Outbound Profit Shifting and the Propensity to Engage in Cross-Border Acquisitions

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Accountability-avoiding foreign direct investment (FDI) is a category of financial motives explaining where firms invest and how, yet our grasp of this phenomenon is incomplete. In contrast with tax-haven FDI, where multinational enterprises (MNEs) invest in a host country to pursue inbound profit shifting, we consider a novel motive – FDI attracted by low host country financial transparency that enables outbound profit shifting (OPS). Cross-border acquisitions (CBAs) are a takeover route to achieving OPS and global tax optimization. Our empirical context is 39,951 CBAs by 315 acquirers from 26 countries in the 1996–2015 period. We hypothesize and empirically show a positive relationship between OPS and CBAs and the probability that equity ownership of CBAs will be high. We find that the relationship between OPS and CBAs is stronger the more attractive or income unequal the host market, or when the multinational's industry is vertically or horizontally integrated. We attribute the lack of support for our hypothesis that MNEs require in-house capability to conduct OPS to tax planning consultancies' services. These findings highlight the role of low financial transparency as a novel locational determinant of OPS-pursuing FDI and emphasize the distinction between inbound and outbound profit shifting as manifestations of accountability-avoiding FDI.

Introduction

Recent literature on foreign direct investment (FDI) has highlighted the concept of accountability-avoiding FDI (Temouri *et al.*, 2022). These investments differ from the conventional market, resource, efficiency and strategic asset-seeking motives that centre on value creation rather than on appropriation. The driving force behind this FDI motive is global tax liability optimization supported by profit-shifting strategies. The term 'profit shifting' is generally used to mean the firm-level practice of artificially depressing taxable profits with the ultimate objective of shifting those profits from countries with high to low statutory tax rates (OECD, 2015). Multinational enterprises (MNEs) employ a range of profit-shifting methods, including transfer price manipulation (TPM) or debt concentration in high tax-rate countries and patent or royalty payments concentration in low tax-rate countries (Bilicka, 2019; Eden, 2012; Eden and Smith, 2022; Janský and Palanský, 2019; OECD, 2015). MNEs under-report their taxable profits by around 50% relative to domestic entities (Bilicka, 2019). Other estimates put worldwide profit shifting-related tax revenue losses at around $650 billion annually (Cobham, 2019).

The international business literature has only recently began unpacking the antecedents of accountability-avoiding FDI, mostly focusing on investment in tax havens that is generally driven by low statutory tax rates (Temouri *et al.*, 2022). Firms' intangible assets or home-country institutions associated with short-term profit maximization were also found to affect tax-haven FDI (Driffield *et al.*, 2021; Jones and Temouri, 2016). However, tax-haven FDI is only a part of accountability-avoiding FDI; other elements remain poorly understood (Cooper and Nguyen, 2020). Examples such as Google's 'Double Irish–Dutch Sandwich' show how different host countries play different roles in tax minimization (Eiteman, Stonehill and Moffett, 2016, p. 429). Having a presence in a tax haven offers the MNE a location to which it can shift its profits. But the MNE also needs a location from which it can divert its profits when it chooses to locate investment in high-tax hosts. These investment locations from which profits are shifted constitute a key, but neglected, step in the MNE's strategy of global tax optimization.

In proposing a novel investment motive for FDI instrumental to profit shifting to a host country, we provide a missing link between profit shifting to a host country (inbound profit shifting, IPS) and FDI instrumental to profit shifting out of a host country (outbound profit shifting, OPS). Our knowledge of the principles of IPS and its relation to tax-haven FDI is good. MNEs are quite commonly attracted to locations with the lowest statutory tax rates that are, naturally, published. In contrast, the OPS motive thrives in the absence of transparency. It seeks out FDI locations where the regulatory environment permits profits to be relocated abroad, normally to a favoured IPS location. Cross-country research on tax regulations suggests that the scope for OPS is extensive in jurisdictions enabling financial secrecy which, remarkably, include advanced economies not generally considered lax on tax regulations, such as the United States and Germany (Cobham, Janský and Meinzer, 2015). To the best of our knowledge, the literature has not yet examined how the scope for OPS affects the MNE's decision about where and how to invest. This is the focus of our paper.

Drawing on the TPM literature, we argue that the scope for OPS in a host country will attract inward FDI. We use cross-border acquisitions (CBAs) by 315 acquirers from 26 countries (1996–2015) as our empirical context. OPS, we argue, goes hand in hand with value creation in the host market: income is first generated locally, then shifted abroad. CBAs are the most appropriate foreign entry vehicle because they enable MNEs to gain ownership, control and market power rapidly and are found, in the short term, to increase shareholder value significantly (e.g. King *et al.*, 2004). Related to this, we expect that the relationship between the scope for OPS in a host country and the propensity to engage in CBAs is stronger if the host market is more attractive. As such, there is a qualitative difference between the FDI-for-OPS motive and greenfield investment in tax havens, typically limited to a scale and scope sufficient only to achieve IPS and where, as Barack Obama put it, 'letterbox corporations' are the norm (Temouri *et al.*, 2022). The literature suggests that a controlling ownership stake in a subsidiary facilitates profit shifting (Sugathan and George, 2015). By extension to OPS-motivated FDI in a host, we hypothesize that scope for the practice will be associated with a higher likelihood of the MNE pursuing wholly rather than partially owned CBAs. Thus, OPS would not be associated with entry strategies failing to offer controlling equity ownership, such as joint ventures. We reason that OPS, being a strategy whereby profits are artificially depressed locally and shifted outbound, is made easier in income-unequal host countries. Inequality is associated with a higher tolerance for opaque accounting practices and an unequal distribution of rewards. We extend this to OPS and expect that the practice will be more widely accepted in unequal environments. Additionally, OPS may be a key strategy to mitigate expropriation risk in unequal environments. We also posit that an industry's degrees of horizontal and vertical integration are important facilitating conditions for OPS. Intra-group licensing follows the internalization of markets for intangible assets across national borders, being intra-firm transactions via which profit shifting may occur under horizontal integration. Equally, under vertical integration, firms are well positioned to pursue OPS strategies as arm's length standards are frequently not observed. Finally, the TPM literature suggests that, to pursue OPS, firms need to have the requisite in-house capability (Eden and Smith, 2022). Therefore, we expect a stronger relationship between OPS and CBAs for MNEs that have experience of OPS. Our results show support for our hypotheses, with the exception of the interaction term between OPS and the in-house capability to pursue OPS strategies.

Our main contribution is in establishing OPS as an identifiable investment motive. In doing so, we highlight the clear distinction between the OPS FDI motive and the well-known 'tax-haven' FDI motive to shift profits inbound into a host country. Thus, we provide a more complete understanding of how different locations play a vital part in the MNE's global tax optimization strategy. The investor behaviour examined in our paper focuses on a motivation that has, to date, remained largely hidden. As an outcome, OPS may join the list of received theoretical motives for FDI, particularly pertinent in a world of socio-economic inequality.

Theoretical background and hypotheses

Inbound and outbound profit shifting as distinct FDI motives

Past studies on accountability-avoiding FDI largely focused on explaining investments in tax havens (Temouri *et al.*, 2022), traditionally conceptualized as small, politically isolated jurisdictions with significantly lower tax rates compared with other countries (Johns, 2013). National statutory corporate income tax-rate differentials were identified as the driving force behind tax-haven investments (Finér and Ylönen, 2017). But, the low statutory tax-rate narrative cannot explain the occurrence of other types of accountability-avoiding FDI in countries with relatively high tax rates (Temouri *et al.*, 2022). For example, mining companies in Luxembourg and Sweden set up holding companies to provide intra-group loans and other intra-group arrangements enabling tax-deductible depreciations and amortizations, or selling rights to another subsidiary to avoid high capital gains tax (Finér and Ylönen, 2017). The motivations behind these types of accountability-avoiding FDI remain not fully researched (Jones and Temouri, 2016; Temouri

et al., 2022). As Cooper and Nguyen (2020, p. 16) put it, 'tax havens in corporate structures can only be part of a tax planning regime' and 'a good understanding of the role of larger countries with attractive markets as well as attractive tax regimes may be harder to establish'.

Recent cross-country studies on tax regulation also suggest a recognition of the frailty of a dichotomous classification between tax havens and non-tax havens based on statutory tax rates alone, and the need for a much broader understanding of financial secrecy jurisdictions (Cobham, Janský and Meinzer, 2015). The term 'secrecy jurisdiction' denotes the degree to which a national regulatory framework hampers effective taxation of corporate income and enables opacity in global financial flows (Cobham and Janský, 2018; Cobham, Janský and Meinzer, 2015). Secrecy jurisdictions enable profit shifting whereby firms pay low to zero effective tax rates (Ateş *et al.*, 2020; Cobham, Janský and Meinzer, 2015). Several such locations are also considered to be tax havens, notably Switzerland, Luxembourg, Hong Kong and the Cayman Islands (Tax Justice Network, 2022). However, these are closely followed, and sometimes supplanted, by countries not classed as tax havens, such as the United States and Germany (Tax Justice Network, 2022). Indeed, if the City of London were a separate territory, the United Kingdom would rank first as the most prominent provider of financial secrecy in the world, while at the same time operating a fairly high statutory tax rate (Cobham, Janský and Meinzer, 2015).

The above suggests that different types of accountability-avoiding FDI may be explained by novel motives for the choice of investment location, underlined by distinct factors, each contributing to the firm's strategy of global tax liability optimization. To advance this line of research, we propose a simple but key distinction between profit shifting to a host country (IPS) and profit shifting from a host country (OPS) as FDI motives. IPS (i.e. the motive to shift profits to a host with low statutory tax rates) maps to tax-haven FDI, whereby MNEs shift profits to subsidiaries in tax havens to pay little or no corporate income tax. The key determinant is the statutory corporate income tax rate. Illustrative examples abound, such as Apple setting up its Apple Sales International subsidiary in Ireland to shield itself from taxes on European Union product sales (Barrera and Bustamante, 2018) or Starbucks establishing its intellectual property in the Cayman Islands (Van den Hurk, 2014). In contrast, we reason that OPS is associated with secrecy jurisdictions that offer opportunities to shift profits outside of that jurisdiction at low cost through various methods, such as interest and royalty payments, dividend or profit repatriation. Key signifiers of OPS include, for example, a culture of noncompliance encouraged by inefficient tax and financial regulation and enforcement, or the extent to which bilateral tax agreements and complexity in interna-

tional taxation make it difficult to identify nondomestic companies exploiting regulations (Cobham, Janský and Meinzer, 2015). Another key indicator is the role of the local host economy. In contrast with IPS, where the assets invested are limited and generally not employed for value generation, we expect OPS jurisdictions to attract investors aiming to generate major local value added; the otherwise taxable revenues so created can then be shifted abroad. This would also explain why investors might internationalize into secrecy jurisdictions even when their home country itself qualifies as a secrecy jurisdiction supportive of OPS: firms will seek out multiple locations where there is scope for OPS with market potential for profit maximization. To the best of our knowledge, there has been no relevant study to date relating OPS and FDI. This is the starting point for our study of the role of OPS in MNEs' foreign investment strategies towards location choice.

Outbound profit shifting and the propensity to engage in cross-border acquisitions

MNEs apply a variety of profit-shifting strategies (Dharmapala, 2014). The most widely used is TPM, defined as the process by which controlled entities strategically set prices for their intra-firm transactions to arbitrage differences in government regulations and shift profits (Bartelsman and Beetsma, 2003; Eden and Smith, 2022). Other strategies include licensing, whereby MNEs locate their intangible assets with subsidiaries within low corporate tax-rate jurisdictions used as intra-firm royalty payment destinations (Dischinger and Riedel, 2011), and debt shifting, in which a subsidiary in a high-tax country borrows from subsidiaries in low-tax countries and deducts interest expenses to reduce its taxable income (Bilicka, 2019; OECD, 2015).

TPM is used primarily to raise MNEs' global after-tax profits and so increase shareholder wealth (Eden and Smith, 2022). In simple terms, TPM comprises the management of internal operations across borders by arbitraging international differences in government regulations. The objective is to shift profits to locations abroad with lower, or zero, tax rates; that is, tax havens (Eden and Smith, 2022). TPM is premised upon the MNE straddling at least two jurisdictions – the OPS location from where profits originate and the IPS location, which is the final destination. Some governments have adopted the so-called arm's length standard to limit TPM. The arm's length standard aligns the price of MNEs' internal transactions to those that would be obtained between unrelated parties (Eden, 2019). However, secrecy jurisdiction research highlights the extensive scale of cross-country variation in underlying transfer price regulations and the extent of enforcement. At one extreme there may be an absence of policy or no documentation requirements (e.g. Ireland and Ukraine); at the other

extreme strict legal requirements for transfer price documentation to be submitted with the tax return (e.g. Denmark) (Lohse and Riedel, 2012). There is also evidence that many developing countries compete to attract FDI by offering weak TPM enforcement (Bird, 2009; Eden, 2012). Increasingly, MNEs employ intellectual property as a TPM vehicle through seeking jurisdictions where there may be no comparable external market to determine arm's length prices (Bartelsman and Beetsma, 2003; Heckemeyer and Overesch, 2017). We envisage that MNEs will be attracted to invest in locations that sustain the wide family of OPS strategies. And for OPS locations we expect the statutory tax rate to be immaterial, in direct contrast with the IPS motive. Thus, OPS is primarily associated with the scope for financial secrecy.

CBAs are ideal to test for the OPS motive. CBAs are one of the most prolific FDI strategies (Cartwright and Schoenberg, 2006; Ferreira *et al.*, 2014). Also, as CBAs target existing companies with established market positions, from the outset these investments involve significant equity and commitment to the host market (Walter and Barney, 1990). Thus, CBAs offer excellent scope for empirical observation, quite unlike typical 'letterbox' greenfield investments devoid of intrinsic substantial value (McGauran, 2020; Temouri *et al.*, 2022). The literature suggests that the prevalence of acquisitions is shaped by a country's regulatory environment, particularly the regulations involving the allocation and transfer of value for private benefit (Deutsch, Keil and Laamanen, 2007; Maas, Heugens and Reus, 2019). Acquisitions are an attractive strategic option if, for instance, controlling shareholders are able to spin off assets post-merger through practices such as tunnelling, where assets are transferred to other entities at a price substantially below market value, disadvantaging minority shareholders (Maas, Heugens and Reus, 2019). This, we argue, can also be extended to OPS.

We further expect that the OPS motive will be associated with investors assuming a controlling rather than a minority ownership share. Profit-shifting strategies such as TPM are generally associated with positions of power, where managers have greater control over decision-making and lower accountability (Eden and Smith, 2022; Hogan *et al.*, 2008). Diverting the firm's assets and profits without regard for the interests of non-controlling parties is only possible when shareholders enjoy a majority share of the voting rights (Maas, Heugens and Reus, 2019). Also, internal versus external ownership of shares and control of the board of directors facilitates such strategies (Dunn, 2004; Skousen, Smith and Wright, 2009). Therefore, we reason that OPS will demand a significant degree of equity-based control over the subsidiary for it to comply with a strategy that depresses its apparent performance. The above arguments lead to our first set of hypotheses.

H1: The propensity of investors to engage in CBAs in a host country is positively associated with the scope for OPS from that host country (H1a), and the likelihood that the investors will engage in fully owned rather than partially owned CBAs is similarly positively associated with the scope for OPS from that host country (H1b).

Host-country conditions. We also expect that the relationship between CBAs and OPS will be defined by other host-country, industry and firm-level conditions. As argued above, we expect that host-country market attractiveness will strengthen the relationship between the propensity to engage in CBAs and the scope for OPS. The OPS motive requires capturing a significant share of host-market activity: income is generated locally, then shifted abroad from this location. As already noted, this stands in direct contrast with the IPS motive and the common depiction of tax-haven FDI as seeking to minimize investment subject to the desire to minimize tax liability. Profit shifted to tax havens is distributed to shareholders rather than employed for value creation. In contrast with such greenfield investment, acquisition amounts to buying host-market share guaranteed to generate high returns from the outset (Cartwright and Schoenberg, 2006; Meyer and Estrin, 2001). Therefore, we expect that the OPS motive will be strongly associated with substantial equity-based investment typical of entry modes such as CBAs.

Outward profit shifting may be especially widespread in national environments where societal and institutional conditions reduce the pressure to fully disclose such behaviours. Income inequality, we propose, is one such condition. Lack of transparency on the part of economic and political agents and an environment of tolerance for opaque accounting practices are more prevalent in income unequal societies (de Mendonça and Esteves, 2018). Theories such as materialism, just world theory and system justification theory suggest that income-unequal countries are inclined to tolerate greater inequality (Jost *et al.*, 2004; Lerner, 1982). Indeed, empirical evidence shows that highly unequal countries accept almost four times more income inequality than otherwise similar low-inequality countries (Schroder, 2017). And firms operating in these environments were found to be more tolerant of certain unequal internal practices, such as steep pay gradients (Pan *et al.*, 2022; Schroder, 2017). Similarly, we expect that OPS as a strategy which depresses subsidiary profits will be more widely accepted in such environments. In addition to this, income-unequal environments generally relate to poor institutional quality (Chong and Gradstein, 2007) which, in some cases, translates to political instability, raising the risk of expropriation of MNEs' subsidiaries' assets (Caprio, Faccio and McConnell, 2013; Duanmu, 2014; Holburn and Zelner, 2010; Lupton *et al.*, 2020). When faced with such an increased risk of

expropriation, corporations have been shown to adopt opaque accounting practices to reduce reported income (Durnev, Errunza and Molchanov, 2009; Durnev and Guriev, 2008; Watts and Zimmerman, 1978), resulting in lower operational transparency (Durnev, Errunza and Molchanov, 2009; Durnev and Fauver, 2008). Accordingly, the TPM literature also cites expropriation risk as a profit-shifting motivator (Eden, 2012; Eden and Smith, 2022). Thus, depressing pre-tax profits through shifting them abroad is a logical response to the broad sweep of societal factors that are at the root of OPS, linked in one way or another to inequality and its consequences, such as the greater acceptance of practices conducive to these behaviours. This body of literature supports our reasoning that the propensity to engage in CBAs will be more strongly related to the OPS motive when host countries are more income unequal.

Our second set of hypotheses is therefore as follows.

H2: The positive association between the propensity of investors to engage in CBAs in a host country and the scope for OPS in that host country is stronger if the host market is more attractive (H2a) or more income unequal (H2b).

Industry and firm-level conditions. The literature suggests that firms are well positioned to apply and benefit from TPM when operating in industries that are more horizontally or vertically integrated. Horizontally integrated industries are characterized by internalized markets for intangible assets, where firms benefit from cross-country scale-based advantages associated with high R&D intensity (Andersson and Fredriksson, 1996). As mentioned above, a prominent profit-shifting strategy is patent or royalty payments' concentration in low-tax countries, typical for multinationals with high levels of intellectual property (IP), such as Apple or Google (Contractor, 2016; Fuest *et al.*, 2013). In these industries profits are shifted, for example, via intra-group licensing, illustrated for instance with the Double Irish–Dutch Sandwich (Eiteman, Stonehill and Moffett, 2016; Fuest *et al.*, 2013). Here, the IP holding company would be in a tax haven – the IPS destination (e.g., Bermuda), while the operating profits are shifted from a host country where high tax-deductible royalties and/or limited transfer pricing regulations are applied (e.g. Ireland or Netherlands) – the OPS country. Therefore, firms in horizontally integrated industries will be motivated to invest in OPS destinations to minimize their global tax liability. Vertically integrated industries are also characterized by complex internal organizational structures with significant related-party transactions (Garcia-Bernardo *et al.*, 2017; Hogan *et al.*, 2008). These firms have a network of subsidiaries that may act as OPS destinations. Furthermore, the arm's length standard is more difficult to apply because firms in those industries are integrated upstream and downstream and collude tacitly on trans-

fer prices, amplifying the effect of tax regulation differentials across countries (Gresik and Osmundsen, 2008). Therefore, we expect that OPS will be more strongly related to the propensity to engage in CBAs if the industry is more vertically integrated.

Capital allocation and reallocation processes, much like other processes of corporate control, are determined by the firm's country of origin, even for the most internationalized MNEs (Harzing and Sorge, 2003; Wan and Hoskisson, 2003). TPM is developed by a small group of highly trained international tax professionals in the Tax or Finance departments at headquarters (Eden and Smith, 2022). If the regulatory environment at home offers scope for TPM then, much as with other aspects of business activity, firms will develop TPM capabilities that can be further exported abroad (Eden and Smith, 2022; Holburn and Zelner, 2010; North, 1990). TPM research shows that experience of conducting these practices generates the capacity to recognize further opportunities (Eden and Smith, 2022; Wolfe and Hermanson, 2004) which, we expect, could be exploited in other markets. Thus, if the firm engages in profit shifting, then the scope to shift profits may play a greater role in CBAs and location choice.

The arguments above result in our final set of hypotheses.

H3: The positive association between the propensity of investors to engage in CBAs in a host country and the scope for OPS in that host country is stronger if the industry is more horizontally (H3a) or vertically integrated (H3b), or the firm has prior experience in applying OPS (H3c).

Methodology

Variables and data sources

We collected data on CBAs (51% equity and above) from 1996 to 2015, sourced from Thomson One, which records various deal details: announcement date, acquirer and target, their industries, countries of origin, deal value and status (e.g. Jory and Ngo, 2014; Trichterborn, Zu Knyphausen-Aufseß and Schweizer, 2016). The time period is appropriate as profit shifting was in wide operation from the 1990s (Souillard, 2020). We used acquirer name and country of origin to identify firms that recorded 50 or more acquisitions over the period (N = 315). These firms recorded 39,951 CBAs (28% of all global CBAs). The acquirers come from 26 countries and have invested in more than 150 countries. Table 1 indicates the top 25 most prolific acquirers in the sample. These data form the basis of our dependent variables. Our main dependent variable is CBAs measured, as in prior studies (Alimov, 2015; Clegg, Voss and Tardios, 2018; Deng and Yang, 2015; Duanmu, 2012),

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Table 1. Top 25 most prolific acquirers in our sample

Rank	Acquirer name	Primary SIC code and description	Country of origin	% CBAs in the sample	No. target countries the acquirer invested in	Average % shares acquired
1	Investor Group	6799 Investors	Singapore	14.41	148	72.21
2	General Electric	3612 Power, Distribution, and Specialty Transformers	USA	1.84	49	81.94
3	WPP PLC	7311 Advertising Agencies	UK	1.54	59	84.17
4	CRH PLC	3241 Cement, Hydraulic	Ireland-Rep	1.18	29	85.60
5	Woodbridge Co Ltd	7375 Information Retrieval Services	Canada	0.89	31	97.00
6	Deutsche Bank AG	6000 Banking	Germany	0.89	46	76.09
7	Goldman Sachs Group Inc	6282 Investment Advice	USA	0.82	41	64.35
8	The Carlyle Group LP	6799 Investors	USA	0.78	44	78.62
9	Siemens AG	3663 Communications Equipment	Germany	0.75	39	78.95
10	3i Group PLC	6799 Investors	UK	0.72	37	74.88
11	Saint-Gobain SA	3231 Glass Products	France	0.69	46	83.55
12	ING Groep NV	6311 Life Insurance	Netherlands	0.69	45	89.95
13	Temasek Holdings Ltd	6722 Management Investment Offices	Singapore	0.69	29	87.66
14	Publicis Groupe SA	7319 Furnishing Advertising Services	France	0.63	32	89.59
15	Citigroup Inc	6712 Offices of Bank Holding Companies	USA	0.63	48	73.60
16	AXA SA	6311 Life Insurance	France	0.62	55	76.01
17	CVC Capital Partners	6799 Investors	Luxembourg	0.59	37	78.81
18	Advent International Corp	6799 Investors	USA	0.59	53	65.43
19	BNP Paribas	6211 Security Brokers, Dealers, and Flotation Companies	France	0.58	45	78.09
20	Morgan Stanley	6712 Offices of Bank Holding Companies	USA	0.53	34	72.15
21	Warburg Pincus	6799 Investors	USA	0.50	29	70.46
22	JPMorgan Chase & Co	6021 National Commercial Banks	USA	0.50	42	68.25
23	Société Générale	6000 Banking	France	0.50	55	63.04
24	HSBC	6000 Banking	UK	0.50	48	66.94
25	Omnicom Group	7311 Advertising Agencies	USA	0.48	39	81.63

Note: Acquirers from the following countries are also represented in the sample: Sweden, Hong Kong, China, Italy, Belgium, Malaysia, Norway, Finland, Austria, India, Russian Federation, South Korea, United Arab Emirates, New Zealand, Qatar, Mauritius, Australia. The target countries sampled include (N = 68): United States (USA), United Kingdom (UK), Germany, Canada, France, Australia, China, Spain, the Netherlands, Italy, India, Sweden, Brazil, Hong Kong, Switzerland, Japan, Belgium, Denmark, Norway, Russian Federation, Poland, Singapore, Finland, Mexico, Ireland-Republic, Austria, Indonesia, Czech Republic, Malaysia, South Africa, South Korea, Argentina, Turkey, Hungary, Thailand, New Zealand, Israel, Ukraine, Chile, Romania, Taiwan, Portugal, Philippines, Luxembourg, Bulgaria, Estonia, Peru, Colombia, British Virgin Islands, Vietnam, Lithuania, United Arab Emirates, Greece, Egypt, Slovak Republic, Latvia, Croatia, Cyprus, Kazakhstan, Bermuda, Puerto Rico, Slovenia, Morocco, Venezuela, Saudi Arabia, Sri Lanka, Cayman Islands and Serbia.

by the total number of acquisitions by each firm in a host country within a specific time period. A count of acquisition events offers an unbiased impression of the attractiveness of a location as it shows the overall level of acquisition activity (Deng and Yang, 2015; Dikova, Panibratov and Veselova, 2019). To avoid small numbers bias (Hosmer, Lemeshow and Sturdivant, 2013), we group the years into 4-year periods and limit the acquirer firm–host country pairings to host countries which recorded at least 100 acquisitions (N = 68). This resulted in a total of 107,100 firm-level observations (further reduced by missing variables). To estimate the second dependent variable, equity ownership in CBAs, rather than the number of deals we use the average percentage of shares acquired by each firm in each host country and period, sourced from the same sample and database (Malhotra and Gaur, 2014).

Our main independent variable is the scope for OPS in a host country. Generally, profit shifting can be captured by assessing the opportunity to engage in the practice, using an indicator such as the financial secrecy index (Cobham, Janský and Meinzer, 2015) or by estimating the extent to which firms engage in it. Because of limited coverage of the index prior to 2009, we opt for the latter approach, also suggested by OECD guidelines (OECD, 2015). Estimating the extent to which firms engage in the practice is possible using macro-level indicators based on trade, balance of payments, national accounts or FDI data. For example, high levels of FDI relative to GDP can provide indirect evidence by analysing the disconnect between the amount of FDI and the size of the economy (OECD, 2015). However, there are cross-country asymmetries in how the FDI transactions are recorded, therefore indicators at the firm level are more appropriate (OECD, 2015). To measure profit shifting using firm data, the OECD (2015) suggests indicators based on effective tax rates where tax expense is compared with income, or interest payment-based indicators where interest expense is compared with income. Interest payment-based measures capture only one profit-shifting channel – the use of excess interest expense deductions. Therefore, an effective tax rate-based measure is more comprehensive (OECD, 2015). For the purpose of this study, we opted for annual average effective tax rates (ETRs) of the largest (by revenue) publicly listed MNEs (more than 250 employees, with a controlling share in at least one foreign subsidiary) (ETR, host), extracted from, as per the guidelines, financial statement data (unconsolidated) and from Orbis Very Large, for each country and time period (OECD, 2015). Following prior studies, we estimate ETR as a firm's total income tax expense divided by reported net pre-tax income (variables named as 'Income tax expense' and 'Profit (loss) before tax (PBT)' in the database), ranging between 0 and 1 (Dyreng *et al.*, 2017; Hanlon and Heitzman, 2010; Kraft, 2014). A low to negative value

is a clear indicator of profit shifting as it shows a reduced taxable income relative to the firm's financial income (OECD, 2015). Following prior studies, we set the ETR to 0 if the total income tax expense is negative (tax refunds) and for easier interpretation, we reverse the ratios before entering into the model, so higher values are indicative of profit shifting (Kraft, 2014).

To estimate host market attractiveness, we follow prior CBA literature and use gross domestic product per capita (GDP per capita, million US$, deflated) from the World Bank's World Development Indicators (WDIs) (Alimov, 2015; Chari, Ouimet and Tesar, 2010; Ellis *et al.*, 2017). We measure societal-level income inequality using the Gini index (Holburn and Zelner, 2010; Lupton *et al.*, 2020; Rodrik, 1999) from the Standardized World Income Inequality Database, the most advanced in terms of cross-country comparability and coverage (Solt, 2020). It captures the extent to which the distribution of income within a country ranges between perfect equality and perfect inequality. As a proxy for horizontal integration, following the literature, we use industry-level R&D expenditure from the OECD's ANBERD database (PPP at US$ 2015 prices) (Braunerhjelm, Oxelheim and Thulin, 2005; Fuest *et al.*, 2013; Hauknes and Knell, 2009). For vertical integration, we use value added of the acquirer industry (million US$, deflated). Specifically, we use the domestic value added and foreign value added from the OECD's Trade in Value Added (TiVA) database (OECD, 2022b), estimated as an average per acquirer country and industry. These are established indicators of backward and forward integration and participation in global value chains (e.g. De Backer and Miroudot, 2014; Van Assche and Gangnes, 2019). We estimate prior experience of the acquirer firm to engage in OPS using the same source and approach as for our main independent variable, namely the annual average ETRs of each acquirer firm in the time period (ETR, acquirer).

In terms of our controls, we include factors found relevant in acquisition research, guided by Chakrabarti (2003) and other studies (Brouthers, Gao and McNicol, 2008; Buckley *et al.*, 2007; Clegg, Voss and Tardios, 2018; Qian *et al.*, 2010; Shi *et al.*, 2017; Slangen and Beugelsdijk, 2010). Host natural resources are captured by total natural resources rents (% of GDP), while labour force (total) and the statutory nominal gross monthly minimum wage (minimum wage, US$) accounts for labour-based resources and their cost. R&D expenditure (% of GDP) captures innovation potential. Trade openness is captured using imports and exports (% of GDP). We also control for the tariff on intermediate and final goods (average) and statutory corporate income-tax rate. The macroeconomic environment is captured by inflation (GDP deflator, annual %) and central government debt (% of GDP). The institutional and political environment is captured using

the rule of law, political stability and index of economic freedom. The data sources are the World Bank's WDI, Worldwide Governance Indicators, Tax Foundation, Heritage Foundation and International Labor Organization's ILOSTAT database.

We also control for similarities between the home and host using the CAGE model (Ghemawat, 2001). For cultural distance, we estimate the Euclidean distance (Kogut and Singh, 1988) using Globe's culture dimensions (House *et al.*, 2004). We account for administrative distance by a set of dichotomous indicators showing if the two countries are a part of the same trade bloc, G20 group and whether they share a common colonial history (Acemoglu, Johnson and Robinson, 2001), collected from the World Trade Organisation (WTO, 2020), G20 website (G20, 2020) and ICOW colonial history database (Hensel and Mitchell, 2007). We test for geographic distance in miles between the capital cities (Campbell, Eden and Miller, 2012). We capture economic distance with the absolute difference between GDP per capita (constant US$ 2015) (Buckley *et al.*, 2007).

We also consider other firm-level controls. Prior presence in a host country was found to be an investment determinant because it reduces uncertainty (Alon, Elia and Li, 2020). We operationalize prior experience as the number of subsidiaries (at least 20% of equity owned) the acquirer has in a target country (Lu *et al.*, 2014). The Orbis Very Large database provides a list of subsidiaries as well as their main characteristics such as country of operation, ownership and year of establishment. We use the same data to estimate a firm's degree of geographic diversification as the number of countries the firm operates in, to account for foreign country dispersion (Kafouros *et al.*, 2022). We also control for economies of scope with the number of major industries the MNE operates in (product diversification) (Kafouros *et al.*, 2022). Furthermore, prior literature established that firm size (number of employees) and age affect whether firms engage in CBAs (Meyer and Estrin, 2001). Since investment activities of state-owned enterprises are different than those of private firms (Clegg, Voss and Tardios, 2018; Cuervo-Cazurra *et al.*, 2014), we note a value of 1 if an acquirer is a state-owned acquirer. We sourced the variables from Orbis Very Large database. As is established practice, we lag the independent and control variables by 1 year (Clegg, Voss and Tardios, 2018), apply logarithmic transformation to all continuous variables and add industry and time-period dummies in the model.

Analysis

Because we have time-series data, we apply panel data analysis to test our models (using STATA). When deciding on a specific method, we considered potential endogeneity and follow steps outlined in Hill *et al.* (2021), namely diagnose the problem, justify the approach and supply the results. As the data are in the form of a panel, dynamic endogeneity or simultaneity might be of concern, where the lag of the dependent variable may be correlated with the independent variables, or the dependent variable may determine the independents (Abdallah, Goergen and O'Sullivan, 2015; Hill *et al.*, 2021). As suggested by the literature (Abdallah, Goergen and O'Sullivan, 2015), we apply the unit root test (xtunitroot command), which shows that the dependent variable is stationary (p = 0.000), therefore there is a possibility of dynamic endogeneity. Following the literature, we include a lag of the dependent variable (Abdallah, Goergen and O'Sullivan, 2015; Reeb, Sakakibara and Mahmood, 2012). To correct for simultaneity, the literature suggests an instrumental variable estimator such as two-stage least squares (2SLS) or generalized method of moments (GMM) (Hill *et al.*, 2021). In the context of panel data, the recommended estimator is Blundell and Bond's system GMM estimator (Abdallah, Goergen and O'Sullivan, 2015; Li *et al.*, 2021), suggested particularly for international business data (Li *et al.*, 2021) and used in prior internalization studies (Mariotti and Marzano, 2019). The system GMM estimator relies on a system of two sets of equations (in levels and first differences) and applies internal instruments rather than external (Blundell and Bond, 1998; Roodman, 2009). This constitutes another advantage compared with, for example, 2SLS models where external instruments are needed (Blundell and Bond, 1998; Roodman, 2009). Another source of endogeneity typical for internalization studies is the omitted-variable bias (Shaver, 1998). Even though our model controls for a host of variables, we do not capture controls, for example, at the individual level. However, the system GMM estimator solves for unobserved firm-level heterogeneity by incorporating internal instruments consisting of first differences of multiple lags (Abdallah, Goergen and O'Sullivan, 2015; Hill *et al.*, 2021; Li *et al.*, 2021). Therefore, we find this estimator to be most appropriate. To determine how many lags to use as instruments, we regress the variables on their lags and include those that are significant (Abdallah, Goergen and O'Sullivan, 2015).

The simplified formulation of our model is

$$Y_{it} = \beta_0 + \beta_1 Y_{it-1} + \beta_2 X_{it} + \beta_3 Z_{it} + \beta_4 X_{it} Z_{it} + \emptyset (K_{it}\beta) + \omega (K_i\beta) + e_i \tag{1}$$

where Y_{it} and Y_{it-1} are the dependent variable and its lag, β_0 the intercept, X_{it} the key independent variable, Z_{it} and $X_{it}Z_{it}$ are other independent variables and the associated interaction terms, $\emptyset$ represents the time-variant control variables (K_{it}) vector, ω represents the time-invariant control variables (K_i) vector and e_i the error term.

Results

Summary statistics and pairwise correlations are given in Table 2. The pairwise correlation coefficients vary from 0 to 0.72, which is below the conventional cut-off point of 0.8 (Farrar and Glauber, 1967). Two variables showed high correlations, while moderate correlations (above 0.4) were found in a few variables. Also, we estimated the variance inflation factors (VIFs) for the variables, with six variables above the threshold of 10 (ranged from 10.13 to 23.15). We performed the likelihood ratio and Wald test to analyse their contributions to the model (Hoetker, 2007). We found that including these variables creates a statistically significant improvement in model fit (Prob > χ^2 = 0.000), except in case of imports, central government debt and economic freedom. Lindner, Puck and Verbeke (2020) argue that multicollinearity concerns are not a valid reason to exclude relevant variables in internationalization studies since it does not violate the assumptions or introduce bias. Hence, we kept the variables that improved model fit. Still, the coefficients should be interpreted with caution. We ran robustness tests with a further reduced model as well as a full model with the excluded variables.

Table 3 shows the results of the hypotheses testing using the system GMM estimator. For this estimator to be consistent, the instruments need to be valid and there should be no second-order autocorrelation (AR2) in the residuals (Blundell and Bond, 1998; Roodman, 2009). As is established practice (Mariotti and Marzano, 2019), we apply the Hansen test to confirm exogeneity. As shown in Table 3, the p-values of the Hansen tests in all our models are insignificant, confirming the validity and exogeneity of our instruments. The p-values of the AR(2) test for autocorrelation are insignificant in all our models, confirming no autocorrelation in the second-differenced errors.

H1a suggests that the scope for OPS has a positive effect on the propensity to engage in CBAs. The positive and significant coefficient ($\beta = 0.112$, p = 0.000, column 2, Table 3) confirms this hypothesis. H1b suggests that the scope for OPS has a positive effect on the propensity to engage in fully rather than partially owned CBAs. The coefficient is positive and significant ($\beta = 0.425$, p = 0.002, column 3, Table 3), supporting this hypothesis. The remaining hypotheses suggest that two independent variables interact in their effects upon our dependent variable. The interaction test is recommended, where the effect is found if the product term of the relevant variables differs significantly from zero (Allison, 1977; Everitt and Dunn, 2001). As in prior literature (Wang *et al.*, 2012), we introduce the two-way interactions successively. H2a suggests an interaction between the scope for OPS and market attractiveness in explaining the propensity to engage in CBAs. The coef-

ficient is positive and significant ($\beta = 0.006$, p = 0.001, column 4, Table 3), supporting this. H2b suggests an interaction between the scope for OPS and host income inequality in explaining the propensity to engage in CBAs, confirmed with the coefficient being positive and significant ($\beta = 0.280$, p = 0.002, column 5, Table 3). H3a suggests an interaction between the scope for OPS and the degree of horizontal integration, while H3b proposed an interaction with vertical integration affecting the extent to which MNEs engage in OPS, both of which are confirmed ($\beta = 0.016$, p = 0.001 and $\beta = 0.096$, p = 0.001, columns 6 and 7, Table 3). The results do not support H3c, where the hypothesized interaction is with prior ETR experience ($\beta = 0.162$, p = 0.152, column 8, Table 3). Figure 1 illustrates the significant moderation effects.

We perform tests to explore the robustness of these results. The principal ones are reported in Table 4 and the remainder are available upon request. We develop an alternative dependent variable, a dichotomous measure for the likelihood of acquisitions in each firm–host country pair and time period. We re-test the full model using logistic regression (column 1, Table 4) applied in other internationalization studies using dichotomous dependent variables (e.g. Berry, Guillén and Zhou, 2010; Cui and Jiang, 2012). Using the same estimation method, we test the H1b model, where the alternative dependent variable is dichotomous, measuring whether the CBAs on average were full ownership (value of 1 if 95% average ownership or more) or partial ownership (value of 0) (column 2, Table 4). Overall, the results are consistent. Next, we test the ETR and statutory tax rates differential as an OPS proxy, where a higher differential acts as a motivator to engage in OPS. However, we expect that the results will be less significant because, as argued, statutory tax rates are less relevant for OPS. The results are as expected (columns 3 and 4, Table 4), further confirming that the ETR is the appropriate indicator. We also apply the financial secrecy index as a country-level proxy for OPS (Cobham, Janský and Meinzer, 2015) (on a reduced sample due to data limitations) and our results hold. Furthermore, we test the full model using Poisson regression, which is suitable for count data, and the results are consistent (column 5, Table 4). As suggested in Haans, Pieters and He (2016), we test for the existence of a U and S-type relationship and find that adding a quadratic and cubic term does not improve model fit. Finally, we test the models by excluding the remaining three control variables with VIFs higher than 10, and our results hold (column 6, Table 4).

Discussion and conclusion

Our paper examines OPS as a motive for firms to engage in CBAs, directly to address the recent call for

Table 2. Summary statistics and pairwise correlations

	Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	CBAs	10.17	13.55	1															
2	Equity ownership in CBAs	76.5	7.32	0.37	1														
3	ETR, host	0.02	0.06	0.29	0.31	1													
4	GDP per capita, host	21,753.41	20,180.53	0.24	0.44	-0.03	1												
5	Gini index, host	35.44	8.62	0.31	-0.19	-0.12	-0.35	1											
6	R&D expenditure, acquirer industry	315,844.82	566,455.19	0.37	0.21	0.11	0.09	0.15	1										
7	Value added, acquirer industry	69,108.10	15,232.51	0.33	0.11	0.32	0.14	0.02	0.34	1									
8	ETR, acquirer	0.09	0.12	0.28	0.12	0.09	0.02	0.02	0.40	-0.42	1								
9	Total natural resources, host	3.58	6.89	-0.08	0.25	-0.07	-0.31	0.31	0.02	-0.05	-0.05	1							
10	Labour force, host	35,600,000.00	104,000,000.00	0.18	0.13	-0.15	-0.40	0.36	-0.01	-0.07	-0.13	0.3	1						
11	Minimum wage, host	907.98	599.05	0.12	0.37	0.06	0.03	0.01	0.01	0.00	0.02	0.15	0.41	1					
12	R&D expenditure, host	1.24	0.96	0.31	0.42	0.21	0.59	-0.52	0.52	-0.01	-0.01	-0.41	0.02	0.18	1				
13	Imports, host	37.19	22.12	0.19	0.28	0.05	0.11	0.01	0.01	0.31	0.05	0.07	0.07	0.03	0.05	1			
14	Exports, host	45.72	34.82	0.08	0.22	0.02	0.31	-0.27	0.02	0.02	0.02	-0.15	-0.51	0.15	0.08	0.72	1		
15	Tariff, host	6.07	5.45	0.12	-0.09	0.02	-0.61	0.44	0.00	0.01	0.06	0.48	0.46	0.05	-0.31	-0.21	-0.51	1	
16	Tax rate, host	21.56	9.85	-0.15	-0.15	0.39	-0.13	0.26	0.01	0.04	0.34	0.03	0.08	-0.09	0.37	0.17	0.13	0.41	1
17	Inflation, host	11.5	83.57	-0.11	0.01	0.01	-0.41	0.18	0.01	0.12	0.01	0.34	0.16	0.02	-0.39	-0.15	-0.19	0.22	-0.05
18	Central government debt, host	53.15	33.45	-0.08	0.14	0.01	-0.14	0.13	0.04	0.17	0.02	-0.39	0.07	0.04	0.13	0.48	0.39	-0.11	-0.06
19	Rule of law, host	1.29	0.60	0.26	0.41	-0.21	0.23	-0.51	0.20	-0.02	-0.21	0.02	-0.13	0.05	0.11	0.16	0.11	0.01	0.42
20	Political stability, host	0.86	0.69	0.41	0.32	0.10	-0.17	-0.30	0.07	0.01	0.14	-0.03	0.06	0.11	0.01	0.06	0.06	0.23	0.28
21	Economic freedom, host	59.99	11.54	0.19	0.28	0.32	0.56	0.61	0.01	0.00	0.32	0.09	0.18	0.05	0.39	0.34	0.41	0.28	0.13
22	Cultural distance	0.46	0.38	-0.18	0.23	0.25	-0.11	0.26	0.23	0.21	0.01	-0.09	0.04	-0.01	-0.17	0.02	0.04	-0.01	-0.03
23	Trade bloc	0.50	0.19	0.12	0.33	0.06	0.02	0.03	0.00	0.09	0.01	0.01	0.21	-0.01	0.00	0.21	0.10	0.04	-0.01
24	G20 group	0.54	0.12	0.05	0.09	-0.11	0.33	0.24	0.01	0.30	-0.09	0.01	0.02	-0.03	0.04	0.00	0.02	0.03	0.01
25	Common colonial history	0.55	0.29	0.20	0.10	0.02	0.05	0.01	0.00	-0.01	0.02	0.03	-0.12	0.04	0.05	-0.11	0.03	0.25	0.01
26	Geographic distance	1802.63	2031.81	-0.29	0.05	0.11	0.10	-0.31	0.13	0.22	0.01	0.08	-0.11	0.10	0.33	0.31	0.01	-0.21	0.21

Table 2. (Continued)

	Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
27	Economic distance	33,255.11	19,317.88	−0.31	−0.16	0.06	−0.15	0.06	0.26	0.21	0.06	0.13	0.02	0.03	−0.18	0.01	−0.01	0.13	0.19
28	Prior experience	5.03	8.22	0.42	0.49	0.02	0.09	−0.01	0.34	−0.03	−0.05	0.05	0.01	0.03	0.01	0.13	0.14	0.02	0.01
29	Product diversification	5.92	7.01	0.21	0.31	0.13	0.23	0.23	0.22	0.37	0.11	0.01	0.03	0.11	0.09	0.10	0.03	0.02	0.01
30	Geographic diversification	8.59	9.62	0.39	0.18	0.03	0.18	0.57	0.41	0.22	0.21	0.01	−0.02	0.06	−0.03	0.01	0.02	0.01	0.21
31	Size	1,102,335	925,601	0.10	0.22	0.11	0.01	0.34	0.19	0.41	−0.05	0.04	0.03	0.15	0.04	0.11	0.09	0.15	0.18
32	Age	35.15	16.23	0.09	0.32	0.50	0.01	0.25	0.05	0.25	−0.01	−0.02	0.01	0.01	0.02	0.01	−0.01	0.13	0.09
33	State-owned acquirer	0.12	0.14	0.28	0.35	0.21	0.15	0.05	0.02	0.03	0.01	−0.21	0.09	0.01	0.01	0.03	0.04	0.02	0.01

	Variable	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32
17	Inflation, host	1															
18	Central government debt, host	−0.44	1														
19	Rule of law, host	−0.08	0.19	1													
20	Political stability, host	−0.07	0.30	0.52	1												
21	Economic freedom, host	0.16	0.53	0.14	0.25	1											
22	Cultural distance	0.09	0.08	0.02	0.02	0.02	1										
23	Trade bloc	0.02	0.06	−0.08	0.15	0.15	0.09	1									
24	G20 group	0.06	0.05	0.09	0.03	0.01	0.00	0.06	1								
25	Common colonial history	0.01	0.06	0.05	−0.02	−0.01	0.01	0.01	0.01	1							
26	Geographic distance	−0.21	0.09	−0.13	−0.04	0.04	−0.13	−0.11	0.06	0.27	1						
27	Economic distance	0.08	−0.01	0.22	0.02	0.15	−0.11	−0.03	−0.22	−0.22	0.35	1					
28	Prior experience	−0.03	0.01	0.01	0.15	0.06	0.14	0.01	0.21	0.21	0.00	0.01	1				
29	Product diversification	0.09	0.12	0.14	0.00	−0.01	−0.01	0.22	0.04	0.04	0.02	0.01	0.15	1			
30	Geographic diversification	0.14	0.01	0.11	0.01	0.01	0.03	0.16	0.06	−0.01	0.21	0.05	0.18	0.51	1		
31	Size	0.02	0.04	0.01	0.06	0.03	0.05	0.01	0.02	0.02	0.02	0.2	0.11	0.19	0.62	1	
32	Age	0.04	0.07	0.02	0.03	−0.03	0.01	0.02	0.01	0.22	0.01	0.11	0.33	0.33	0.26	0.41	1
33	State-owned acquirer	0.01	−0.02	0.01	0.21	0.01	0.01	0.01	0.07	0.00	0.00	0.01	0.20	0.21	0.31	0.55	0.22

Table 3. Regression results using system GMM

	Baseline model (controls only)	H1a model	H1b model	H2a model	H2b model	H3a model	H3b model	H3c model	Full model
Dependent variable:	CBAs	CBAs	Equity ownership in CBAs	CBAs	CBAs	CBAs	CBAs	CBAs	CBAs
	1	2	3	4	5	6	7	8	9
Independent variables									
ETR, host		0.112 (0.013) [0.000]	0.425 (0.182) [0.002]	0.186 (0.053) [0.003]	0.126 (0.034) [0.003]	0.114 (0.013) [0.000]	0.119 (0.013) [0.000]	0.151 (0.031) [0.002]	0.140 (0.058) [0.006]
GDP per capita, host				0.082 (0.052) [0.026]					0.173 (0.106) [0.095]
ETR, host × GDP per capita, host				0.006 (0.002) [0.001]					0.002 (0.003) [0.006]
Gini index, host					0.965 (0.313) [0.017]				0.960 (0.356) [0.017]
ETR, host × Gini index, host					0.280 (0.046) [0.002]				0.276 (0.174) [0.007]
R&D expenditure, acquirer industry						0.124 (0.082) [0.017]			0.122 (0.089) [0.019]
ETR, host × R&D expenditure, acquirer industry						0.016 (0.005) [0.001]			0.010 (0.008) [0.003]
Value added, acquirer industry							0.308 (0.149) [0.003]		0.294 (0.139) [0.004]
ETR, host × value added, acquirer industry							0.096 (0.011) [0.001]		0.080 (0.011) [0.001]
ETR, acquirer								0.329 (0.108) [0.013]	0.341 (0.155) [0.025]
ETR, host × ETR, acquirer								0.162 (0.201) [0.152]	0.165 (0.219) [0.176]
Control variables									
CBAs/CBAs equity ownership, t−1	0.065 (0.009) [0.000]	0.061 (0.009) [0.000]	0.105 (0.032) [0.004]	0.065 (0.010) [0.000]	0.065 (0.009) [0.000]	0.066 (0.010) [0.005]	0.068 (0.017) [0.002]	0.067 (0.010) [0.002]	0.066 (0.017) [0.003]
Total natural resources, host	−0.122 (0.135) [0.189]	−0.121 (0.135) [0.187]	0.007 (0.025) [0.106]	−0.122 (0.135) [0.188]	−0.128 (0.136) [0.190]	0.156 (0.162) [0.183]	−0.128 (0.135) [0.190]	−0.125 (0.135) [0.182]	0.156 (0.169) [0.161]
Labour force, host	0.101 (0.082) [0.059]	0.101 (0.081) [0.055]	0.183 (0.105) [0.039]	0.116 (0.050) [0.051]	0.103 (0.054) [0.055]	0.132 (0.082) [0.064]	0.101 (0.054) [0.055]	0.105 (0.054) [0.055]	0.132 (0.085) [0.077]
Minimum wage, host	−0.051 (0.092) [0.301]	−0.059 (0.098) [0.565]	0.355 (0.322) [0.186]	−0.052 (0.090) [0.530]	−0.043 (0.090) [0.512]	−0.059 (0.193) [0.298]	−0.050 (0.091) [0.530]	−0.058 (0.094) [0.536]	−0.167 (0.198) [0.200]
R&D expenditure, host	−0.995 (0.768) [0.092]	−0.996 (0.767) [0.091]	0.352 (0.428) [0.403]	−0.995 (0.769) [0.092]	−0.903 (0.742) [0.091]	0.317 (0.429) [0.155]	−0.995 (0.767) [0.092]	0.926 (0.702) [0.081]	0.553 (0.426) [0.101]
Exports, host	−0.044 (0.025) [0.062]	−0.044 (0.024) [0.060]	−0.453 (0.625) [0.583]	−0.044 (0.025) [0.062]	−0.048 (0.026) [0.061]	−0.156 (0.235) [0.308]	−0.043 (0.024) [0.061]	−0.151 (0.233) [0.308]	−0.151 (0.237) [0.312]
Tariff, host	0.105 (0.123) [0.117]	0.109 (0.124) [0.117]	0.007 (0.093) [0.225]	0.102 (0.120) [0.115]	0.113 (0.128) [0.119]	0.118 (0.123) [0.152]	0.126 (0.144) [0.121]	0.185 (0.190) [0.196]	0.185 (0.192) [0.193]
Tax rate, host	−0.055 (0.015) [0.062]	−0.043 (0.088) [0.133]	−0.174 (0.255) [0.189]	−0.042 (0.088) [0.134]	−0.042 (0.088) [0.134]	−0.056 (0.082) [0.132]	−0.048 (0.089) [0.135]	−0.071 (0.096) [0.107]	−0.076 (0.099) [0.112]
Inflation, host	−0.036 (0.155) [0.396]	−0.032 (0.150) [0.342]	0.075 (0.100) [0.248]	−0.030 (0.051) [0.348]	−0.032 (0.151) [0.342]	0.068 (0.129) [0.284]	−0.029 (0.148) [0.322]	−0.033 (0.050) [0.342]	−0.038 (0.161) [0.341]

Table 3. (Continued)

	Baseline model (controls only)	H1a model	H1b model	H2a model	H2b model	H3a model	H3b model	H3c model	Full model
Rule of law, host	0.055 (0.109) [0.260]	0.050 (0.102) [0.296]	−0.002 (0.015) [0.127]	0.050 (0.102) [0.296]	0.050 (0.102) [0.296]	0.050 (0.105) [0.298]	0.050 (0.102) [0.296]	0.050 (0.100) [0.296]	0.050 (0.105) [0.296]
Political stability, host	0.141 (0.102) [0.082]	0.156 (0.183) [0.155]	0.133 (0.085) [0.095]	0.152 (0.180) [0.154]	0.154 (0.183) [0.155]	0.129 (0.180) [0.133]	0.163 (0.230) [0.210]	0.156 (0.180) [0.152]	0.126 (0.145) [0.115]
Cultural distance	0.320 (0.106) [0.090]	0.423 (0.325) [0.151]	0.083 (0.056) [0.062]	0.436 (0.326) [0.151]	0.422 (0.325) [0.152]	0.328 (0.205) [0.101]	0.423 (0.325) [0.151]	0.346 (0.225) [0.101]	0.346 (0.228) [0.101]
Trade bloc	0.007 (0.015) [0.103]	0.007 (0.015) [0.103]	0.027 (0.019) [0.095]	0.007 (0.015) [0.103]	0.007 (0.015) [0.103]	0.010 (0.011) [0.100]	0.007 (0.012) [0.101]	0.015 (0.018) [0.129]	0.010 (0.012) [0.100]
G20 group	0.001 (0.005) [0.250]	0.001 (0.005) [0.250]	0.043 (0.125) [0.363]	0.001 (0.005) [0.250]	0.001 (0.005) [0.250]	0.001 (0.006) [0.250]	0.001 (0.005) [0.250]	−0.001 (0.008) [0.360]	−0.001 (0.010) [0.367]
Common colonial history	0.011 (0.027) [0.140]	0.005 (0.010) [0.253]	0.020 (0.029) [0.136]	0.020 (0.023) [0.135]	0.010 (0.027) [0.140]	0.012 (0.027) [0.139]	0.028 (0.034) [0.136]	0.018 (0.023) [0.117]	0.018 (0.025) [0.120]
Geographic distance	−0.053 (0.068) [0.166]	−0.053 (0.068) [0.164]	0.095 (0.106) [0.223]	−0.053 (0.068) [0.166]	−0.055 (0.068) [0.166]	−0.054 (0.060) [0.161]	−0.055 (0.069) [0.166]	−0.133 (0.118) [0.105]	−0.055 (0.066) [0.162]
Economic distance	0.510 (0.361) [0.089]	0.513 (0.361) [0.089]	−0.019 (0.055) [0.214]	0.670 (0.535) [0.173]	0.670 (0.535) [0.173]	0.526 (0.389) [0.091]	0.670 (0.535) [0.173]	0.670 (0.533) [0.173]	0.670 (0.535) [0.171]
Prior experience	0.008 (0.006) [0.005]	0.008 (0.005) [0.005]	−0.001 (0.002) [0.008]	0.009 (0.005) [0.001]	0.008 (0.005) [0.002]	0.010 (0.004) [0.002]	0.008 (0.005) [0.002]	0.008 (0.005) [0.002]	0.010 (0.006) [0.002]
Product diversification	0.118 (0.076) [0.103]	0.118 (0.076) [0.103]	0.079 (0.082) [0.154]	0.118 (0.076) [0.103]	0.116 (0.076) [0.103]	0.112 (0.080) [0.100]	0.118 (0.076) [0.103]	0.112 (0.075) [0.103]	0.101 (0.084) [0.108]
Geographic diversification	0.099 (0.065) [0.031]	0.095 (0.065) [0.030]	0.007 (0.010) [0.133]	0.090 (0.063) [0.030]	0.093 (0.065) [0.031]	0.090 (0.061) [0.030]	0.095 (0.065) [0.030]	0.082 (0.063) [0.030]	0.092 (0.060) [0.025]
Size	0.166 (0.008) [0.001]	0.162 (0.007) [0.001]	0.238 (0.159) [0.081]	0.162 (0.007) [0.001]	0.162 (0.007) [0.001]	0.162 (0.008) [0.000]	0.162 (0.006) [0.001]	0.162 (0.006) [0.001]	0.164 (0.018) [0.002]
Age	−0.015 (0.054) [0.267]	−0.015 (0.054) [0.267]	−0.038 (0.105) [0.382]	−0.011 (0.032) [0.179]	−0.011 (0.032) [0.178]	−0.019 (0.034) [0.195]	−0.011 (0.030) [0.176]	−0.012 (0.031) [0.179]	−0.016 (0.033) [0.179]
State-owned acquirer	0.074 (0.163) [0.165]	0.079 (0.203) [0.165]	0.109 (0.053) [0.005]	0.075 (0.192) [0.161]	0.075 (0.190) [0.160]	0.078 (0.190) [0.097]	0.075 (0.192) [0.161]	0.092 (0.105) [0.098]	0.095 (0.103) [0.098]
Time period and acquirer industry dummies	YES	YES	YES	YES	YES	YES	YES	YES	YES
F	403.22	465.01	399.55	435.17	432.08	435.99	408.44	430.51	572.01
p > F	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
AR(1) test (p value)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
AR(2) test (p value)	0.501	0.552	0.312	0.511	0.519	0.525	0.524	0.322	0.640
Hansen test of over-identification (p value)	0.181	0.186	0.127	0.186	0.180	0.181	0.189	0.186	0.192
Difference-in-Hansen test of exogeneity (p value)	0.608	0.611	0.409	0.611	0.615	0.608	0.622	0.614	0.698
N	75,600	75,600	75,600	75,600	75,600	75,600	75,600	75,600	75,600

Standard errors (robust) in parentheses and p values in brackets. The final number of observations was reduced due to missing observations of particular control variables.
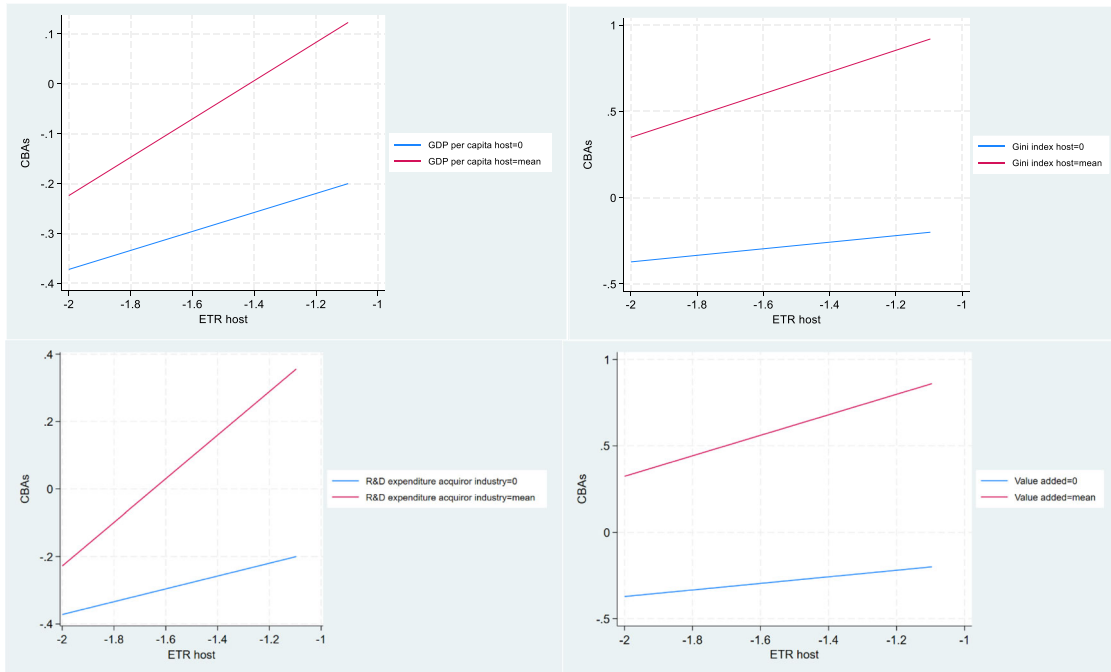
Figure 1. Interaction effects [Colour figure can be viewed at wileyonlinelibrary.com]

tax-related incentives to be more firmly embedded within research on location determinants, particularly in the context of acquisitions (Cooper and Nguyen, 2020). We argue and empirically show that a host country in which there is greater scope for firms to shift profits outbound will attract more foreign acquisitions. This supports our reasoning that the opportunity for OPS is a determinant of FDI and an essential element in the firms' accountability-avoiding FDI strategies to increase shareholder wealth (Eden and Smith, 2022; Temouri *et al.*, 2022). Examples such as the Double Irish–Dutch Sandwich illustrate how large MNEs apply this strategy. Two host countries (Ireland and the Netherlands) serve as OPS destinations, with profits ultimately shifted outward to a tax haven (Bermuda). Each country's tax regulations support OPS through, for example, low-tax or tax-free transactions between subsidiaries, low (or no) corporate tax on royalty payments, or tax residency rules (Eiteman, Stonehill and Moffett, 2016). OPS, we found, is relevant across industries, even when controlling for MNE size.

Our study also highlights further characteristics of OPS as an investment motive, with managerial and policy implications. Specifically, OPS demands a high level of control over the subsidiary, hence we find a higher likelihood that OPS-motivated CBAs will be of high or whole-equity ownership. Our finding that the relationship between OPS and CBAs is augmented when the host market is more attractive suggests that value creation and OPS go in tandem. This, we propose, is not the case for IPS-driven investment which, in contrast,

has no requirements that there be a host market ('letterbox corporations'). We further find positive moderating effects of horizontal and vertical integration on the relationship between OPS and CBAs, carrying policy implications. As firms pursue more OPS-driven investment, the free market becomes thinner, hence the arm's length standard in such industries becomes progressively less applicable. When considering policies to limit profit shifting, regulators would benefit by focusing on these integrated industries in which much of the profit shifting may take place. We might conjecture that the strengthening impetus for OPS-driven investment may result in more geographically complex corporate networks in which tax liability is, generally, difficult to assess. We might also remark that growth in the 'fine slicing' of value chains means that our findings will become more salient to explaining the relation between FDI and OPS. Our results do not support a moderating role for prior OPS experience. We explain this by the ready availability of OPS expertise provided by the tax-planning services of financial consulting firms (Jones, Temouri and Cobham, 2018). The availability of these external services at a non-prohibitive price will weaken the relationship between experience and CBAs connected with OPS.

Our finding that the relationship between OPS and CBAs is positively moderated by host-country income inequality aligns with the possibility that OPS may be a strategy to control expropriation exposure. If so, then tolerance for opaque accounting practices would appear to emerge as a side benefit of inequality. This may

Table 4. Robustness tests

Dependent variable:	Full model (logistic regression) CBA likelihood	H1b model (logistic regression) Equity ownership in CBAs	Full model (system GMM estimation) CBAs	H1b model (system GMM estimation) Equity ownership in CBAs	Full model (Poisson regression estimation) CBAs	Full model (system GMM estimation, excluding variables with VIFs higher than 10) CBAs
	1	2	3	4	5	6
Independent variables						
ETR, host	0.278 (0.193) [0.006]	0.081 (0.027) [0.001]			0.098 (0.035) [0.008]	0.121 (0.034) [0.005]
GDP per capita, host	0.255 (0.310) [0.109]		0.960 (0.653) [0.041]		0.318 (0.119) [0.025]	0.173 (0.102) [0.095]
ETR, host × GDP per capita, host	0.119 (0.055) [0.007]				0.021 (0.011) [0.040]	0.002 (0.001) [0.001]
Gini index, host	1.278 (0.790) [0.010]		1.034 (0.522) [0.039]		1.055 (0.781) [0.095]	0.922 (0.347) [0.015]
ETR, host × Gini index, host	0.128 (0.049) [0.005]				0.045 (0.010) [0.001]	0.295 (0.068) [0.003]
R&D expenditure, acquirer industry	0.096 (0.038) [0.007]		0.129 (0.082) [0.027]		0.156 (0.108) [0.010]	0.105 (0.052) [0.008]
ETR, host × R&D expenditure, acquirer industry	0.015 (0.002) [0.000]				0.015 (0.009) [0.004]	0.009 (0.008) [0.003]
Value added, acquirer industry	0.081 (0.039) [0.003]		0.315 (0.163) [0.005]		0.250 (0.033) [0.005]	0.289 (0.138) [0.004]
ETR, host × value added, acquirer industry	0.102 (0.016) [0.001]				0.002 (0.001) [0.001]	0.080 (0.008) [0.001]
ETR, acquirer	0.155 (0.308) [0.552]		0.103 (0.028) [0.002]		−0.059 (0.019) [0.045]	0.245 (0.109) [0.023]
ETR, host × ETR, acquirer	0.046 (0.157) [0.229]				0.009 (0.175) [0.489]	0.164 (0.208) [0.175]
Differential between ETR host and STR			0.090 (0.069) [0.025]	0.133 (0.041) [0.016]		
Differential between ETR host and STR × GDP per capita, host			0.014 (0.011) [0.008]			
Differential between ETR host and STR × Gini index, host			0.024 (0.019) [0.077]			
Differential between ETR host and STR × R&D expenditure, acquirer industry			0.012 (0.005) [0.003]			
Differential between ETR host and STR × value added, acquirer industry			0.022 (0.016) [0.012]			
Differential between ETR host and STR × ETR, acquirer			−0.012 (0.099) [0.315]			

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Table 4. (Continued)

Control variables	Full model (logistic regression)	H1b model (logistic regression)	Full model (system GMM estimation)	H1b model (system GMM estimation)	Full model (Poisson regression estimation)	Full model (system GMM estimation, excluding variables with VIFs higher than 10)
CBAs/CBAs equity ownership, t−1	0.678 (0.045) [0.001]	0.109 (0.035) [0.005]	0.055 (0.016) [0.014]	0.265 (0.133) [0.083]	0.043 (0.010) [0.002]	0.066 (0.013) [0.003]
Total natural resources, host	−0.122 (0.185) [0.392]	0.128 (0.163) [0.208]	−0.120 (0.138) [0.189]	0.005 (0.024) [0.105]	0.054 (0.128) [0.163]	0.034 (0.072) [0.167]
Labour force, host	0.092 (0.103) [0.101]	0.144 (0.157) [0.136]	0.112 (0.054) [0.063]	0.183 (0.093) [0.039]	0.279 (0.258) [0.133]	0.135 (0.083) [0.076]
Minimum wage, host	0.014 (0.031) [0.158]	−0.012 (0.045) [0.209]	−0.050 (0.091) [0.300]	0.358 (0.322) [0.187]	0.007 (0.029) [0.157]	−0.169 (0.195) [0.199]
R&D expenditure, host	0.199 (0.098) [0.009]	0.090 (0.126) [0.188]	−0.994 (0.769) [0.105]	0.352 (0.427) [0.403]	−0.159 (0.236) [0.198]	
Exports, host	0.093 (0.101) [0.116]	−0.102 (0.155) [0.189]	−0.041 (0.025) [0.062]	−0.453 (0.623) [0.583]	−0.133 (0.285) [0.179]	−0.155 (0.208) [0.256]
Tariff, host	0.070 (0.030) [0.061]	0.105 (0.078) [0.065]	0.116 (0.129) [0.118]	0.007 (0.094) [0.225]	0.021 (0.059) [0.162]	
Tax rate, host	−0.005 (0.036) [0.167]	−0.019 (0.082) [0.390]			−0.071 (0.199) [0.382]	−0.070 (0.094) [0.102]
Inflation, host	0.009 (0.021) [0.310]	0.002 (0.023) [0.207]	0.000 (0.002) [0.253]	0.002 (0.012) [0.243]	0.000 (0.002) [0.239]	0.005 (0.018) [0.263]
Rule of law, host	0.143 (0.208) [0.560]	0.299 (0.307) [0.129]	0.053 (0.145) [0.253]	−0.004 (0.015) [0.126]	0.325 (0.209) [0.091]	
Political stability, host	−0.043 (0.087) [0.155]	0.012 (0.020) [0.018]	0.134 (0.086) [0.098]	0.154 (0.181) [0.252]	0.024 (0.020) [0.108]	0.105 (0.140) [0.114]
Cultural distance	0.102 (0.110) [0.155]	−0.108 (0.072) [0.009]	0.095 (0.102) [0.153]	0.436 (0.324) [0.150]	0.145 (0.199) [0.228]	0.322 (0.220) [0.108]
Trade bloc	0.116 (0.201) [0.289]	0.039 (0.089) [0.129]	0.020 (0.017) [0.099]	0.007 (0.016) [0.103]	0.475 (0.366) [0.106]	0.010 (0.012) [0.102]
G20 group	0.002 (0.006) [0.158]	0.013 (0.026) [0.189]	0.043 (0.124) [0.362]	0.001 (0.005) [0.250]	0.009 (0.067) [0.369]	−0.001 (0.005) [0.360]
Common colonial history	0.005 (0.010) [0.236]	0.061 (0.029) [0.013]	0.020 (0.029) [0.135]	0.020 (0.025) [0.136]	0.039 (0.098) [0.258]	0.017 (0.024) [0.122]
Geographic distance	0.014 (0.029) [0.129]	−0.122 (0.081) [0.008]	0.094 (0.109) [0.224]	−0.053 (0.066) [0.165]	0.107 (0.149) [0.133]	−0.055 (0.062) [0.161]
Economic distance	0.023 (0.109) [0.345]	0.007 (0.032) [0.289]	−0.015 (0.054) [0.213]	0.662 (0.532) [0.173]	0.358 (0.299) [0.112]	−0.022 (0.058) [0.176]
Prior experience	0.106 (0.053) [0.008]	0.120 (0.071) [0.017]	−0.001 (0.002) [0.008]	0.009 (0.005) [0.001]	0.009 (0.005) [0.003]	0.010 (0.002) [0.001]
Product diversification	0.009 (0.006) [0.005]	0.033 (0.041) [0.189]	0.070 (0.062) [0.095]	0.116 (0.071) [0.101]	0.025 (0.010) [0.073]	0.100 (0.080) [0.101]
Geographic diversification	−0.016 (0.082) [0.228]	0.015 (0.090) [0.202]	0.007 (0.010) [0.135]	0.090 (0.063) [0.030]	0.015 (0.059) [0.391]	0.090 (0.057) [0.021]

Table 4. (Continued)

	Full model (logistic regression)	H1b model (logistic regression)	Full model (system GMM estimation)	H1b model (system GMM estimation)	Full model (Poisson regression estimation)	Full model (system GMM estimation, excluding variables with VIFs higher than 10)
Size	0.199 (0.233) [0.167]	0.093 (0.066) [0.009]	0.234 (0.168) [0.095]	0.161 (0.008) [0.001]	0.098 (0.042) [0.015]	0.160 (0.014) [0.002]
Age	0.152 (0.183) [0.209]	0.107 (0.099) [0.010]	−0.045 (0.105) [0.381]	−0.011 (0.032) [0.179]	0.102 (0.089) [0.090]	−0.015 (0.031) [0.163]
State-owned acquirer	0.008 (0.015) [0.133]	0.136 (0.150) [0.125]	0.112 (0.063) [0.009]	0.074 (0.186) [0.160]	0.049 (0.059) [0.133]	0.095 (0.100) [0.096]
Time period and acquirer industry dummies	YES	YES	YES	YES	YES	YES
F/LR χ^2/Wald χ^2	533.22	219.30	521.37	298.06	369.53	478.22
p > F/Prob > χ^2	0.000	0.000	0.000	0.000	0.000	0.000
AR(1) test (p value)			0.000	0.000		0.000
AR(2) test (p value)			0.766	0.349		0.392
Hansen test of over-identification (p value)			0.205	0.128		0.186
Difference-in-Hansen test of exogeneity (p value)			0.573	0.216		0.611
N	75,600	75,600	75,600	75,600	75,600	75,600

Standard errors (robust) in parentheses and p values in brackets. The final number of observations was reduced due to missing observations of particular control variables.

explain why investors do not shy away from riskier hosts, as might otherwise be expected on the basis of earlier work. For example, a recent study on the relationship between income inequality and FDI found that highly unequal environments deter inward investment owing to prohibitively high transaction costs afflicting operations (Lupton *et al.*, 2020). Yet our findings suggest that incorporating the scope for OPS holds potential for explaining how firms might mitigate these costs through benefiting from OPS. This conclusion may deepen our understanding of the interaction between accountability-avoiding FDI and other FDI motives. This area of interaction was picked out as neglected within internationalization research (Driffield *et al.*, 2021), while holding much potential to reveal significant welfare implications (Beer, De Mooij and Liu, 2020). It is now clear to see how high inequality and significant scope for OPS may represent channels through which substantial value may be appropriated from the host economy. Further research on the relationship between these variables may also help explain seemingly counterintuitive findings within the property rights literature that firms in unequal countries support weak property rights and reject institutional reform (Emmenegger and Marx, 2019).

Our study also relates to the policy on global minimum corporate tax (GMCT), whereby MNEs would be subject to top-up taxes above those applying in the location of their operation (OECD, 2022a). Although this policy measure might ease the pressure on some high-tax jurisdictions to offer tax incentives, our research suggests, in line with other studies (e.g. Cobham, Janský and Meinzer, 2015), that there is a need for policy action to target financial secrecy. We expect that secrecy and the scope for OPS will feature more prominently in future discussions of MNEs' global strategy. We further envisage that some jurisdictions might underline their national sovereignty by pursuing greater secrecy as a means to attract MNEs facing GMCT. We might foresee a general migration towards greater secrecy as a secondary effect of GMCT, all of which points to a need for concerted supranational policy action.

One might wonder how host countries could be motivated to encourage OPS, as this limits domestic welfare gains from inward investment. A case in point is developing countries which, in comparison with advanced countries, rely far more on corporate tax revenues (Crivelli, De Mooij and Keen, 2016). The answer lies within the international business literature, which established that inward FDI may sufficiently benefit host countries in several direct and indirect ways (spillovers) (Hejazi and Safarian, 1999). These include, for example, tax revenue on local factor incomes, indirect taxes, demonstration effects whereby local firms learn from new technology and/or MNEs' staff training, plus professionalization benefits via transferring business practices. Each such instance upgrades the productivity of domestic firms and confers new technology on the domestic economy (Kwok and Tadesse, 2006; Liu *et al.*, 2000). On top of this, policymakers may also be reluctant to introduce more stringent OPS regulation for fear of multinationals delocalizing (Peralta, Wauthy and Van Ypersele, 2006). Other reasons include lack of effective legislation, limited capacity and capability needed to implement complex rules to challenge experienced MNEs, complexity of international tax regulations, heavy MNE lobbying and competitive pressures (OECD, 2014).

Since we are unable to distinguish between the different methods of OPS, further investigation to examine whether certain channels hold a stronger relationship with OPS-driven FDI may hold promise. Also, our financial data consider unconsolidated accounts, whereas research based on consolidated accounts may better explain the role of OPS within the globalized MNE network. Researchers may also consider a different empirical context, such as greenfield investments. OPS as a motive will apply, we expect, when the greenfield investment is sizeable along with the interaction effects of market attractiveness, signifying a long-term commitment to the host market. Moreover, it is possible that our hypotheses and measures may not give a complete picture of how a country enables OPS. Future work could, for instance, apply a more cross-country perspective and consider the role of international tax agreements – particularly relevant in view of the BEPS (Base Erosion and Profit Shifting) Project (Mosquera Valderrama, Lesage and Lips, 2018). We can envision a multi-agency, multi-level 'tax avoidance ecosystem' that enables OPS with multinationals, subsidiaries, policy makers, supranational bodies and consultancy firms, each playing different roles (Jones, Temouri and Cobham, 2018).

Opportunities for extending our research also include, for example, the analysis of those CBAs that are seemingly commercially unviable when evaluated in terms of conventional motives. Additionally, OPS may help understand poor post-acquisition performance. The accepted view is that the management of the post-acquisition integration process is to blame (Bauer and Matzler, 2014; Thanos and Papadakis, 2012) and that solutions lie within superior managerial actions (Wei and Clegg, 2020). Apart from the spiriting away of subsidiary profits, our findings open the way to an intriguing alternative explanation. In OPS-driven CBAs, productivity may be affected, leading to costs arising from raised employee turnover, low workforce morale in a cross-cultural setting and, ultimately, causing long-term damage to subsidiary performance. Prior literature found that accountability-avoiding FDI may also lead to corporate inversions, where the locus of incorporation is shifted under a CBA to a more tax-favourable country, to reduce tax on foreign assets (Godar, O'Connor and Taylor, 2005). Research on this

has largely focused on tax havens (Desai, Foley and Hines, 2006), yet it may also be related to OPS investments and, if so, future research along these lines may generate further implications. Quite apart from these opportunities, our study introduces the importance of OPS-motivated CBAs as a first step in the direction of a deeper understanding of this phenomenon.

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