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Transfer Pricing 2.0

A case study on the role of transfer pricing on the integration of MNCs after increased tax equality

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Abstract

This paper employs the dynamic equilibrium model of paradox theory to analyze the role of transfer pricing on the integration of MNCs after increased tax equality. Findings suggest that the role under examination evolved as a consequence of the OECD BEPS project, ultimately reinforcing vicious cycles. Provoked by prevailing one-way thinking, increased tax equality further inhibited organizational actors to apply paradoxical viewpoint. Being deemed crucial to resolving paradoxes, this unilateral way of thinking, combined with individual factors of anxiety and consistency, finally lead to the role of transfer pricing on integration processes within MNCs being found as a rather destructive than constructive, sustainable and resolving one.

Keywords: Transfer Pricing, BEPS Action Plan, Tax Equality, Paradox Theory, Integration

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1. Introduction

We not only comply with the laws - we comply with the spirit of the laws

The opening quote is from the CEO of Apple Inc., Tim Cook, when he appeared before congress in an investigation concerning Apple's offshore profit and taxation policy. Apple, along with many other well-known companies such as Amazon and Starbucks are just some examples of large MNCs that have recently had their international transfer pricing practices questioned by tax authorities, media and general public. The main reason for this lies in the fact that, to MNCs, transfer pricing is boon and bane at the same time and the tightrope walk between tax compliance and tax evasion a much debated one. Research acknowledges this multifaceted nature and the many organizational interfaces of transfer pricing, ranging from business strategy or performance measurement to knowledge sharing (Cravens, 1997; Cools et al., 2008; Plesner Rossing and Rohde, 2014). On top of engaging management accounting researchers, the phenomenon of transfer pricing is receiving increased attention from global and local practitioners. Finalized in October 2015 by the Organization of Economic Co-operation and Development (OECD, 2015) and G20 countries, a 15-point action plan (from here on referred to as either *OECD BEPS project* or *increased tax equality*) was presented. The main purpose of the action plan is to address base erosion profit shifting (BEPS) and is sought to put pressure on MNCs' criticized transfer pricing procedures, whilst further fueling academic interest (PWC, 2015).

In management accounting literature, the growing importance of transfer pricing in a strategic setting has played a continuous role over the past 30 years (e.g. Spicer, 1988; Chenhall and Moers, 2015). Eccles (1985, p.55) supported this development early on, stating that; "The relationship between strategy and transfer pricing policy is so intimate that it is nearly a tautology". Establishing a sound transfer pricing system that complies with local tax regulatory demands and fits the international environment, thus has become crucial to MNCs (Cravens, 1997). Considered highly complex organizations of varying peculiarities, MNC strategy will depend on its nature showing different determinants and purposes (Hedlund, 1986). Whilst up to this date, no common sense of defining a MNC has been established, research agrees on striving towards global integration as being distinctive strategic goal of large multinational firms (Perlmutter, 1969; Bartlett and Ghosal, 1987; Yip, 1989; Gabrielsson and Gabrielsson, 2003).

Being another eclectic term to which no unanimous definition exists, we define integration "as the effective collaboration, among diverse organizational entities, which is necessary to achieve a global unity of effort, while at the same time leaving space for local adaptation, differentiation and flexibility" (Busco et al., 2008, p.104). Strongly focusing on integration, however, provides fertile ground for organizational tensions. Busco et al. (2008) found, that several tensions are involved in the process of integrating a multinational organization, namely: vertical vs. lateral relations, convergence vs. differentiation and centralization vs. decentralization. Whilst the authors claim that these tensions are inevitable and need to be managed, we develop this view arguing for paradoxical rather than dialectical nature of these tensions. Seeing theoretical confusion in the suggested tension management by Busco et al. (2008) and paradox resolution by paradox theory, we claim that looking through the paradox lens is appropriate, enhancing understanding of organizational tensions as well as actively coping with them (Smith and Lewis, 2011).

In combination with its increasing relevance to MNCs, transfer pricing appears as a mechanism which demonstrates paradox resolution potential, thereby reinforcing the process towards integration within MNCs. Even though the explicit role of transfer pricing on the integration of multinational companies remains unresearched, findings of Spicer (1988) support this appearance, claiming that through setting transfer prices, communication is facilitated and a paradoxical resolution achieved. In this context, Chenhall and Moers (2015) find that transfer pricing removes isolation of separate business units. This assertion is corroborated through the findings of Busco et al. (2008) that identify accounting systems as transmitters and enablers of integration within organizations.

The objective of this paper is to explore the role of the transfer pricing on the integration of MNCs after increased tax equality. Whilst the latter is forecasted to significantly alter MNC's current practices, assessment of this role will be based on the ability of establishing a so called dynamic equilibrium between each of the organizational tensions identified by Busco et al. (2008). Conducting a single company case study within the global headquarter (HQ) and European subsidiaries of a Swedish corporation, we cover the whole decision-making chain. In-depth interviews with individuals from the Swedish HQ and foreign subsidiaries allow to not only evaluate the importance of transfer pricing during the integration process within MNCs but also to assess the changing role of transfer pricing since increased focus on tax equality represented by the OECD's BEPS project. In determining the potential of transfer pricing to resolve paradoxical tensions that are tightly linked to the process of integration, this paper will additionally highlight strategic importance and usefulness to practitioners. Furthermore, through shedding light on how focus on increased tax equality impacted the role of transfer pricing, assessment of a status quo and potential future research areas surface. Lastly, demonstrating how transfer pricing serves as a mechanism to establish a dynamic equilibrium, we aim to further gain insights on the various parts of the dynamic equilibrium model according to Smith and Lewis (2011).

With regards to the role of transfer pricing on integration, it is hypothesised in section 2.1.3 that transfer pricing would be able to actively impact integration within MNCs, since Chenhall and Moers (2015) and Busco et al. (2008), among others had evidenced integration potential of transfer pricing. Furthermore, it was hypothesised that recent focus on increased tax equality on a global level would affect the previous role played. Empirical analysis proved that both hypotheses could be supported by data gathered in the course of the case study.

Major contributions of this paper indicate that transfer pricing plays a role during integration processes within MNCs and is significantly affected by increased tax equality. By uniquely developing the organizational tensions of integration processes by Busco et al. (2008) and analyzing them through the paradoxical lens provided by Smith and Lewis (2011) this paper extends the transfer pricing domain, giving first implication on how transfer pricing as a strategic mechanism is used in practice. In addition to these findings, this papers identifies tax compliance vs. non-compliance as an increasingly relevant paradox with which MNCs are confronted, finally resulting in a renaissance of non-compliant behaviour of MNCs.

The remainder of this paper is structured as follows: section two will discuss existing literature on transfer pricing and integration as well as the importance of organizational tensions and increased tax equality when exploring the role of transfer pricing on MNCs integration through a paradox lens. The third and fourth section will provide an overview of research design, case company and empirical data. While section five summarizes findings and important contributions, section six will draw concluding remarks and highlight potential limitations and areas for future research.

2. Theoretical foundation

The following chapter is divided in three sections. The first part, section 2.1, explores the development of transfer pricing within the management accounting literature and highlights the gaps intended to be filled by this paper. The second part, section 2.2, presents the foundation for the theoretical framework. Finally, section 2.1 and 2.2 are integrated into a theoretical framework outlined in section 2.3.

2.1 Literature review and development of research gap

2.1.1 Transfer pricing - A journey through time

Historically, the focus on transfer pricing within the academic world and management accounting literature was derived around transfer pricing as a scheme that rational firms would implement in order to draw advantage of the mechanism and reduce taxes for the group (Hirshleifer, 1956; Hirshleifer, 1957; Dopuch and Drake, 1964). As time, firms and management accounting literature evolved, numerous studies further indicated the importance of using transfer prices as a tool to motivate employees and align them with a firm's strategy - and not only as a mechanism for shifting taxable profit between members of a group (Schiller, 1999; Sahay, 2003; Anthony, 2007; Bergstrand, 2011). Furthermore, Eccles (1983) and Cravens (1997) depicted transfer pricing as a scheme to foster the formulation of information and control for implementing strategy. Thus, transfer pricing, within management accounting literature, has grown to a stage where it is rather seen as a strategic mechanism.

Transfer pricing - a contingency-based perspective

Academic literature focused on transfer pricing has generally provided a contingency-based perspective (Plesner Rossing and Rohde, 2010; Jones, 1985). The authors argue that practices and structure with regards to transfer pricing are dependent on the internal and firm-specific situations. To date, management accounting literature has rather extensively research the ability of company managers to combine the management role and the control role of transfer pricing (Hyde and Choe, 2000; Durst, 2002; Cools, 2003; Cools and Slagmulder, 2009; Shunko et al., 2014). Hyde and Choe (2000) and Durst (2002) all researched MNCs in the context in which they calculated the arm's length principle based on compliance and what direct effects this would have on firms who used one accounting system. The authors research further implied that corporations could benefit by using two sets of systems instead of one. Moreover, Cools (2003) identifies arising costs as MNCs' strive towards tax compliance which ultimately results in application of a sub-optimal transfer pricing structure with regards to management control systems. Furthermore, Cools and Slagmulder (2009) exemplified that MNCs will implement the most tax compliant transfer pricing system at the expense of entrepreneurship.

Transfer pricing in an international setting

Management accounting literature has argued that MNCs, operating in an international environment, by using domestic tax rules and different domestic tax rates, could seek to decrease their income tax burden by shifting taxable income to jurisdictions with a lower corporate tax rate (Copithorne, 1971; Yao, 2013; Bradley, 2015; Taylor et al., 2015, Sikka and Willmott, 2010). Copithorne (1971) elaborated and stated that transfer pricing was a process of allocating as much of the profit possible to countries with the lowest corporate tax rates. These findings were further strengthened by Yao (2013) who claimed that MNCs' decision making process of where to internationally locate subsidiaries was significantly influenced by domestic corporate tax rate. Bradley (2015) surfaced the increasing friction that arose during recent years between tax authorities and MNCs with regards to the process of MNCs shifting their profits to low tax jurisdictions through the use and transfer pricing procedures. Main findings of Bradley's (2015) work demonstrate that MNCs go to great lengths to use whatever legal techniques that are available to lower their income tax. As previously mentioned, this is the main reason why regulators and authorities have combined forces in order to increase tax equality and prohibit the use of aggressive tax planning from MNCs.

Qualitative findings are further strengthened by Taylor et al. (2015) who - through a quantitative study - demonstrate that there are multiple of outlets that further fuel aggressiveness. Furthermore, Borkowski (2001) investigates transfer pricing on intangible assets in 262 MNCs based across the globe. Findings illustrate that 25% of the 159 MNCs that used transfer pricing for moving intellectual property between group companies, apply a method that is not approved by the OECD Transfer Pricing Guidelines. In contrast to this, Kolk (2008) studies MNCs reporting practices and finds an increased focus on compliance to assure transparency and accountability, implying a shift away from tax minimization practices. As its scope and complexity evolved, transfer pricing regulations and international tax initiatives have started to become a key factor and influence in a MNC's decision-making process. Because of this, there has been a growing concern from corporate tax departments of what constitutes tax compliant behaviour (Plessner Rossing, 2013; EY, 2013 PwC 2015). As smaller domestic firms developed and grew to larger MNCs using internationalization as a strategy, transfer pricing also emerged as foreign operations that previously had been treated as responsibility centres - for management control purposes – were now treated as profit centres for strategic and competitive advantages (Hedlund, 1986).

Examining the role of transfer pricing as a strategy for multinational firms

Underlying rationale for MNCs is the ability and power to utilize operations globally - thus generally involving the transfer of goods, services, financials or intangibles between separate but related entities of the MNC. Seeing that subsidiaries are separate - yet related - there needs to be a price assigned to the transfer. The importance of transfer pricing as a concept is highlighted by the fact that of the Fortune 1,000 companies roughly 80% must choose and implement a transfer pricing strategy - which in turn requires a complex array of legal, financial and operational considerations (Eccles, 1985; Sikka and Willmott, 2010). As previously mentioned, over the recent years, transfer pricing has started receiving an increasing amount of public concern (Sikka and Willmott, 2010). While much of the critique focuses on how MNCs use transfer pricing schemes to avoid paying income taxes, it has become increasingly apparent that attempting to minimize the tax burden is only one of the objectives of an international transfer pricing strategy.

Transfer pricing is a strategy - rather than a procedure (Eccles, 1985; Spicer, 1988)

Above-mentioned statement points to the importance of transfer pricing for MNCs overall corporate strategy and performance. If MNCs employ transfer pricing to accomplish multiple objectives, then the effectiveness of transfer pricing becomes even more important to overall success. Recognizing the importance of transfer pricing mechanisms to achieve defined objectives, transfer pricing arguably functions as an instrument to strategy (Cravens, 1997). Exemplarily, if one would picture corporate strategy as an ongoing organizational process consisting of strategy formulation and its implementation, Andrews (1987) claims that transfer pricing would be a crucial part to the implementation phase of this strategy. This alignment can be further supported by examining how strategy and transfer pricing are intertwined;

"The relationship between strategy and transfer pricing policy is so intimate that it is nearly a tautology." (Eccles, 1985, p.55)

It becomes clear that transfer pricing is part of MNCs' corporate strategy and should not be viewed as merely an accounting technique. To summarize, transfer pricing has mainly been portrayed by previous literature as an accounting technique and not as an active corporate management strategy. Technicians have also been more focused with determining which method to use for deciding upon transfer pricing, rather than considering how to use transfer pricing in a strategic context. Craven's (1997) research however demonstrates the fact that there is an increasing number of executives that recognize the role of transfer pricing as strategically relevant for MNCs.

2.1.2 Strategies differ among MNCs

Generally, MNCs are considered large corporations that run operations on a global scale. Despite the eminent need to adapt to increasing foreign competition, mature domestic markets and homogeneity of international markets, no unanimous definition of a multinational's strategy and its determinants exists (Yip, 1989; Perlmutter, 1969). In an attempt to define MNCs, Perlmutter (1969) found that true multinationalism can be defined as the sum and interplay of various factors such as the importance of foreign business, the degree of independence of subsidiaries, the organizational structure or the recruitment pattern e.g. an identifiable preference of hiring local individuals as managers for subsidiaries. Varying peculiarities of these factors led to the formulation of three states of mind which the author describes as ethnocentric (home-country oriented), polycentric (host-country oriented) and geocentric (world-oriented). Each of these organizational archetypes represent a distinctive manifestation of a MNC which follows a type-specific corporate strategy formulation respectively (Hedlund, 1986). Consequently, as strategies vary among different MNC types, a universal definition of a MNC is crucial to analyzing transfer pricing within a defined strategic scope.

Returning to Perlmutter's (1969) findings, geocentrism represents the mature state of a MNC whereas ethnocentrism and polycentrism solely are "landmarks along a difficult road to genuine geocentrism". As a matter of fact, the remainder of this paper will focus on the geocentric MNC. The geocentric firm is characterized by a matrix organization with dominant foreign business. Underlying drivers for globalization are supranational economic and political communities, the need for a worldwide information system as well as a host country's desire to increase the balance of payments (Perlmutter, 1969). Additionally, a shift towards higher centralization is characteristic for a geocentric MNC and the subsidiary's role is a means to implement and reinforce global strategy (Hedlund, 1986). Other authors who sought to characterize a MNC, formulate similar definitions. Yip (1989), for example, claims that three steps characterize a MNC's path to worldwide strategic reach. Through integrating international strategy across countries, a pure global company emerges. Demonstrating geocentric attributes, this definition of a MNC explicitly stresses the need for an integrated strategy. Correspondingly, findings of Bartlett and Ghosal (1987), who define their model of a MNC as a transnational company - characterized by simultaneously striving for global integration benefits, local responsiveness and worldwide learning - underline the concept of a geocentric MNC. Interfaces lie not only in the pursue of integration but can also be detected in the effort of sharing best-practices, both assuring global communication. Finally, Gabrielsson and Gabrielsson (2003) add by claiming that a MNC which is globally aligned will follow a strategy that is globally focused, globally integrated, and well balanced between vertical and horizontal integration. To sum it up, it becomes obvious that striving towards increased integration is inherent in all these definitions. One possible explanation for its relevance to MNCs is given by Busco et al. (2008), arguing that internal and external heterogeneity as well as its complex nature make integration a reappearing term, lastly turning it into a strategic matter (Martinez & Jarillo, 1989).

2.1.3 The role of transfer pricing on integration within previous research

Its earlier mentioned complex and heterogeneous nature as well as its relevance to organizational structure has always made integration an interesting subject to MNC research (Busco et al., 2008). When looking at management accounting research on accounting and its connection to integration, limited scholarly work has been done when it comes to the relationship between transfer pricing and integration. Often, the role played by transfer pricing during the process of integrating MNCs is that of a by-product: either studies about the effects of other accounting phenomena on the integration of MNCs hint possible involvement of transfer pricing in the integration process or studies about transfer pricing evidence potential impact on organizational integration (Busco et al., 2008; Durst, 2002). Among those who previously found transfer pricing to have an impact on integration processes whilst exploring accounting mechanisms were Busco et al. (2008) and Horngren (1989). Studying performance management systems and their role on the integration of MNCs, they identified several organizational tensions that characterize processes of integration, namely: vertical vs. lateral relations, standardization vs. differentiation as well as centralization vs decentralization. Hereby, the first tension emphasizes the trade-off between HQ-subsidiary and subsidiary-subsidiary relations whereas the second tension derives from the need for a shared set of practices among the organization to avoid costly redundancies and national differences that require local responsiveness of subsidiaries. The third tension deals with the struggle of simultaneously becoming globally integrated while maintaining local flexibility of subsidiaries. Busco et al. (2008) argue that these tensions are inevitable and need to be managed to achieve integration. A mechanism that possesses tension management potential, the authors argue, is transfer pricing. This impression is given more substance as Horngren (1989) emphasizes a required balance between centralization and decentralization within the typical MNC, making transfer pricing role even more critical. Countering the argument of tensions that should be balanced through accounting mechanisms, Durst (2002) claims that to fully exploit transfer pricing potential in an integrated group, decentralized management will only be temporary. Chenhall and Moers (2015) and Spicer (1988), researching the transfer pricing phenomenon in a context other than integration, find evidence that transfer pricing systems can affect integration, especially through the choice of pricing methods chosen.

Looking at existing literature reveals that, even though integration and the strive towards a globally integrated firm were found to be of importance to geocentric MNC's strategy, yet, little attention among accounting scholars has been devoted to this topic. Conclusively, it comes as no surprise that the role of transfer pricing on the integration of MNCs has received even less focus. However, due to earlier highlighted changes in the regulatory environment by the OECD's BEPS project, this low degree of attention is seemingly unreasonable and calls for further research.

2.1.4 Increased tax equality

As a result of the digitalization and the shift in business practices over recent years, there has been a wide debate on whether or not international and domestic tax regulations with regards to cross-border income and profits have been able to stay relevant and accurate. As the digitalization and globalization evolved, this further fueled the reach of businesses being increasingly integrated throughout multiple geographies. Domestic tax systems on the other hand, have rather been developed in geographical isolation and are seldom aligned with each other. As a result of these recent developments, growing concern from government, policy makers and within the academic community evolved. Mainly fuelled by the fact that misalignment of tax systems had certain countries losing out on income from cross-border transactions (Sikka and Willmott, 2010). The risk is that these actions may go untaxed in the correct country and be unjustifiably lowly taxed somewhere else due to practices of income shifting (Sikka and Willmott, 2010).

Through a detailed 15-point action plan the BEPS project was introduced after the G20 leaders in collaboration with OECD-members discussed the growing concerns and challenges with the global tax environment and the international tax system. The main purpose of this 15-point action plan is aligning value creation and economic real activity with taxation and is a reflection of policy makers urge for a more transparent system with stricter documentation requirements for firms operating on a global basis (OECD, 2015). MNC's will likely witness an increased tax burden globally. Whilst the OECD BEPS project was only finalized in late October 2015, countries have already begun implementing changes to their domestic tax regulations. MNC's should prepare transfer pricing documentation contemporaneously as the first deadline with regards to reporting requirements will be 2017-12-31. Potential impact is considered to "likely to fuel the most significant changes to the taxation for international businesses since 1986" (PWC, 2015, p.1).

Amongst addressing the importance of transparency - the BEPS project also places significant pressure on issues concerning transfer pricing. Through the specific steps concerning transfer pricing, the OECD and G20 make it clear, that the risk with transfer pricing is created from the vulnerability of existing regulation and guidance of the arm's length principle and the difficulty in calculating and revising the arm's length principle in a digital and global economy. Both institutions claim that tax administrations face significant difficulties in their ability to assess accuracy of the arm's length principle because of inadequate documentation. As result of the reasons discussed above, a guidance of the application and how firms should document the arm's length principle was updated and clarified in BEPS Actions 8-10, which concerns the application, and BEPS Action 13, which concerns the documentation. These "reporting requirements for larger companies will make detailed country-by-country tax and financial information visible to many eyes, and possibly in the future not just those of tax authorities" (PWC, 2015, p.1). In addition, "the volume of data disclosed will be much more than companies are currently reporting worldwide, so your compliance burden will likely grow substantially" (PWC, 2015, p.1).

As OECD BEPS project is anticipated to spur such significant changes to international taxation, it is a fascinating and previously unexplored subject to further research and should consequently be accounted for when examining the present role of transfer pricing. As a matter of fact, this paper will explore; *the role of transfer pricing on the integration of MNCs after increase tax equality.*

2.2 Theoretical perspective

In accordance with existing business literature, transfer pricing has been researched and analyzed from many different angles during the past decades. Despite its presence in accounting literature however, 2.1.3 demonstrated that the role of transfer pricing on integration has always remained residual to primary research attention. Even though the implementation of OECD's BEPS project is considered to spur "the most significant changes to the taxation of international business since 1986"(PWC, 2015, p.1), scholars have not yet had recent transfer pricing changes and its influence on integration on their agenda. To address this issue, we acknowledge earlier highlighted organizational tensions of Busco et al. (2008) as being decisive variables when assessing how the role changed since increased emphasis on tax equality. Further motivation is provided by Smith and Lewis (2011, p.394), arguing that "tensions are at the core of organizational research". However, establishing a theoretical model to approach the research gap through organizational tensions requires conceptual clarity. In a first step, a theoretical foundation will be built through specifying the ambiguous nature of organizational tensions. In a second step, the theoretical lens will be introduced and motivated.

2.2.1 The ambiguous nature of organizational tensions

Having been subject to academic research for many periods, various paraphrases for organizational tensions such as "paradox", "dichotomy" or "dilemmas" emerged, eventually causing a lack of conceptual clarity. While Busco et al. (2008) view tensions as competing pressures that are inevitable, Smith and Lewis (2011) distinguish between different forms of organizational tensions: paradoxes, dilemmas and dialectics. The authors define a paradox as "contradictory, yet interrelated elements that exist simultaneously and persist over time" (Smith and Lewis 2011, p.382). Paradoxical tensions can therefore be seen as elements A and B that seem logical when analyzed on a stand-alone basis but absurd and irrational when juxtaposed. Dilemmas in contrary, represent tensions which have clearly identifiable advantages and disadvantages. Thus, a dilemma can be solved by weighing the pros against the cons (Smith & Lewis, 2011). Finally, a dialectic denotes "an ongoing process of resolving tensions through integration". While the elements of a dialectic are also considered contradictory, resolution through integration will ultimately be achieved by merging or synthesizing both A and B into in a combined element (Smith & Lewis, 2011). Depending on the type and nature of an organizational tension, the quality of the applied theoretical lens will vary significantly. Conclusively, given the fact that borders between different forms of tensions are deemed permeable, allowing dilemmas and dialectics to appear paradoxical, too, scholars have increasingly opted for the paradox lens to study organizational tensions (Smith & Lewis, 2011; Fredberg, 2014; Sundaramurthy & Lewis, 2003).

2.2.2 The paradox lens

In their article *Toward a Theory of Paradox: A Dynamic Equilibrium Model of Organizing*, Smith and Lewis (2011) developed a model for how to approach and manage paradoxical tensions in an organization. Having derived conceptual clarity from distinguishing a paradox from varying peculiarities of tensions in a first step, the authors then establish a dynamic equilibrium model, providing the groundwork of paradox theory. Building up on the definition of a paradox as conflicting, ubiquitous forces that persist over time, the model aims at assuring "a constant motion across opposing forces" (Smith and Lewis 2011, p.386). Their ubiquitous and persistent nature, so the authors, is a result of their embeddedness in the organizational process of organizing. Consequently, the model consists of three primary components, namely, (1) paradoxical tensions, (2) responses to tensions and finally, (3) the outcome or impact of these responses on sustainability (Smith and Lewis, 2011). Sustainability is defined by ensured long-term success, achieved through thoroughly managed tensions. Adding to the definition of a paradox, the authors distinguish between latent and salient paradoxical tensions. In MNCs, tensions remain latent until different proposed drivers such as environmental factors or cognitive efforts render them salient. Environmental factors include plurality, scarcity and change. Hereby, plurality denotes varying views, change stands for new opportunities and sense making while scarcity denotes limited resources e.g. time or finances (Smith and Lewis, 2011). Cognitive efforts are represented by actor's responses to contradictory demands influenced by cultural and contextual variables.

Rendering latent tensions salient is crucial for triggering the next step on the ladder towards coping sustainably with paradoxical tensions. Smith and Lewis (2011) claim that, as soon as paradoxical tensions become apparent, responses are spurred and reinforcing cycles of both, positive and negative nature, are fueled. While negative cycles are defined as vicious, positive reinforcing cycles are virtuous. The authors argue that both individual and organizational factors may trigger vicious cycles. Key individual factors that drive vicious cycles mentioned by the authors are "cognitive and behavioural forces for consistency, emotional anxiety, and defensiveness" (Smith, Lewis 2011, p. 391). The preference for consistency among the individual and the organization will finally result in a unilateral approach, ultimately neglecting one of the paradoxical tensions. If the paradox is reacted upon with acceptance, meaning that paradoxical tensions are viewed as “an invitation for creativity and opportunity” (Smith and Lewis, 2011, p.391), virtuous cycles are spurred. Considered the positive variant of reinforcing cycles, virtuous cycles spark paradoxical thinking, causing individuals and managers to adopt both/and instead of either/or approaches (Smith and Lewis, 2011). In a previous article, Lewis (2000) provides further motivation for the desire to have both/and thinking within a MNC, claiming that in increasingly complex, diverse and fast-pacing environments, either/or thinking oversimplifies. Conclusively, acceptance lays the foundation for virtuous cycles as actors acknowledge that tensions should coexist.

The work of Sundaramurthy and Lewis (2003) illustrates how reinforcing cycles can be conceptualized. Exploring the paradox of control and collaboration within corporate governance, the authors argue that vicious cycles are created if one element receives sole focus. If, for example, the board- management relationship solely focuses on collaboration, a reinforcing cycle of groupthink is established (Sundaramurthy and Lewis, 2003). According to the authors, this reinforcing cycle originates from the belief that past success is persistence and attributable to the current strategy. As soon as the company’s experiences a decline in performance, groupthink exacerbates faulty attributions and threat rigidity, thereby committing to a race to the bottom as actors hold on to the current strategy (Sundaramurthy and Lewis, 2003). The vicious cycle of increasing emphasis on collaboration ultimately results into failure. In contrary to collaboration, solely attributing attention to control results in what Sundaramurthy and Lewis (2003) call suppressed stewardship, impression management and splitting turf wars, eventually leading to failure. Both cases exemplify how crucial it is for organizations to simultaneously address all elements - in this case A and B - of a paradox. Denying one element attention will spur reinforcing cycles of vicious rather than virtuous nature, hampering or inhibiting organizational performance. To capture the reinforcing cycles at their full length and to fully leverage the potential of the paradox lens, previous literature on paradox theory recommends in-depth, longitudinal and qualitative case studies (Poole and Van de Ven, 1989; Sundaramurthy and Lewis, 2003; Lewis, 2014).

As last step, Smith and Lewis (2011) introduce paradoxical resolution being defined as confrontation of paradoxical tensions through iterating responses of splitting and synthesis targeted at finding synergies of each contradictory element. Through maintaining a state of consistent inconsistency, actors take short term decisions while accepting the opposing roles in the long-term. Recognizing tensions as being persistent over time is one of the major advantages of applying the paradox perspective as it addresses the complex and dynamic nature of MNCs. Additionally, juxtaposing coexisting opposites sparks organizational learning, creativity and innovation, finally yielding sustainable management strategies (Smith and Lewis, 2011). Given its ability to account for the complex and dynamic contexts, the authors view paradox theory as a suitable approach to accommodate existing theories. Underlying driver to this assertion is the fact, that aiming for simultaneous coexistence of competing forces "not only offers a response to organizational tensions but encourages active searching for and surfacing of those tensions to enhance creativity and performance" (Smith and Lewis 2011, p.397) as advocated by the dynamic equilibrium model.

Similarly, to Sundaramurthy and Lewis' (2003) conceptualization of reinforcing cycles, authors have sought to explore tension resolution strategies. Among those authors who previously explored tactics of paradox resolution were Poole and Van de Ven (1989) and Lewis (2000). Identifying four different modes of working with paradoxical tensions Poole and Van de Ven (1989) introduced acceptance, spatial separation, temporal separation and synthesis. In contrast to the dynamic equilibrium model by Smith and Lewis (2011), Poole and Van de Ven (1989) argues that acceptance can be an active resolution method to paradoxes in which participants learn how to live with it. Implying a passive approach, this strategy serves as a starting point for theory-building which major pillar is acknowledging the coexistence of two elements which would then be in line with the arguing of Smith and Lewis (2011). Following the method of spatial separation, the paradoxical tensions are looked upon from different organizational levels. Thus, temporal strategy analyzes the various elements at different points in time. Lastly, synthesis explores each element of the paradox on a stand-alone basis, trying to identify similarities which can then be merged to overcome the current paradox. Agreeing with acceptance as possible resolution tactic, Lewis (2000) also see resolution potential in paradox confrontation and transcendence. While the second involves discussions of the tensions, the latter applies paradoxical thinking being crucial to breaking out of reinforcing cycles. Especially when running the risk of getting caught up in negative reinforcing cycles as conceptualized by Sundaramurthy and Lewis (2003), applying a changed mind-set is crucial because in the end, “formal, rational logic cannot deal with paradox” (Eisenhardt 2000, p.2).

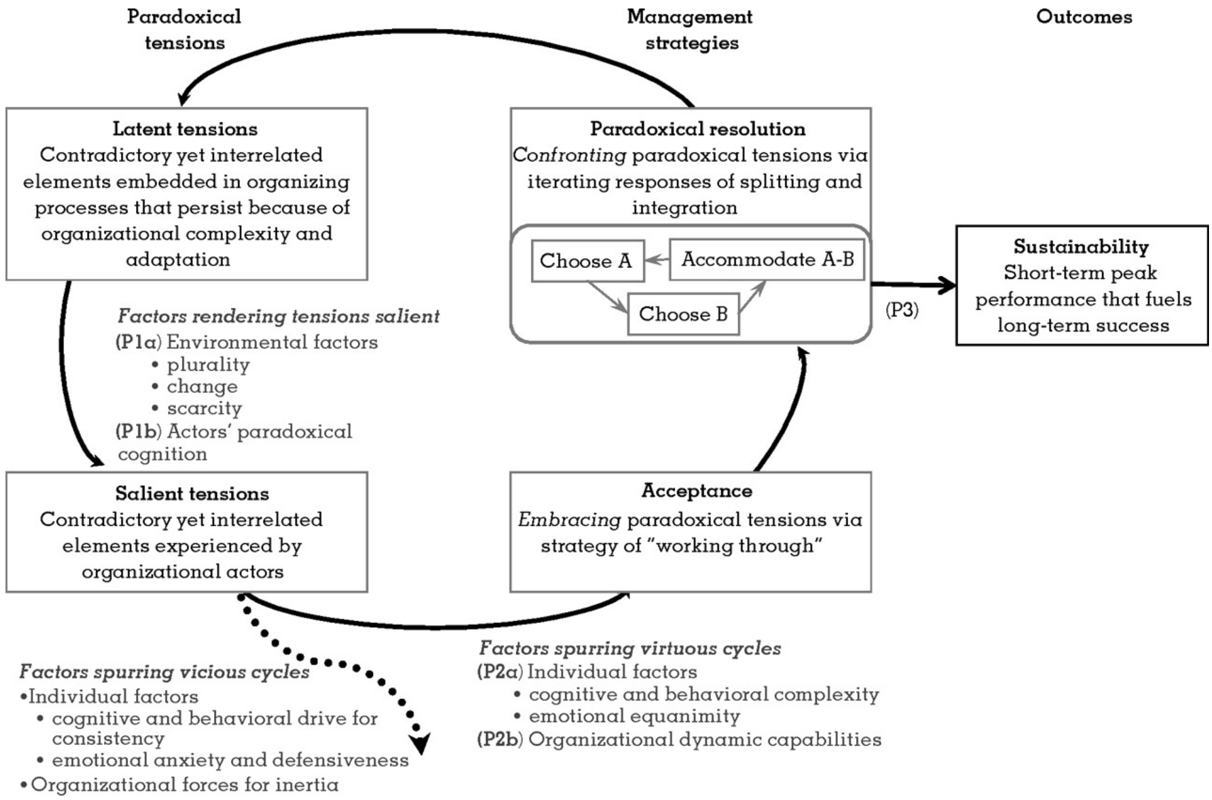
2.3 Theoretical framework

Reviewing literature clearly evidenced the vast development of transfer pricing over the years as well as the many contexts it had been applied to, leaving its role on integration mainly a by-product to overarching conclusions. Integration, being described as an important process within MNCs, was found to involve coping with different organizational tensions. Additionally, increased focus on tax equality embodied by earlier mentioned OECD BEPS project is deemed to potentially have affected the organizational role of transfer pricing due to its coercive need to change (PWC, 2015). Consequently, 2.1.4 concluded with identifying a gap in research that needs to explore the role of transfer pricing on the integration of MNCs while accounting for increased tax equality.

Looking at the research gap, we will turn towards the three tensions of Busco et al. (2008) that are involved in the processes of integration, viewing them as paradoxes that need to be resolved. Classifying vertical vs. lateral, centralization vs. decentralization and standardization vs. differentiation as competing pressures that need to be managed, however, leads Busco et al. (2008) to conclude, that they shall not be treated as paradoxes but rather as inevitable dialectics. As such, they need to be managed instead of being resolved. Arguing in this direction, however, causes theoretical confusion as it is implied that the term “managing” cannot be synonymously applied to “resolving”. Juxtaposing the definition of tension management by Busco et al. (2008) with those of paradox resolution by Smith and Lewis (2000) sheds light on this confusion. According to the authors, tension management is seen as acceptance or awareness of the simultaneity of the tensions, without necessarily choosing among A or B but the intention to realize their potential. Smith and Lewis (2011) define resolution as not being solely devoted to eliminating a tension “but, rather, finding a means of meeting competing demands or considering divergent ideas simultaneously” (Smith and Lewis 2011, p.386). If set into context with the definition of a paradox established under 2.2.1, viewing paradox as two contradictory forces that exist simultaneously reveals a synonymous nature to managing tensions of integration as suggested by Busco et al. (2008). Consequently, categorizing the three organizational tensions involved in integrating MNCs as paradoxes seems appropriate, given conceptual development of paradox theory. This reasoning is in line with recent findings of Smith and Lewis (2014), who explicitly define centralization vs. decentralization as paradox.

Finally, Fredberg (2014) formulates the paradox of diversity which implies the need for becoming homogeneous and heterogeneous at the same time, hereby providing supporting evidence for viewing standardization vs. differentiation as paradox.

Dynamic equilibrium model



Established in section 2.2.2, we argue that the dynamic equilibrium model of Smith and Lewis (2011) can be applied to paradoxical tensions within an organization, ultimately resolving the paradox. The model not only advances our understanding of paradox, it also lives up to the persistent and sustainable nature of organizational paradoxes, "depicting how paradoxical tensions and their management might interact in an ongoing, cyclical process" (Smith and Lewis, 2011, p.394). To fit the scope of a paradox lens, we identified a geocentric MNC in 2.1.2 as being most suitable as research object. In line with this choice, Lewis and Smith (2014, p.129) argue that "as complexity, change and ambiguity intensify in organizations, so does the value of a paradox lens and both/and approaches to theory and practice". Approaching integration processes within geocentric MNCs - being characterized by paradoxical tensions - through paradox theory will enable us to draw conclusions on defined research questions by valuing the MNCs ability to put the paradoxical tensions of integration into a dynamic equilibrium. The role of transfer pricing to enable key conceptual components of the model and eventually, to assist in achieving a dynamic equilibrium between the opposing elements of centralization and decentralization, etc., will then serve as an indicator to assess its impact on a selected case company's integration. Nevertheless, several steps must be taken in advance to establish a virtuous cycle which then reinforces the paradoxical resolution, thereby enabling sustainability as discussed in 2.2.2 (Smith and Lewis, 2011). Analyzing and collecting empirical data, a process which will be dealt with in the next section, then allows for an evaluation of the current role.

Seeing a major disruption of former procedures in the increasingly coercive shift towards increased tax equality, the entirety of the defined research gap will be assessed by determining the ability to establish a dynamic equilibrium before the OECD released the final draft of the BEPS project as well as the changes that the organization underwent to comply to the new tax laws. In an optimal case, the question "How can we support both A and B simultaneously?" posed by Lewis and Smith (2014, p.140) would be solved by transfer pricing. Yet, to answer the question of how complex paradoxes are addressed concurrently through transfer pricing mechanisms, thus enabling integration, requires a theoretical lens beyond traditional and oversimplifying either/or thinking (Eisenhardt, 2000).

Above indications of how the research question(s) will be answered imply that resolution of paradoxes is the key denominator to possible conclusions, however, it shall be clearly stated that the entirety of the process towards a dynamic equilibrium will be subject to empirical data analysis, examining each paradoxical tension on an individual basis to derive meaningful conclusions. Consequently, with the virtuous cycle having its starting point in latent tensions which are rendered salient by defined factors, the research gap shall also be approached by analyzing the role of transfer pricing in spurring virtuous cycles through fueling acceptance (Smith and Lewis, 2011). Furthermore, the work of Sundaramurthy and Lewis (2003) will be consulted to create further insights into possibly emerging vicious cycles. Equally important to the role of reinforcing cycles played in the dynamic equilibrium model, are resolution strategies as defined by articles of Lewis (2000) and Poole and Van de Ven (1989). Conclusively, by covering the whole reinforcing cycle with all its components, the validity of conclusions drawn regarding the research question:

Q: The role of transfer pricing on the integration on MNCs after increased tax equality

Through the established framework, we intend to research how the change process unfolded and what implications the change process had on the role of transfer pricing on integration within MNCs. Thus it is believed that the framework is a strong basis to help answer defined research question.

3. Method

Throughout this section, the methodological approach followed when conducting a qualitative study will be presented. Background to research design is given in 3.1 while 3.2 gives a description of the data collection. Data analysis will be discussed in 3.3.

3.1 Research Design

3.1.1 Single case study is appropriate

As previously described, the phenomenon of transfer pricing has been subject to research attention during the past decades. To date, however, relatively little research has been conducted on the implications of transfer pricing on integrating global organizations. Also, the effects of increased tax equality on transfer pricing policy and resulting aftermath on integration remain unexplored. In order to understand complex organizational and managerial processes, Yin (2014) views the application of a case study as the appropriate measure to reach meaningful conclusions when conducting qualitative research. Regarding limited previous research on chosen field of study, the author supports that a case study "investigates a contemporary phenomenon in depth and within its real-life context" (Yin, 2009, p.18). The author continues supporting the previously mentioned approach under the given circumstances by stating that "especially when the boundaries between phenomenon and context are not clearly evident" (Yin, 2009, p.18), a case study is desirable. This statement is coherent with findings of Merriam (1988) as well as Edmonson and McManus (2007) who point towards using a case study to achieve methodological fit and assess the role of transfer pricing within the context of integrating a MNC. To capture the reinforcing cycles at their full length and to fully leverage the potential of the paradox lens, previous literature on paradox theory recommends in-depth, longitudinal and qualitative case studies (Poole and Van de Ven, 1989; Sundaramurthy and Lewis, 2003; Lewis, 2014).

While a case study seems to be the appropriate methodological approach to explore the research question, Scapens (1990) argues that case studies exploring social practices - which also includes accounting practices - can be of different nature but usually are limited to one single unit of analysis. As a matter of fact, case studies allow us to examine organizational phenomenon "both in terms of the techniques, procedures, systems, etc. which are used and the way in which they are used" (Scapens 1990, p. 264). Even though Eisenhardt (1989) and Yin (2014) believe multiple case studies to be of greater use, Dubois and Gadde (2014) further state that a single case study can provide the opportunity to absorb the powerful and rich context within a specific situation. Additionally, the authors argue that conducting a single case study allows one to dig deeper into complex and dynamic structure, analyzing numerous interdependent factors. Ascribing it the power of enabling depth, Dyer and Wilkins (1991) also advocate the superiority of a single case study over a multiple case study which is ought to yield breadth instead of a wide analytical perspective. Consequently, a single case study has been found suitable when analyzing the complex nature and structure of a MNC. This reasoning is primarily driven by limited research existent within chosen research field, time frame and access to the case company.

3.1.2 Selecting a case company

Selecting an appropriate research object that allows for sound analysis is a two-folded process. On the one hand, access to the case company is deemed crucial when conducting a single case study within a certain period of time. However, this implies that the underlying factor to the selection choice is of pragmatic nature. On a related note, Scapens (1990) stresses that the selection of the case company is of less importance if it is in "the relevant area which will enable researchers to begin the process of theory development" (Scapens 1990, p.273). Conclusively, the selection process is subject to few boundaries and mainly driven by one major characteristic: accessibility. On the other hand, the accessibility criterion shouldn't solely be decisive for the selection of the case company. Therefore, Maxwell (2013) suggests the concept of purposeful selection. In this process, the case company is chosen according to its relevance to approaching the formulated research question and to research goal achievement. Since our research question required some preliminary definitions, narrowing the variety of possible research objects, the case selection process was guided by purposeful selection in that the case company not only fulfilled aspects with regard to effectively answering the research question.

3.1.3 Sources of data

One major aspect for choosing single case studies was found to be an increased level of depth. Nevertheless, "One cannot study everyone everywhere doing everything, even within a single case" (Maxwell, 2013, p.96). Consequently, mixed sources of collecting data will be applied. Maxwell (2013) highlights three major advantages of following this approach: triangulation, insights about various aspects of the phenomena under review and greater depth. The work of Dubois and Gadde (2002) further supports this reasoning, claiming that a greater variety of data enhances the research angle, hence opening new perspectives on a certain issue. Finally, pursuing will help to overcome a potential risk when studying formal accounting systems, highlighted by Scapens (1990), which concerns the possible discrepancies between formal and informal accounting procedures and their degree of embeddedness within the organization. Conclusively, interviews with different people from different positions within the organization and its entities as well as internal documents have been used as major sources of data.

3.1.4 Incorporating literature and theory

Throughout our study, we applied systematic combining by Dubois and Gadde (2002), as this approach allows theory and empirical findings to jointly develop throughout the research process: "Systematic combining is a process where theoretical framework, empirical fieldwork and case analysis evolve simultaneously" (Dubois and Gadde, 2002, p. 554).

Since any type of research is ought to confront established theory with empirical findings, the approach of systematic combining fuels the process of understanding through continuously oscillating from empirical observations to theory and vice versa. Consentaneous to this, Levin-Rozalis (2004) state that the abductive approach is applicable when relatively little is known about the research in the beginning of the study and when the study aims to contribute to academic literature. When moving constantly between theory and empirical observations, the initially applied analytical framework might be modified during the research phase. This process became clear as contingency theory, the initial theoretical perspective for answering our research questions used, became obsolete. In spite of Maxwell (2013) arguing in favour of having a tentative framework to establish a coherent research design, Ritchie et al. (2014) recommend avoiding "to go into data collection heavily burdened with preconceived theories and ideas" (Ritchie et al. 2014, p. 52). Their concern lies in the inherent risk of ideological hegemony, causing researchers to be biased and restricted in their thinking, consequently supporting the dynamic approach of systematic combining. Since the research question will be studied through paradox theory applied to emerging tensions, we were able to put an established theoretical framework in a somewhat structured context while maintaining certain leeway. Accommodating suggestions of Dubois and Gadde (2002) who claim that the analytical framework should neither be too pre-structured nor too loose. As the connection between theory and data is iterative, interactive and nonlinear, the nonlinear, path-dependent, dynamic approach of systematic combining best possesses the ability to match reality with theory (Maxwell, 2013; Dubois and Gadde, 2002). While pursuing the continuous review of theory and empirical data implies an early decision about research design, Ritchie et al. (2014) indicate that authors should be aware that developing and evolving theory can impact coherence of the study and should conclusively be carefully monitored.

3.2 Data collection

The material we draw upon comes from several sources. Exploiting a variety of sources during the data collection process of our case study rested upon findings of Scapens (1990) and Yin (2014) who both stress that having a wide range of sources significantly increases quality of research. Furthermore, Jönsson (1998) states that analysis of company information, interviews and other general observations are important tools to conduct relevant analysis and draw conclusions. To ease data analysis and enhance understanding of the different sources, data was clustered into primary and secondary data. Nevertheless, seeking too many sources will cause confusion among researchers, possibly resulting in unsubstantial conclusions. Therefore, Clarke (2005) and others call for putting an analysis of discourse in a specific context. Accordingly, we offer some background on Bravo, our case company.

3.2.1 Bravo

Bravo is a Swedish multinational company headquartered in Stockholm that manufactures appliances. The company has offices across the globe and is consistently ranked as one of the largest amongst its peers and claims to operate within a low-margin environment. Being guided by Maxwell's (2013) purposeful selection, Bravo was chosen because we were aware that they had a well-established transfer pricing system. Furthermore, the company fulfils earlier defined characteristics of a geocentric MNC: emphasis on a shift towards increased centralization; a matrix structure with six geographical sectors and five group function sectors; dominant foreign business; international competition and a strive towards higher integration as implied by their four strategic pillars. Moreover, the company pursues a transparent tax policy and guaranteed good research access. Since the data collection process involved a wide range of individuals from different professions, hierarchy and roles within the organization as well as internal documents, assuring anonymity throughout the entire process was main condition to maintain access. Seeing the importance of confidentiality and the agreement with our case company, we will refer to it from here on out as Bravo.

Bravo's head of transfer pricing supported us throughout the process of gaining access to the organization and different key positions of interest for our case study. During the initial visit to Bravo's global HQ, for example, a tour of the facilities was given and different products and services offered by the firm were introduced. This further fueled understanding of product offering, organizational structure and enhanced the relationship with key personnel. The reporting structure at Bravo follows a bottom-up process in which country heads report to their respective sector head who then reports to the group CEO. The same pattern is followed by each of the five group functions who report from its national spokesperson to its respective group executive. Emphasis lies on the reporting and decision making structure of the finance organization since it is home to the tax and transfer pricing function of Bravo. To obtain meaningful material about Bravo, different methods of data collection were applied.

3.2.2 Primary Data

Primary sources of data consisted of in-depth, semi-structured interviews conducted with individuals throughout the organization during March and April. Interviews were carried out at the global headquarters as well as at two local sales units in Germany and Italy. Interviews were either held at the Swedish headquarter or over telephone. The wide-ranging backgrounds of our informants included key individuals from the group tax and group controlling who both are under control of the group's finance organization Besides covering the management levels, informants also stem from lower hierarchical levels such as from local subsidiaries.

Our interviews sought to investigate everyone's view on transfer pricing, integration and the different tensions within Bravo, how they engaged with these topics in their daily business, also since increased tax equality, and how they perceived the extent to which each measure formulated caused an active balancing of the tensions involved in integrating MNCs. During interviews with Italian and German individuals, emphasis was laid upon exploring the perception of Bravo's bottom-up and top-down processes from the bottom end. All interviews were conducted in English, the organization's formal language. Given the length of many interviews, application of the English language helped secure quality and alignment of what was said as translation does not become an issue. Conducted interviews were structured in a semi-structured manner. In line with Merriam (1988) semi-structured interviews include a list of pre-defined set of questions that set the tone for the interview. Most importantly, however, they present the possibility to follow up with deeper more specific questions when necessary, therefore increasing understanding and data available. On top of that, the pre-defined set of questions were updated as data collection period evolved and new relevant findings emerged. Interview questions were aimed to be as open-ended as possible to get honest and accurate information.

3.2.3 Secondary data

In addition to the primary data we also collected internal material relating to strategy communication and reporting procedures of Bravo, its organizational structure, the transfer pricing documentation process and their tax policy. We also gathered material on what interviewees deemed to be essential documents and procedures developed, implemented and distributed by Bravo. Additionally, we obtained material about regulatory changes of transfer pricing from external sources such as the big four audit companies and the OECD and examined publicly available documents about Bravo, mainly in electronic form. Having a method of using secondary data in place is further supported by Eisenhardt (1989) and Maxwell (2013) who claim that applying multiple data collection methods supports triangulation of conclusions. Besides, obtained data helped developing interview questions and further aiding the interview process as focus could be placed on discussing strategically relevant questions.

3.3 Data analysis

Sheer variety and amount of data obtained throughout the whole data collection period requires an approach that enhances processing, presentation and analysis to draw coherent conclusions. Maxwell (2013) suggests to initially sift the entirety of the material which then was closely read. Especially analysis of secondary data was largely characterized by careful studying and then revisiting the material. Primary data however, first had to be visualized. In this context, Merriam (1988) raises concerns with having interviews as primary data source to one's case study as this can have possible implications on validity. This is mainly because the interview format might result in subjective findings in relation to how the interviewer interprets the data and how the interviewee responds. To mitigate this effect, Merriam (1988) suggested that the author who was not present during the interview analyzed the interview as soon as possible. This then would reinforce discussion among the authors about specific findings and personal interpretations. Seeing that both authors were continuously present at all interviews, visualizations were done in direct conjunction to the interview followed by a thorough subsequent analysis of what was said (Merriam, 1988). Hereby, simultaneous access of both authors to primary and secondary data was guaranteed by storing gathered data on a shared server. Continuous note taking and memos ensured that fruitful thoughts were not lost on the way and that large sets of data didn't needed to be accessed multiple times (Maxwell 2013).

For qualitative research, Maxwell (2013) further advises researchers to pursue a categorizing strategy. Here, data is classified according to categories which can be clustered into organizational, substantive and theoretical categories (Maxwell, 2013). Organizational categories are formulated prior to the interview process to assure structure from the early stage on. Contrary to organizational categories, substantive and theoretical categories emerge after the interview. Applied organizational categories were "before OECD BEPS project" and "after OECD BEPS project". Substantive and theoretical categories are ought to identify the meaning of the informant's statement (Maxwell, 2013). While substantive categories remain primarily descriptive, theoretical categories aim to put collected data into a "more general or abstract framework" (Maxwell, 2013, p. 108). Since paradox theory was found to be appropriate to explore the research question, theoretical categories were formulated and data was mapped in a categorical coding matrix accordingly (Maxwell, 2013). Being core to our research approach, the organizational tensions involved in integration processes, vertical vs. lateral, centralization vs. decentralization and standardization vs. differentiation were used as categories within established matrix, analyzed under the overarching aspects of before and after the increase in tax equality. In accordance with systematic combining, theoretical categories were revised where empirical observations resulted in unanticipated issues that could be explored through and expanded or altered research angle (Dubois and Gadde, 2002). Exemplarily for this stands earlier mentioned drift from contingency towards a paradox perspective as in contrast to the contingency lens which was deemed to oversimplify, a paradox lens attends to above mentioned organizational tensions with superior responses, accounting for complex and dynamic systems (Smith and Lewis, 2011). This significantly helped visualize, locate, identify and dig deeper within areas of strategic importance. Emerging topics were captured early, making it possible to cover multiple themes at the same time.

Finally, Maxwell (2013) identifies the symbioses of two factors being decisive for the productivity and workability of any study: coherence and compatibility. As a tool to determining whether a coherent research design was created and whether the different methods applied are integrated, Maxwell (2013) suggests a matrix that maps the research question to the different methods applied. Thus, this technique compares the methods applied to data which needs to be analyzed. In doing so, steps taken to reach conclusions are verified and back-tested, conclusively yielding more logical, hence, superior results.

4. Empirics

This chapter will present the empirical findings of this paper. Section 4.1 provides a background of how paradoxical tensions had been dealt within Bravo, previous to increased tax equality. In section 4.2 the changes after increased tax equality, its implications on Bravo and the way transfer pricing affects the process towards a dynamic equilibrium will be identified.

4.1 Tension recognition before increased tax equality

In this section we draw on Smith and Lewis' (2011) dynamic equilibrium model, the extent to which paradoxical tension of the integration process appear to be latent before environmental factors render these latent tensions salient, how organizational actors have perceived these paradoxes and how Bravo treated them before an increase in tax equality. Analyzing the status quo and comparing it to previously applied behaviour evidences that some of the current issues with regards to the tensions persisted prior to the increase in tax equality. Nevertheless, it can be argued that these issues prevailed to a lower degree and that the increase in tax equality significantly fueled the sole focus with regards to the tensions. Furthermore, in recent years Bravo has gone through an organizational shift with the aim to increase overall centralization and shift certain functions to Swedish HQ.

"As an organization we have gone through a quite thorough process with the overall goal to pool decision making to Sweden."

-Head of Group Controlling, Bravo

"Reporting to Sweden has tremendously increased over the recent years, leaving less time for domestic matters."

-CFO EMEA, Bravo

Even though there has been a recent push for centralization, the Swedish HQ and the head of transfer pricing have been solely responsible for the transfer pricing procedures and structures of the entire organization for quite some time. However, since the change of the decision making structure there had not been any concerns to the transfer pricing structure and how it was implemented.

Within the different geographical hubs, Bravo has holding organizations and the specific country holding officer has legal and tax responsibility which includes making sure that from a legal and tax perspective, Bravo is compliant and files the necessary tax registration needed in respective region. In this aspect, domestic tax managers have historically had relatively little autonomy in the process of being involved in the setting of transfer prices and are merely used in making sure that administrative aspects function correctly.

"*Our involvement in these matters changed after the introduction of the transfer pricing system. Our local expertise was needed initially, but participation and influence decreased quickly after.*"

-Former CFO EMEA, Bravo

The above quote is an example of senior executives' initial unawareness of tensions since, even though decentralization was implicitly recognized during the first transfer pricing considerations, it drifted towards centralization shortly after, not surfacing any need for balancing. As the shift in decision making authority within Bravo heavily affected the role of local tax employees it became clear throughout the interview process that transfer pricing affected more than other areas of the organization.

To what extent had paradoxical tensions of centralization and standardization, vertical and lateral or standardization and differentiation been consciously recognized at different departments within Bravo? Historically, communication within Bravo's tax department has been considered to be rather vertical as the Swedish HQ decides upon the transfer pricing structure, model and price, communicating this downward to global subsidiaries. Statements of the head of transfer pricing and the head of group controlling exemplify the unintentional, latent existence of lateral and vertical tensions:

"It has always been our [HQ] responsibility to make sure that the prices are reasonable. It is not in a local employees task to say whether the chosen method is right or wrong. They can of course provide input and say that it seems quite low or high."

- Head of Transfer Pricing, Bravo

Further strengthened by the following assertion;

"We have our transfer pricing team who decides upon the prices however, they try to establish mutual understanding and acceptance across the subsidiaries also within controlling - yet, the rest of us just implements their decisions."

-Head of Group Controlling, Bravo

In this context, Bravo's former CFO EMEA makes it clear that these processes are rather of a top-down than bottom-up nature. The quote is representative for the overall latent appearance of the integration paradoxes which are not explicitly formulated as goals but rather implied in decisions and actions regarding organizational behaviour:

"It's an ongoing top down process to assure TP documentation."

-Former CFO EMEA, Bravo

Furthermore, seeing that Bravo initially had decided to apply a business model where all of the goods pass through Swedish HQ from the production facilities to the different sales organizations throughout Europe, there has historically been a very low degree of lateral integration between the different subsidiaries.

"We don't communicate much with other local units, not even here in Europe. Maybe if we have a contract to deliver some parts directly to them, but this basically never happens."

-Country Head Italy, Bravo

Given the empirics above it is clear that the significance focus on vertical communication - or more importantly lack of lateral communication has been present within Bravo over the last couple of years.

Additionally, it further became evident that Bravo's tax department has found itself in a continuous struggle between standardization and differentiation. In order to decrease costs of communication, avoid problems with coordination, impede the efficient transfer of knowledge and allow for understanding throughout the entire organization Bravo consistently worked towards having a high degree of common set of practices which facilitate communication and knowledge transfer throughout. In previous years, it was recognised that standardization had to be followed to achieve global efficiency. Seeing the nature of transfer pricing reporting and the centralization of Bravo, domestic standardized structure for subsidiaries is formed at HQ.

“Local reporting must be standardized - also with regard to cost, logistic cost and warehousing which all have to be determined. So many factors that go into calculation and have to be reported. Not standardizing would be time inefficient”

-Former CFO EMEA, Bravo

The last quote of the former CFO EMEA reveals again a latent perceived nature of the standardization vs. differentiation paradox. Whilst explicitly using the termination of a paradoxical element, the former executive will later highlight that “local interpretation always happened” and that this causes problems. As this indicates the awareness of the termination itself, it demonstrates no paradoxical thinking in which the tensions are explicitly recognized as two opposing elements.

4.2 Rendering latent tensions salient

A: “*The transfer pricing model for that business unit has changed. We changed the model this year, for this year.”*

Q: “Is this because of BEPS?”

A: “Yes.”

-Head of Transfer Pricing, Bravo

By 2015, the implementation of the OECD BEPS project put a coercive need to adaptation on Bravo which saw itself under pressure to react upon this increased tax equality. Empirical data gives evidence that the OECD BEPS project is an environmental factor which accentuated the paradoxical nature of the tensions involved in integration processes. While Smith and Lewis (2011) describe three different environmental factors, namely plurality, change and scarcity, focus on increased tax equality was found to be inherent in all three categories, stressing the existing system and rendering latent tensions salient. Interviews further indicate that individuals broke the two elements of each tension apart, thereby solely focusing on the element which had received major attention before. This resulted in a reinforced and strengthened shift towards one-way thinking within Bravo. Exemplarily for this stands the fact that the firm decided to change its transfer pricing model for a specific business unit as a consequence of the updated regulation. This update or restructuring was a decision made at HQ, neither involving local employees from different regions nor requiring any input from lower levels. Driver for the underlying change was that the current transfer pricing setup would be too difficult to defend with the increased documentation and clarity of the calculation of transfer prices. This reasoning could be directly used to demonstrate how scarcity surfaced paradoxical tensions within Bravo. Having followed the path towards centralization since many years before the coercive need to change, "pooling decision making to Sweden" resulted in limited capacities of domestic individuals. Furthermore, since Bravo - according to the head of transfer pricing and its tax policy - does not really have an aggressive tax structure to begin with, they were not concerned with the change in regulations and the effects this will have on current operations itself. However, the firm did recognise that the new regulation would come with heavy overarching administrative burdens while manpower was considerably small.

"*Yes, it is affecting us but most from an administrative way. I mean, it is a mess. It is time consuming, it is a nightmare to do and tax wise we don't lose or gain anything.*"

- Head of Transfer Pricing, Bravo

Interestingly enough, Bravo actually decided that it was not worth the effort in implementing all of the desired administrative formalities as this would be too heavy workload for the HQ and the risk was believed to be insignificant.

"*We actually decided to skip that and live with that risk.*"

- Head of Transfer Pricing, Bravo

In the face of scarce resources, the department decided to neglect tax compliance and rather run the risk of being exposed to regulatory consequences. Additionally, scarcity helped render paradoxical tensions of integration processes salient. As the administrative burden is internally believed to strengthen centralization - administrative issues that follow with the new regulation will be dealt with and decided upon at HQ - it became clear that HQ would have to take on further responsibilities which could not be dealt with locally.

Already years before the OECD BEPS project, standardization was recognized as important means to conveying unified thinking. However, had differentiation been solely recognized during the initial implementation of the transfer pricing system, was it now the increased tax equality focus that rendered it salient to organizational actors (Smith and Lewis, 2011). It was the environmental factor of plurality, especially with regards to OECD BEPS action 13 which enabled this perception to surface. Introducing country by country reporting, ought to foster understanding of local tax authorities regarding the taxes paid by each organization's local subsidiary, this regulation will - in line with the whole regulatory framework - create a massive administrative burden for tax departments as they need to provide access to significantly more data about related parties undertaking transactions with the taxpayer in their country.

"*As multinational firms will need to provide local tax authorities with cbc reports this will heavily affect the organization and tax department. The local offices of the multinational firm do not individually provide us with the required documentation. For example, if there is a multinational firm headquartered in the US we will receive the required documentation from the US tax authority. If the information provided is not sufficient we will go through the US tax authority and then the US parent company - not through the local subsidiary here in Sweden.*"

-Transfer Pricing Specialist #1, Swedish Tax Agency

It becomes clear, that measures taken to account for these changes were similarly as in the past - tailored to increase focus on one rather than both elements of the paradox. The quotes above also show that, despite the latent perception of differentiation was rendered salient, no measures were put in place to account for it. Rather, earlier established one-way thinking was reinforced, causing increased standardization to be pursued. This can also be seen when looking at the last of the three tensions involving integration processes: vertical vs. lateral.

Seeing that Bravo's transfer pricing department decides upon transfer prices once every year with the possibility of revising and altering these twice a year, information flows are very one sided. Thus, the transfer pricing department communicates seldom with subsidiaries. As previously shown, Bravo updated their transfer prices of one of their business units as a result of the OECD BEPS project. This decision was solely decided upon at the Swedish HQ and communicated downward. In effect, participants assumed the OECD BEPS project to increase vertical communication within MNCs as new transfer pricing procedures are communicated downwards and bottom up process became unimportant. When asked about whether this is deemed to have an equal effect on vertical and lateral relations the head of tax responded accordingly:

"First I would answer that it would work both ways but in the end it will have to lead to a more vertical view since it has to assure the compliance in the entire group."

-Group Head of Tax, Bravo

This quote demonstrates that the organizational tensions of vertical vs. lateral, as described by Busco et al (2008) were known to both exist, however when addressing them in a purposeful view, again a one-way street was pursued as information flows are mainly vertically driven. With an emphasis on increased tax equality both Bravo and the Swedish Tax Authority believe that because of the structure of the decision making process with regards to transfer pricing there will initially be an increase in communication between the HQ and the subsidiaries rendering lateral communication even more depressed. Furthermore, there has previously been no international standardized template for reporting transfer pricing as the different templates used by MNCs have been developed by different accounting firms. Even though these templates might be somewhat similar in structure, there has not been a requirement that they provide the same information within the same format. The aim of OECD's BEPS project is not only to create a universal standard for reporting transfer prices - but also to standardize reporting significantly by applying a universal model for reporting structure and format.

"The revised guidelines will include a XML file which the companies are asked to populate. The Swedish Tax Authority then sends the electronic file to all other tax authorities globally. This creates a standardized framework for reporting transfer prices - which has historically not existed"

-Transfer Pricing Specialist #1, Swedish Tax Authority

"The new reporting standard will require a significant effort from our side in order to be fully compliant."

-Group Head of Tax, Bravo

Data shows, that even though increased tax equality had surfaced both elements of each paradoxical tension, it again spurred earlier established one-way thinking as Bravo felt that the need for compliance, limited resources such as human capital and time and different local circumstances would need further centralization, standardization and vertical communication instead of decentralization, differentiation and lateral communication. Whilst the increase in tax equality rendered the paradoxes salient, it reinforced previously established one-way thinking. Being core to the concept of vicious cycles, it was seen that unilateral thinking became increasingly manifested after the regulatory changes came in place. While data does not demonstrate that participants actively suppressed or repressed one tension, organizational factors for inertia, being deemed enablers of vicious cycles, were absent. However, it becomes clear that all actors followed a certain drive for consistency, not devoting time to considering the other side of the coin (Lewis, 2000). Despite none of the interviewees referred to old practices that were taken over, factors such as anxiety regarding not being compliant and being personally held responsible for non-compliance as stated by the CFO EMEA have been present until this day:

"Transfer pricing reporting is not only relevant with regard to the tax authorities, but to customs. People tend to forget that. If we report wrong numbers, we are halfway through to committing fraud bringing me one step closer to prison as I am held liable myself"

-CFO EMEA, Bravo

Factors spurring vicious cycles can be found in the behaviour of employees at Bravo. Combined with the sole focus on one paradoxical element this is an additional driver of the downward spiral in which Bravo is seemingly getting caught (Sundaramurthy and Lewis, 2003). Whilst the company is oblivious of this happening, as interviews reveal, it is also fuelled by the organizational structure and the firm's business model as a low-margin business. In order to spur a virtuous cycle, acceptance would be the next step, however, the company's business model and competitive environment being characterized by low-margin business inhibit such thinking significantly. Nevertheless, no negative impact was observable neither with respect to the whole organization as well as within the tax organization up to this date.

Seeing that paradoxical tensions before the focus on increased tax equality appeared to be latent, 4.1 demonstrated that transfer pricing procedures within Bravo seemingly emphasized one side of the paradox, neglecting the other. Catalysator for this behaviour had been previous organizational shift combined with its business model. Exploring the three paradoxical tensions of integration processes after the implementation of the OECD BEPS project, empirical data under 4.2 illustrated how increased tax equality rendered latent paradoxical tensions salient thereby fuelling earlier observed one-way thinking consequently spurring vicious cycles (Sundaramurthy and Lewis, 2003).

5. Contribution

With the explicit goal of gaining new insights into the field of transfer pricing literature, the focus will now be laid upon comparing, contrasting and extending previous research. To enable meaningful contributions, the analysis will be structured around the research gap illustrated in section 2.1.4. Contributions with regards to existing transfer pricing literature are highlighted in 5.1 and 5.2.

5.1 Contribution to transfer pricing literature

With regards to the role of transfer pricing on integration, it was hypothesised in section 2.1.3 that transfer pricing would be able to impact integration within MNCs, since Chenhall and Moers (2015) and Busco et al. (2008), among others had evidenced integration potential of transfer pricing. Furthermore, it was hypothesised that recent focus on increased tax equality on a global level would affect the previous role played. Empirical analysis proved that both hypotheses could be supported by data gathered in the course of the case study.

Given the increased one-way focus on the three paradoxical tensions of integration processes following the increase in tax equality, we claim that Bravo spurred a vicious cycle. Having laid initial focus primarily on centralization instead of decentralization, on vertical instead of lateral communication and on standardization instead of differentiation the firm now found itself under even higher pressure to reinforce this focus after increased tax equality rendered these tensions salient. This claim can be backed by empirical data, seeing increased tax equality inherent in the environmental factors of plurality, scarcity and change. Being drivers of this development, the unilateral focus from the past now became visible and was reacted upon by a reinforced strive towards earlier emphasized element of the paradox. The risk of being held personally responsible for example, caused key personnel to urge for centralization. With increasingly scarce time and personnel resources, striving for higher levels of standardization was stressed. Additionally, the increasingly complex and heterogeneous nature of the MNC’s environment called for cost synergies. Lastly, strict internal guidelines according to the setting of transfer pricing as well as increased focus on compliance never lead lateral relationships to become part of the organization. Increased tax equality, it can be claimed, has intensified this already prevailing one-way thinking even further. Ultimately, this cause and effect chain resulted in a downward spiral, driven by individual factors such as defensiveness and the cognitive and behavioural drive for consistency while organizational factors for inertia seemed absent. Thus in line with previous literature such as Smith and Lewis (2011) and Sundaramurthy and Lewis

(2003), it was shown that focusing on one element of the paradox, would eventually spur a vicious cycle. As Bravo was not accepting the coexistence of two paradoxical tensions but dedicated sole attention to one element respectively, the company failed to span the bridge to acceptance and spur and virtuous cycle, thereby fuelling a vicious cycle (Smith and Lewis, 2011). It became clear, that from the beginning, transfer pricing solely put emphasis on one element of each tension.

By using the dynamic equilibrium model of paradox theory, this paper is able to identify the role of transfer pricing on the integration within a MNC as being one that does not sustainably embrace paradoxes. Deriving its disruptive impact from fostering one-way thinking of each paradox, transfer pricing spurs a vicious cycle. Additionally, this role has become even more prevalent during the course of increased tax equality. Reinforcing vicious cycles, vice versa, spurred one-way-thinking making it hard for actors to apply both/and thinking as proclaimed crucial to paradox resolution (Lewis, 2000). Nevertheless, acknowledging the difficulty to assess how striving towards one tension of a paradox compensated for previous predominance of the corresponding opposing element, empirics support the claim of increased one-way-thinking demonstrating prevailing tendency to identified paradoxical elements. As this unilateral way has seemingly existed, increased focus on tax equality as represented by OECD's BEPS project significantly impacted this negative reinforcing cycle making the role of transfer pricing on integration rather a destructive than constructive, sustainable and resolving one.

Looking at our findings, this paper extends current transfer pricing literature by explicitly exploring transfer pricings role on integration. Analyzing transfer pricings role on integration and not treating it as a by-product, we find it to have a disruptive impact on integration. Our conclusions stand in contrast to findings of Busco. et al. (2008) while yielding interesting insights to the implications of Chenhall and Moers (2015). Whereas Busco et al (2008) hinted that transfer pricing would be able to actively manage organizational tensions, we find, by applying the paradox lens, that transfer pricing does not contribute to paradoxical resolution but rather has a negative destructive effect. Judging from the applicability of the paradox lens, we argue that our findings with respect to assessing the integration potential of transfer pricing are more suitable than those of Busco et al. (2008). Up to this date, however, its negative role, embodied by reinforcing a vicious cycle remains subject to further examination. Directly connected to future assessment of the transfer pricing role, this paper contributes by identifying an application of the paradox lens to organizational tensions of integration processes as an appropriate approach to achieve meaningful results. Lastly, as integration processes are deemed persistent, in following our approach, scholars receive a straightforward and timeliness analysis tool.

Turning towards the findings of Chenhall and Moers (2015) who claim that transfer pricing demonstrates potential to integrating separate business units, we see an evolving relationship between the HQ and its subsidiaries. Defining integration of locally and culturally dispersed entities as rather lateral than vertical, however, our findings demonstrate that no such potential is inherent in transfer pricing. Attributable to prevailing one-way thinking within Bravo this potential, it can be argued, has been restricted even further by increased tax equality. Again, the actual role of transfer pricing within a MNC would be contrary to the assumed role of Chenhall and Moers (2015). Similarly, to the earlier discussed case of Busco et al. (2008), our analysis evidenced that previous drawn academic assumptions about the transfer pricing role on integration, which were clearly identified as the by-product of a conducted study, would tend to misinterpret transfer pricing potential. Conclusively, this paper identifies a misperception of the integrative role of transfer pricing among scholars. Furthermore, we extend future practitioners and scholars understanding by introducing a sustainable approach to analyse transfer pricing potential. In turn, this will contribute to assessing the value of future measures taken to break out of vicious cycles.

5.2 How the renaissance of non-compliance created an organizational paradox

Over the course of this study, findings suggest another vital aspect of increased tax equality, ultimately leading to an extension of academic and regulatory research in the field of transfer pricing.

Seeing itself confronted with a significantly increased administrative burden, Bravo is concerned with what effects of increased tax equality, would have on currently available resources of the transfer pricing department. Furthermore, the firm does not feel directly targeted by the OECD BEPS project as it believes its business model lies out of the scope of the formulated actions. Therefore, the firm has reason to believe that there is little to no risk that local tax authorities will routinely scrutinize their behaviour. Given the reasons stated above, Bravo has decided to opt-out of specific elements of the OECD BEPS project. Statements of key actors demonstrate that, besides financial and human resources, time efficiency played a large role during these considerations. According to individuals responsible for this decision, taking this risk would be worthwhile given above mentioned circumstances.

Conclusively, gathered data points towards consequences which will inevitably lead to a prevailing increase in aggressiveness within Bravo's tax structure, seeing that they actually are less compliant after the increase in tax equality than the firm was before. We identify an apparent risk that the OECD BEPS project negatively affects general compliance of firms that do not feel directly targeted. Furthermore, empirics with regards to Bravo show that firms who may not be primarily targeted by the new OECD BEPS project will decide to opt-out of certain reporting requirements because of the significant administrative burden. In addition to unforeseeable future costs and efforts, we also see significant potential for continuous behaviour, ultimately spurring non-compliance from previous fully compliant and low-risk firms.

This development contributes to existing transfer pricing literature as it indicates the return of the decision between tax compliance vs. tax reduction driven behaviour described in 2.1.1, as a result of increased tax equality. Instead of classifying tax reduction as core to this decision, we claim that companies specifically opt for non-compliance in order to avoid additional costs associated with compliance. Eventually, increased tax equality spurs a new paradoxical tensions which concerns tax compliance vs. tax non-compliance rather than tax reduction. We continue to argue that this paradox can be looked upon by applying the paradox lens, which then results in the claim that both can and must occur at the same time within an organization in order to assure sustainability. This finding further supports earlier drawn conclusions regarding the OECD BEPS project, acting once more as an environmental factor, thereby rendering these paradoxical tensions salient to organizational actors. In contrary to the vicious cycle spurred by transfer pricing during integration processes, increased tax equality led Bravo to acknowledge that under given circumstances, coexistence of tax compliance and non-compliance is required. Paradoxical thinking is crucial and created an acceptance within Bravo which enabled the company to take the last step of a virtuous cycle within the dynamic equilibrium model of paradox theory. Seeing Bravo to outweigh the benefits, then pursuing the optimal of both - complying with requirements that tax authorities will devote attention to and neglecting those, that cause extensive administrative efforts - classifies the company as striving towards paradoxical resolution applying both/and thinking. Claiming that the regulatory coerciveness created a new organizational tension which can be resolved through paradox theory also implies sustainability as the optimal outcome would create short-term performance which spurs long-term success.

To summarize the findings of this section in a first step, we conclude that increased tax equality will result in a renaissance of non-compliant behaviour amongst MNCs, thus confirming previous findings of Eversen (2006, cited by Sikka and Willmott, 2010) claiming that significant compliance efforts will increase the level of non-compliance. In a second step, we argue that such behaviour will finally create another paradoxical tension, calling for resolution of tax compliant and non-compliant measures. Lastly, if long-term success is not presumed but carefully monitored, the paradox lens is deemed appropriate to approach the paradox of tax compliance.

6. Concluding remarks

6.1 Conclusion

The aim of this study was to explore the role of transfer pricing on integration on MNCs and how this process was affected by an increase in tax equality. This was conceptualized through the research question: *The role of transfer pricing on the integration of MNCs after increased tax equality.* Therefore, the study contributes to the understanding of how transfer pricing as a strategic mechanism is affected by an increase in tax equality.

In order to answer our research question we analyzed the different organizational tensions involved in integration processes identified by Busco et al. (2008) through the dynamic equilibrium model from Smith and Lewis (2011). In a first step, we re-defined these tension as being of paradoxical, instead of dialectical nature. In a second step, we applied the dynamic equilibrium model, a structured framework aiming on resolving paradoxical tensions through a process of visibility, acceptance and resolution. Using the paradox lens, the role that transfer pricing played in spurring a dynamic equilibrium between the two three organizational tensions could be analyzed. Increased tax equality, embodied by the OECD BEPS project, was found to act as an enabler during this process, ultimately reinforcing the disruptive role of transfer pricing on integration of a MNC.

The case analysis of Bravo revealed that given the increased one-way focus on the three paradoxical tensions following the OECD BEPS project, Bravo spurred a vicious cycle. Having laid initial focus primarily on centralization instead of decentralization, on vertical instead of lateral communication and on standardization instead of differentiation, the firm now found itself under even higher pressure to reinforce this focus after increased tax equality rendered these formerly latent tensions salient.

Empirical data provided evidence that by using the dynamic equilibrium model of paradox theory, the role of transfer pricing on the integration within a MNC was identified as being one that does not sustainably embrace paradoxes. Furthermore, findings suggest that this role has changed during the course of increased tax equality. Reinforcing vicious cycles spurred one-way-thinking, making it hard for actors to apply both/and thinking as proclaimed crucial to paradox resolution (Lewis, 2000). As this unilateral way has seemingly existed, the increased focus on tax equality, represented by OECD's BEPS project, significantly impacted this negative reinforcing cycle, making the role of transfer pricing on integration rather a destructive than constructive, sustainable and resolving one. In contrast to this stand further findings claim the emergence of a new paradox, namely compliance and non-compliance, sparked both/and thinking within Bravo. Finally, accepting coexistence of both paradoxical elements helped in spurring a virtuous cycle of which long term success is yet to be assessed.

Findings of this paper contribute to existing literature within the transfer pricing domain by uniquely developing the organizational tensions of integration processes by Busco et al. (2008) and analyzing them through the dynamic equilibrium model and the paradoxical lens provided by Smith and Lewis (2011). Furthermore, having identified the role of transfer pricing on integration as a by-product to management accounting literature, this paper explicitly looks at the role played by transfer pricing in this important process of a MNC. We further extend current literature by giving first implications on how transfer pricing as a strategic mechanism is affected by the recent increase in tax equality. Finally, this paper identifies tax compliance vs. non-compliance as an increasingly relevant paradox with which MNCs are confronted, resulting in a renaissance of non-compliant behaviour of MNCs.

6.2 Limitations and suggestions for further research

As previously discussed within method and research design section, this analysis is best answered by conducting a single case study approach. Furthermore, we present our reasoning and argumentation towards why applying such an approach effectively answers our research question. This is also strengthened by Poole and Van de Ven (1989), Sundaramurthy and Lewis (2003) and Lewis (2014) who claim that applying the paradox lens is most efficient when conducting an in-depth, longitudinal and qualitative case study. However, benefits received from choosing this approach are further attached to certain limitations related to generalizations of the findings. Two major limitations emerge. The first limitation arises when attempting to draw potential conclusions regarding applicability and quality of the theoretical framework in comparison to other theoretical work. Whereas authors such as Lewis and Smith (2014) directly contrast different theoretical approaches in order to assess their value, this paper is limited to paradox theory. Consequently, the applicability of the dynamic equilibrium model in an integration context calls for further research and development.

The second limitation is directly related to the research approach of conducting a single case study. Scapens (1990) discusses problems that arise when a conclusion is drawn from a small part of a large population. Therefore, the effects of increased tax equality on transfer pricing role on global integration within Bravo might not be representative for all MNCs. For example, seeing that Bravo is a low margin business focusing mainly on tangible goods, the effects of the new regulation could be different for MNCs within - e.g. - the IT sector who in turn are the firms that BEPS is set to affect. On the other hand, as previously discussed within research design, the main purpose of a single case study is to gain a deeper fundamental understanding of the chosen case (Dubois and Gadde, 2002). Therefore, it can be argued that a single case study is both, relevant and appropriate for the analysis as a mainly unexplored field within transfer pricing is approached. Then again, the main issue with the generalization of effects on integration will evolve around the difference in business models and sectors of MNCs. Throughout all conducted interviews it was clear that Bravo neither displayed any traits of feeling threatened by the updated guidelines nor feeling that the updated regulations were not aimed towards their business and business model. Therefore, there is reason to believe that the effects on integration could be different throughout different sectors.

Lastly, seeing that recent regulations and their implementation phases are on an early stage of their final adoption, limitations concerning the validity and significance of drawn conclusions need to be highlighted. Whilst the OECD released its final version of the regulation in 2015, 2017 will be the first year when certain elements within BEPS are mandatory and need to be reported. Therefore, the full force of the regulation might not be fully integrated within MNCs during upcoming years. Additionally, some of the administrative burdens that MNCs currently are experiencing could be viewed as one-off items that potentially only affect the firm as the updated regulation is implemented and not consecutively during a MNC's lifespan. Conclusively, the findings of this study, being conducted within the implementation phase, could differ somewhat from a study with a similar research focus conducted a few years from today.

Furthermore, an interesting extension of this research paper could be to apply a similar research question and design to companies in other industries where challenges of the OECD BEPS project might be perceived differently. This would give researchers the possibility to explore whether tensions are managed differently. In turn, this could affect the procedure within the dynamic equilibrium model. Furthermore, another suggestion for future research would be to simply increase the number of firms interviewed. Finally, to sharpen the bigger picture, one could also explore the role of transfer pricing in a polycentric firm which has higher degree of decentralization and other strategic characteristics (Perlmutter, 1969). This might also help better understand the shift from polycentric to geocentric which companies will inevitably undergo (Perlmutter, 1969). Another suggestion for future research within management accounting change could be, what Smith and Lewis (2011) refer to as virtuous and vicious cycles. The authors discuss both types of reinforcing cycles, interesting aspects to explore would include to not only look at how virtuous cycles are created but also how an actor who has been caught up in vicious cycles can manage to break out of this cycle.

Once stuck in a vicious cycle, literature has explored numerous tactics to break out of the downward spiral (Lewis, 2000; Sundaramurthy and Lewis, 2003). Given empirical findings of this case study, the predominant focus on one tension does not stem from repression or suppression of the other paradoxical element but rather from either/or thinking as advocated by contingency theory and first-order-thinking both fuelled by Bravo's low margin business (Lewis and Smith, 2014; Lewis, 2000). Breaking out of the vicious cycle, however, will not directly descend into sparking a positive virtuous cycle. Consequently, to assure sustainable success and ongoing performance, Bravo not only needs to combine the tools given by literature to break out of the downward spiral but also spark an understanding of the neglected opposing elements in order to restore the process of the dynamic equilibrium model. Whilst literature claims that avoidance of the iceberg is seemingly easier than breaking through, promoted tactics to break out involve second-order thinking and critical self- and social- reflexion (Lewis, 2000; Sundaramurthy and Lewis, 2003). Findings suggest that the vicious cycle of the paradoxical tensions of integration processes within Bravo has had its origin much earlier, only being reinforced by increased tax equality. Therefore, we see that an expansion to the dynamic equilibrium is required, accounting for the need of immediately spotting one-way thinking.

To conclude, this study has shown how increased tax equality created significant pressure on managing paradoxical tensions within a MNC. As a logical consequence, the next step for researchers to take should involve practical implications about how virtuous cycles can be created and maintained in a similar context whilst simultaneously avoiding or preventing vicious cycle. As an example for future research could serve Freberg's (2014) attempt to explore paradoxical resolution strategies in practice.

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8. Appendix

Interviewee	**Date**	**Interview #**
Head of Transfer pricing	2017.03.20	1
Head of Transfer pricing	2017.04.07	2
Head of Group Controlling	2017.03.20	1
Head of Group Controlling	2017.03.28	2
Head of Tax	2017.04.20	1
Head of Tax	2017.04.25	2
Transfer Pricing Specialist #1, Swedish Tax Authority	2017.03.22	1
Transfer Pricing Specialist #1, Swedish Tax Authority	2017.04.19	2
CFO, EMEA	2017.04.03	1
CFO, EMEA	2017.04.18	2
Country Head, Italy	2017.03.20	1
Country Head, Italy	2017.04.25	2
Former CFO, EMEA	2017.04.03	1
Former CFO, EMEA	2017.04.18	2