated in the FDI decision making process is generally unknown. This study's findings about when and how tax strategy impinges on corporate strategy in the FDI decision process are significant. They indicate that tax strategy does play a part in the FDI decision making. However, tax is certainly not a driving factor in strategic decisions, but one of many factors considered, and multinationals do not take strategic decisions based on tax criteria alone. This certainly contradicts popular belief and the many allegations made in the press.

Importantly, the findings provide evidence that is contrary to the findings in prior literature (Grubert and Mutti, 1991; Meyer and Nguyen, 2005; Szanyi, 2001). The view that taxes play an important role in determining the location of investment internationally is one example. Other findings of the study provide evidence to reinforce findings of other researchers. For instance, the findings that tax strategy is an integral part of corporate strategy and is considered after corporate strategic decisions, is in accordance with the findings of Glaister and Frecknall-Hughes (2008, p. 43).

Furthermore, the study explored the FDI decision making process and identified the stages emphasised in terms of the decision making. Particularly, the study identified the stages at which tax issues are brought into the decision process, about which there is little evidence in the prior literature. The findings suggest that the two stages at which tax implications are considered – one where tax is considered before the FDI decisions are made and another where tax is considered both before and after the FDI strategic decisions are made – are relatively more important in the decision making process. Tax issues are often considered in both stages in terms of decision making.

In addition, there is little evidence in the prior literature to indicate the relative importance of tax strategy and corporate strategy and also the extent to which tax strategy and corporate strategy are integrated in terms of decision making. From the evidence provided by this study, corporate strategy is perceived as being relatively more important than tax strategy. The study provides evidence to support the view that as tax strategy is part of the corporate strategy, it has to be kept within the contents of the overall strategic decisions. Such findings are consistent with the findings of Glaister and Frecknall-Hughes (2008, p. 41). Again, there is little evidence in the prior literature that corporate strategy is more likely to take priority over tax strategy if a conflict occurs in decision making. Moreover, it was found that tax strategy is fairly well integrated with corporate strategy in terms of decision making, which is again in line with those reported by Glaister and Frecknall-Hughes (2008, p. 43).

Although this study does not provide a complete test of all the complex strategic decisions involved in the FDI decision making, it does provide a better understanding of the role of tax in the FDI decision making process. In doing so, this study contributes to the literature in the following areas:

(i) the role of tax in the FDI decision making process;
(ii) the stage at which tax issues are considered in the decision making; and
(iii) the processes by which the FDI strategic decisions are made.

7.6 Implications of the study

The results of the study should be of interest to practising managers, tax professionals and public policy makers. In the popular press, it is sometimes alleged that multinational firms aim to avoid tax by undertaking foreign investment activities (Leigh, Guardian, 2008). Given the nature of cross-border transactions and cross-national tax schemes, global companies are in a more advantageous position to benefit from tax incentives and reliefs offered by foreign countries, as compared with small firms. According to Devereux and Loretz (2011, p. 13), larger companies pay less corporation tax as a percentage of their earnings than do smaller companies. The public often has the perception that investing abroad is one of the ways whereby global companies pay less tax, thus strategic decisions such as undertaking FDI might be implemented purely for tax purposes. However, the findings of the study suggest that tax is not a driving factor in terms of FDI decision making, but rather than corporate strategy drives the procedure. Therefore, a basic conclusion drawn from the findings of the study is that MNEs do not undertake FDI purely for tax purposes.

Of relevance to managers in practice, this study provides a picture of how tax strategy integrates with corporate strategy in the FDI decision making process. This suggests that tax issues usually arise following the development of the corporate strategy. Thus tax strategy must fit into the corporate strategy from the overall strategic point of view. Moreover, according to the results of the study, it was found that tax strategy is fairly well integrated with corporate strategy in the firm. Such findings provide a better insight into the extent to which tax strategy is integrated with corporate strategy in practice.

Further, the evidence from the sample suggests that managers should consider the stages at which tax issues are brought into the decision making process. The findings report two stages at which tax issues are often taken into considerations in the FDI decision process. One is the stage that where tax issues are considered before the corporate strategic decisions are made, the other is where tax issues are brought into the decision process both before and after the corporate strategic decisions are made.

Also, managers should pay attention to the relative importance of the stages of the FDI decision process in the situations in which tax issues are either considered or ignored with respect to strategic decision making. The study shows that when tax issues are given attention in the decision process, the particular stage of *identifying the management structure* becomes relatively more important. This might be because tax issues play an important part in the choice of the management structure, for example, organisational structure or financial structure. Given the impact of the tax issues on the stages of the FDI decision process, managers should be aware of the potential influence of the tax considerations and bring them into decisions at the right stage.

7.7 Limitations of the study

Studies such as this are subject to certain inherent limitations. These commonly relate to data collection and statistical analysis, and while they do not significantly impact on the study, they need to be acknowledged. An important issue arises in respect of the way in which the study has been designed and executed. This study has relied on a self-administered questionnaire survey to collect data and, as such, it cannot provide richer contextual information for the issues under consideration. In addition, the study is cross-sectional and collects data for a particular point in time. As such, there are limitations in terms of exploring the dynamics involved in the FDI strategic decision making process.

An obvious weakness of the research method employed in this study is that it relies on data from a single, key respondent in each UK firm. Since the FDI decision making process and the role of tax in the decision process are quite complicated decisions, one single respondent cannot easily convey all aspects of the strategic decision process. Given the constrained role and responsibility of the single respondent, the approach adopted may have introduced a level of respondent bias arising from the informant's false recollection or inability to decipher accurately all dimensions of the questionnaire. Recognising this weakness, a better data collection approach would involve obtaining data from multiple respondents within each of the UK firms. The use of single key informants, therefore, has limited the ability to probe multiple dimensions inherent in the research.

Additionally, even if multiple informants who are competent could be identified, a perceptual agreement problem may exist because these informants may have systematically different perceptions based on their different roles. For example, the Chief Executive Officer (CEO) may have different considerations and understanding from the Chief Financial Officer (CFO) in terms of FDI decision making. The limitations of this study in relying on a single respondent assumed to be knowledgeable for a wide range of activities in the FDI should be borne in mind when interpreting the results of the study.

On a more specific issue, the data presented in the present study are of both a nominal and ordinal nature. The majority of the research questions examined in Chapters 4, 5 and 6 were tested using parametric techniques. This was to some extent justified given the sufficient sample size and a satisfactory check on the underlying assumption for a normal distribution. Additionally, the study uses exploratory factor analysis to provide a set of variables for the sample. While the technically correct input for this statistical technique should be either interval or ratio-level data, it has been assumed in this study that the ordinal data may be considered as sufficiently approximating interval-level data to warrant the use of factor analysis. Such an assumption is common in much of the prior empirical literature in the field. It is necessary, however, to exercise a degree of caution in interpreting the results of the study.

7.8 Areas for future research

Since the interaction between tax strategy and corporate strategy in the FDI decision process is a neglected area in the current literature, there is a considerable potential for development of further tax-related research. As the FDI strategic decisions involve a wide range of research topics relating to tax incentives, future research might attempt to explore, for instance, the role of tax in FDI financial structure decisions. Also, future studies should involve multiple informants and undertake longitudinal projects, which might help develop a better understanding of practical considerations involved in FDI strategic decisions. Methodologically, using both interviews and questionnaire surveys would provide a better insight into the topic. The findings of this study are based on the FDI undertaken by UK firms. It might be useful for future research to examine the same research questions in other national contexts in order to compare the differences and verify whether the findings are generalisable in an international context.

Research into overseas investment has generally been focused on how FDI relates to the asset side of the strategies, such as, market size, availability of national resources and skilled workforce in the foreign market. However, the financial perspectives of FDI have been relatively ignored, that is, the role of tax in the ownership, location and internalisation (OLI) paradigm (Dunning, 1988). Regarding these concerns, there might be research opportunities to extend the findings related to the role of tax in the OLI paradigm.

The variables utilised in this study do not constitute an exhaustive list of the potential influences on FDI strategic decisions. External factors associated with culture and the political environment related to FDI decision making may provide additional insight. Future research might examine how finance-specific strategies have a role to play in FDI strategic decisions in addition to the factors examined in this study. Oxelheim, Randoy and Stonehill (2001, p. 383), for example, have suggested that the body of FDI literature would be enriched if finance-specific factors are explicitly incorporated as drivers of FDI. Future empirical studies could use multiple measures that incorporate multiple decision makers' perspectives.

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Appendices

Appendix I[17]

University of Sheffield

Management School

Influences on Foreign Direct Investment (FDI) Decisions

Questionnaire for UK Companies

All information given will be treated in the strictest confidence and, in the report stage, will be unidentifiable with you and your company.

FDI is defined as a form of cross-border investment that involves establishing, acquiring, or expanding an affiliated subsidiary corporation or branch. This may take the form of a 'greenfield' start-up, a merger or acquisition or a joint venture.

Please answer each question in sequence unless directed otherwise.

Has your group of companies carried out FDI in the last five years?
Please tick the relevant box.

☐	Yes	If yes, please go to Q1.1
☐	No	If no, please proceed no further and return the questionnaire.

Section 1: About you and your organisation

1.1 What is your position in the organisation (official title)?..................................

1.2 How many employees does your group of companies employ? Number.....................

1.3 What is the annual sales level for your group of companies? £.....................

1.4 What is the value of assets for your group of companies? £.....................

[17] The questionnaire presented here is exactly the same as the one used in the Survey Monkey.

Section 2: General information on FDI

2.1 Please select one instance of FDI by your organisation in the last five years that you have a good knowledge of and answer the questions with reference to that specific FDI.

In which year did the FDI take place? Year....................

2.2 Please state the industrial sector/sectors which feature most prominently (i) in the business activities of your organisation and (ii) that of the FDI referred to above. *Please tick the relevant box.*

	Please tick (i) Own organisation	(ii) FDI
Food and drink	[ ]	[ ]
Metals and minerals	[ ]	[ ]
Energy	[ ]	[ ]
Construction	[ ]	[ ]
Chemicals	[ ]	[ ]
Pharmaceuticals	[ ]	[ ]
Computers	[ ]	[ ]
Telecommunications	[ ]	[ ]
Other electrical	[ ]	[ ]
Automobiles	[ ]	[ ]
Aerospace	[ ]	[ ]
Other manufacturing	[ ]	[ ]
Transport	[ ]	[ ]
Distribution	[ ]	[ ]
Financial services	[ ]	[ ]
Other services	[ ]	[ ]

2.3 Which form did the FDI take?
Please tick the appropriate box.

- ❑ 'Greenfield' site
- ❑ Merger or acquisition (M&A)
- ❑ Neither

2.4 Did the FDI take one of the following forms?
Please tick the appropriate box.

- ❑ Joint venture (Please go to Q2.5)
- ❑ A branch/division plant of established enterprise (Please go to Q2.7)
- ❑ A wholly owned subisidiary company (Please go to Q2.7)
- ❑ None of the above (Please go to Q2.7)

2.5 What was the form of the joint venture?
Please tick the appropriate box.

- ❑ Contractual joint venture (establishing an agreement to cooperate, without setting up a separate business) (Please go to Q2.7)
- ❑ Equity joint venture (setting up a separate business where each partner has an equity share in the 'third independent firm') (Please go to Q2.6)

2.6 If an equity joint venture, what is the percentage share of your organisation in the joint venture? Percentage ....

2.7 In which country or region did the FDI take place?
Please tick one of the boxes.

- ❑ European Community (EC)
- ❑ Non EC Europe
- ❑ Middle East
- ❑ India
- ❑ China
- ❑ Japan
- ❑ Other Far East
- ❑ Central America
- ❑ South America
- ❑ Australia
- ❑ New Zealand
- ❑ Canada
- ❑ USA
- ❑ Africa

2.8 How many employees are there in the FDI enterprise? Number.....................

2.9 What is the annual sales level of the FDI enterprise? £.....................

2.10 What is the value of assets of the FDI enterprise? £.....................

Section 3: Motives for FDI

3.1 How important were the following *motives* in your organisation's decision to undertake the FDI?
Please circle for each motive.

Motives	Not important				Very important
To enable business expansion	1	2	3	4	5
To access materials/natural resources	1	2	3	4	5
To reduce business risk	1	2	3	4	5
To reduce financial risk	1	2	3	4	5
To introduce modern managerial techniques	1	2	3	4	5
To cope with increasing industry competition	1	2	3	4	5
To facilitate the transfer of your company's technology	1	2	3	4	5
To benefit from overseas government incentives	1	2	3	4	5
To overcome potential difficulties/ problems with licensing, patent agreements and exporting	1	2	3	4	5
To take advantage of opportunities for diversification	1	2	3	4	5
To improve economic efficiency	1	2	3	4	5
To establish local R&D capabilities	1	2	3	4	5
To establish local manufacturing capabilities	1	2	3	4	5
To train local staff/workforce	1	2	3	4	5
To take advantage of tax incentives	1	2	3	4	5
Other (please specify)	1	2	3	4	5

3.2 How important were the following factors in the *decision to locate* the FDI in the country chosen?
Please circle for each factor.

Factors	Not important				Very important
Entering a new market	1	2	3	4	5
Market size	1	2	3	4	5
Level of local market competition	1	2	3	4	5
Lower cost location	1	2	3	4	5
Access to material inputs	1	2	3	4	5
Access to skilled workforce	1	2	3	4	5
Access to flexible workforce	1	2	3	4	5
Employee training incentives	1	2	3	4	5
Local government policy towards FDI, e.g., favourable tariff	1	2	3	4	5
Favourable tax regime, e.g., double tax relief, transfer pricing, etc.	1	2	3	4	5
Ability to repatriate profits	1	2	3	4	5
Economic stability of the foreign country	1	2	3	4	5
Political stability of the foreign country	1	2	3	4	5
Trade agreements	1	2	3	4	5
Access to neighbouring countries	1	2	3	4	5
National cultural similarity	1	2	3	4	5
Level of infrastructure development	1	2	3	4	5
Other (please specify)	1	2	3	4	5

3.3 How important were the following factors when choosing the *organisational form* of FDI (e.g., joint venture, wholly owned subsidiary, 'greenfield', merger or acquisition, etc.)?
Please circle for each factor.

Factors	Not important				Very important
Risk sharing, e.g., business risk and financial risk	1	2	3	4	5
Nature of location of investment	1	2	3	4	5
How the organisational form was financed	1	2	3	4	5
Taxation factors	1	2	3	4	5
Ease of profit extraction	1	2	3	4	5
Ease of cooperation between two partners	1	2	3	4	5
Effective management structure	1	2	3	4	5
My company preferred this organisational form	1	2	3	4	5
Regulatory requirements	1	2	3	4	5
Compliance with legal requirement dictated use of specific form	1	2	3	4	5
Other (please specify)	1	2	3	4	5

3.4 Please indicate the nature of the *legal structure* of the FDI?
Please tick the relevant box.

- ☐ Public limited company
- ☐ Private limited company
- ☐ Unlimited company
- ☐ Company limited by guarantee
- ☐ Partnership company
- ☐ Other (please specify)

3.5 How important were the following factors when choosing the *legal structure* of the FDI?
Please circle for each factor.

Factors	Not important				Very important
Legal restrictions in the host country	1	2	3	4	5
Regulatory requirements	1	2	3	4	5
Ease of profit extraction	1	2	3	4	5
Taxation factors	1	2	3	4	5
Financial risk	1	2	3	4	5
Reputational risk	1	2	3	4	5
Nature of location for operation	1	2	3	4	5
How the legal structure was financed	1	2	3	4	5
Nature of particular business	1	2	3	4	5
Other (please specify)	1	2	3	4	5

3.6 How important were the following factors in deciding the *legal structure* of the FDI in the particular location in respect of tax implications?
Please circle for each factor.

Factors	Not important				Very important
Low tax rate applicable to a particular legal structure	1	2	3	4	5
Benefit from tax incentives offered to a favourable legal structure	1	2	3	4	5
Ease of tax management with the company in the host country	1	2	3	4	5
Ease of profit extraction as a result of a particular legal structure	1	2	3	4	5
Reduction in overall tax liabilities from the different ways to finance the legal structure	1	2	3	4	5
Other (please specify)	1	2	3	4	5

Section 4: Managing the finance and costs of FDI

4.1 How important were the following methods of financing the FDI?
Please circle for each factor.

Factor	Not important				Very important
New share issues	1	2	3	4	5
New debenture/bond issues	1	2	3	4	5
Reinvesting profit reserves	1	2	3	4	5
Financing from UK loans (bank/financial institutions)	1	2	3	4	5
Financing from overseas loan (bank/financial institutions)	1	2	3	4	5
Intra-group financing	1	2	3	4	5
Other (please specify)	1	2	3	4	5

4.2 How important were the following factors in determining the way in which the FDI was financed?
Please circle for each factor.

Factors	Not important				Very important
Eliminating financial risk	1	2	3	4	5
Taxation factors	1	2	3	4	5
Cost factors	1	2	3	4	5
Low interest rate offered by lenders	1	2	3	4	5
Stability of exchange rate	1	2	3	4	5
Achieving a better capital structure	1	2	3	4	5
Suggestion from finance professional	1	2	3	4	5
Business environment in foreign country	1	2	3	4	5
Financial policies in foreign country	1	2	3	4	5
Adopting a method used by competitors	1	2	3	4	5
Other (please specify)	1	2	3	4	5

4.3 How important have the following factors been in managing the impact of taxes on the FDI?
Please circle for each factor.

Factors	Not important				Very important
Effective use of available tax regimes	1	2	3	4	5
Transfer pricing policies	1	2	3	4	5
Income shifting policies	1	2	3	4	5
Availability of tax incentives in foreign country	1	2	3	4	5
Choice of legal structure of FDI	1	2	3	4	5
Increasing borrowings to reduce tax charges	1	2	3	4	5
Double taxation relief	1	2	3	4	5
Other (please specify)	1	2	3	4	5

4.4 How important are the following strategies in seeking to minimise the tax payment as a result of the FDI?
Please circle for each factor.

Strategies	Not important				Very important
Locating operations in low tax rate jurisdictions	1	2	3	4	5
Moving operations from a higher tax jurisdiction to a lower one	1	2	3	4	5
Locating operations in a tax haven	1	2	3	4	5
Using transfer pricing or income shifting mechanisms to earn higher profits in particular jurisdictions	1	2	3	4	5
Seeking tax break/incentives/holidays from overseas governments	1	2	3	4	5
Offering capital investment to overseas governments	1	2	3	4	5
Other (please specify)	1	2	3	4	5

4.5 Do you utilise transfer pricing in your organisation?
Please tick the relevant box.

☐ Yes If yes, please go to Q4.6.
☐ No If no, please go to Section 5.

4.6 How important have the following factors been in determining transfer pricing policy in the FDI?
Please circle for each factor.

Factor	Not important				Very important
Management of tax burden	1	2	3	4	5
Complying with tax regulations	1	2	3	4	5
Management of tariffs	1	2	3	4	5
Promotion of equitable performance evaluation	1	2	3	4	5
Motivation of managers	1	2	3	4	5
Promotion of goal congruence	1	2	3	4	5
Maintaining competitive market position	1	2	3	4	5
Mitigation of cash transfer restrictions	1	2	3	4	5
Minimisation of inflation risk	1	2	3	4	5
Managing foreign currency exchange	1	2	3	4	5
Addressing social or political concerns	1	2	3	4	5
Reflecting actual costs and income consistently	1	2	3	4	5
Other (please specify)	1	2	3	4	5

Section 5: The FDI decision making process

5.1 How important were the following in *making the FDI final decision*?
Please circle for each decision maker.

Decision makers	Not important				Very important
Managing director	1	2	3	4	5
Board of directors	1	2	3	4	5
Sub-board committees	1	2	3	4	5
Heads of departments/functions	1	2	3	4	5
Departmental committees	1	2	3	4	5
Finance manager	1	2	3	4	5
Tax manager	1	2	3	4	5

5.2 In general, how important are the following in the FDI decision making process in your firm?
Please circle for each factor.

Decision makers	Not important				Very important
Managing director	1	2	3	4	5
Board of directors	1	2	3	4	5
Sub-board committees	1	2	3	4	5
Heads of departments/functions	1	2	3	4	5
Departmental committees	1	2	3	4	5
Finance manager	1	2	3	4	5
Tax manager	1	2	3	4	5

5.3 How important were the following factors in affecting the FDI decision making process?
Please circle for each factor.

Factors	Not important				Very important
Strategic plan of the firm	1	2	3	4	5
Prior international operation experience	1	2	3	4	5
Size of the investment	1	2	3	4	5
Potential target country	1	2	3	4	5
Available acquisition candidate	1	2	3	4	5
Available joint venture partner	1	2	3	4	5
Competition situation	1	2	3	4	5
Effective management	1	2	3	4	5
Other (please specify)	1	2	3	4	5

5.4 (i) How important were the following stages in the FDI strategic decision process and (ii) how important were tax considerations at each stage of the FDI decision process?
Please circle for each element.

Stages	(i) Importance of the stages					(ii) Importance of tax considerations				
	Not impor-tant				Very impor-tant	Not impor-tant				Very impor-tant
Recognition of investment opportunity	1	2	3	4	5	1	2	3	4	5
Investigation of investment opportunity	1	2	3	4	5	1	2	3	4	5
Investigation of target market	1	2	3	4	5	1	2	3	4	5
Identifying the appropriate organisational form	1	2	3	4	5	1	2	3	4	5
Identifying the ways of financing the FDI	1	2	3	4	5	1	2	3	4	5
Identifying the appropriate legal structure	1	2	3	4	5	1	2	3	4	5
Identifying the appropriate management structure	1	2	3	4	5	1	2	3	4	5
Reviewing the choice of decision	1	2	3	4	5	1	2	3	4	5

Section 6: Tax strategy and corporate strategy

6.1 Does your company have an internal tax department?
Please tick the relevant box.

☐ Yes If yes, please go to Q6.2.
☐ No If no, please go to Q6.3.

6.2 How many staff are employed in the tax department? Number....................

6.3 Does your company use external tax advisers?
Please tick the relevant box.

☐ Yes If yes, please go to Q6.4.
☐ No If no, please go to Q6.5.

6.4 What sort of firm/firms are used?
Please tick as many boxes as are relevant.

- ❑ "Big Four" accounting firm
- ❑ "Medium-sized" accounting firm
- ❑ "Small" accounting firm
- ❑ Specialist tax-only consultancy firm
- ❑ Law firm
- ❑ Other (please specify)

6.5 To what extent is the tax strategy in your organisation reactive and to what extent is it proactive?
Please circle.

Mostly reactive				Mostly proactive
1	2	3	4	5

6.6 How important for your organisation were the tax implications when making the FDI decision?
Please circle..

Not important				Very important
1	2	3	4	5

6.7 How important are the following factors in determining the tax strategy in your organisation?
Please circle for each factor.

Factors	Not important				Very important
Tax minimisation	1	2	3	4	5
Compliance with business strategic plan	1	2	3	4	5
Availability of tax incentives	1	2	3	4	5
Ease of profit extraction	1	2	3	4	5
Mitigation of risk	1	2	3	4	5
Imitation of the action of competitors	1	2	3	4	5
Other (please specify)	1	2	3	4	5

6.8 How important are the following as components of the tax strategy in your organisation?
Please circle for each component.

Component	Not important				Very important
Transfer pricing policy	1	2	3	4	5
Income shifting policy	1	2	3	4	5
Achieving low tax rate	1	2	3	4	5
Available tax allowances	1	2	3	4	5
Achieving double taxation relief	1	2	3	4	5
Choosing the investment location	1	2	3	4	5
Other (please specify)	1	2	3	4	5

6.9 With respect to the specific FDI decision identified earlier, at what stage were the tax implications of the FDI decision considered?
Please tick the appropriate box.

- ❑ Before the FDI decision
- ❑ After the FDI decision
- ❑ Both before and after the FDI decision

6.10 To what extent is tax strategy an integral part of the corporate strategy in your organisation?
Please circle.

Not an integral part				Fully integral
1	2	3	4	5

6.11 What was the relative importance of (i) corporate strategy and (ii) tax strategy in the FDI decision-making process?
Please circle for each strategy.

Strategy	Not important				Very important
(i) Corporate strategy	1	2	3	4	5
(ii) Tax strategy	1	2	3	4	5

6.12 Should there be a conflict between corporate strategy and tax strategy in making an FDI decision, which one will be given priority?
Please tick the relevant box.

- ❑ Corporate strategy
- ❑ Tax strategy
- ❑ Both given equal priority
- ❑ Neither given priority

6.13 How important are the following in measuring the success of the FDI?
Please circle for each measure.

Measure	Not important				Very important
Profit before tax	1	2	3	4	5
Profit after tax	1	2	3	4	5
Distributions to shareholders	1	2	3	4	5
Increase in earnings per share	1	2	3	4	5
Amount of tax paid	1	2	3	4	5
Other financial measures (please specify)	1	2	3	4	5

Section 7: Any other comments

Please use the space below for any other comments you may wish to make.

Thank you for your time and trouble in completing this questionnaire.

If you would like to receive a summary of the findings, please state your name and address:

Name:

Address:

Appendix II

Dear Sir/Madam

We are undertaking a research project which aims to investigate the interface between tax strategy and corporate strategy in the foreign direct investment (FDI) decision process. We have been working on this project for several years. This research is supported by the Chartered Institute of Taxation (CIOT) and the Institute of Chartered Accountants of Scotland (ICAS). The research mainly examines the impact of tax on the FDI decision process and the stage at which tax factors have been considered in making the FDI decision. All you will be requested to do is fill in an on-line questionnaire which will take approximately 20 minutes to complete. If it would be more appropriate for another member of your firm to fill in the questionnaire, please could you forward this e-mail and letter to him/her?

The questions asked are of a general nature. We do not seek any sensitive or confidential information from your organisation. What you suggest will be taken as a personal view rather than your organisational view. The information supplied by you will be treated in the strictest confidence. Data collected will be analysed so that responses will not be identifiable with any individual or their firms.

We believe that the results of the research will be useful and interesting to a variety of different companies which have undertaken FDI. If you would like to have a summary of the results of this research, we would be happy to send you a copy.

Please click on the link below to the direct on-line questionnaire.

http://www.surveymonkey.com/s.aspx?sm=l2iUrqsDwx6gFJYaW00H_2fw_3d_3d

To ensure that the research findings are valid and of high quality, it is important that all questions are answered fully and none omitted. If you cannot complete the questionnaire at one attempt, it is possible to save the file and return to it later. Your participation will be greatly appreciated.

Alternatively, it may be printed and the hard copy returned by post to: Jinning Hong, Management School, University of Sheffield, 9 Mappin Street, Sheffield, S1 4DT.

If you have any queries, please feel free to contact Jinning Hong on 0114 222 3498 or email J.Hong@sheffield.ac.uk.

We look forward to receiving your completed questionnaire. Thank you very much for your cooperation.

Yours faithfully

[Signature]	*[Signature]*	*[Signature]*
Professor Keith. W Glaister	Professor Jane Frecknall-Hughes	Jinning Hong