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# Corporate Structural Change for Tax Avoidance: British Multinational Enterprises and International Double Taxation between the First and Second World Wars

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# Corporate Structural Change for Tax Avoidance: British Multinational Enterprises and International Double Taxation between the First and Second World Wars*

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**Abstract**

This study demonstrates the actual impact of international double taxation on management of British multinational enterprises between the First and Second World Wars. In particular, it focused on tracing the process by which tax-minimisation strategy affected corporate-level strategy. In three cases examined using corporate archival sources, the companies reorganised their corporate legal structure for tax avoidance. Yet the effects on their management were not uniform. (1). The corporate structural change for tax avoidance of Rio Tinto and Silica Gel Corporation did not alter the extant corporate strategy. (2). Tax strategy of Imperial Continental Gas Association entailed changing extant corporate strategy. (3). The legal structure of Unilever gradually and unintentionally influenced the extant corporate strategy. These heterogeneous responses of the firms imply that the institutional pressure of a tax law does not always lead to organisational isomorphism and can affect the corporate-level strategy over time.

**Keywords**: international taxation, international business history, institutional theory, international tax system, British multinational enterprises

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## 1. Introduction

The First World War transformed various aspects of the global socio-economy and made a lasting impact on the fiscal context surrounding international business (Broadberry, S., & O'Rourke, 2010; Forbes, Kurosawa & Wubs, 2016; Smith, Mollan, & Tennent, 2016). The sharp increase in taxation to fund warfare and welfare expenditure across different jurisdictions created the problem of international double taxation. The question then propelled national governments and cross-national organisations to introduce tax relief or negotiate international agreements for the prevention of double taxation around 1920s (Picciotto, 1992; OECD, 2013, p. 7). However, public policies did not please all multinational enterprises (MNEs), which began to focus more seriously on tax planning to alleviate international double taxation on business income. Some MNEs developed tax-minimisation techniques and reorganised their corporate structure for tax reason (Shaxson, 2011; Palan, Murphy, & Chavagneux, 2013).

Business historians have not always overlooked the subject of international taxation, although it has been a minor topic compared with tariffs (e.g. Jones, 2005). In fact, some early representative works on British MNEs' history described the relationship between international business and international double taxation (e.g. Wilson, 1954; Coleman, 1969). Apart from studies on the UK, which accounted for about 40% of estimated stock of accumulated foreign direct investment in the first half of 20th century (Jones, 1993, p. 234), historical studies on MNEs of the US, Sweden, Germany, Switzerland and Japan also noted their responses to international double taxation (e.g. Wilkins, 1974; Lindgren, 1979; Schröter, 1998; Kurosawa, 2015; Ueyama, 2005). Furthermore, a remarkable article, Mollan and Tennent (2015), treated the issue systematically by drawing upon newspaper archives and were thus able to demonstrate that the British overseas adopted tax-minimisation strategies such as altering to corporate structure or/and their domicile.

Nevertheless, these previous studies paid little attention to conflicts or adjustments to extant corporate-level strategy caused by these tax-minimisation schemes. Strategic decisions are usually determined by many factors including taxation (Glaister & Hughes, 2008; Sholes et al., 2015). Even if a corporation's top management team decides to change its corporate structure or domicile for tax reasons, they might not intend to alter the extant corporate strategy. On the other hand, even if a company initially intended to maintain the extant strategy, the new corporate structure might induce a new unintended corporate strategy. However, the extant literature in the field of international business history has rarely described detailed processes by which MNEs reacted to the tax issues and has had little interest in the impact of interaction between the tax-minimisation and corporate-level strategies (e.g. Jones, 2000). Furthermore, even when we scare up from some descriptions that meet the above interest, the observations on MNEs' responses to international taxation in the interwar period were not unified in same author's works. For example, Mira Wilkins argued that there was 'little evidence of major changes in operations' for tax reasons in her historical study on foreign investment in the United

States (Wilkins, 2004, p. 93). Meanwhile, her other book introduced the viewpoint of a contemporaneous economist that registration abroad for tax 'often did serve to undermine the British influence' (Wilkins, 2008, p. 157). The question thus arises: how did a tax scheme actually affect corporate management?

The scope of the research question must not be relegated to a mere concern of interwar period history but should be applicable to the present discussion as well. It is known that countless MNEs engage in tax planning to avoid international taxation and/or establish international business companies in certain areas based on the tax privileges those areas provide.[1] Nonetheless, even in the field of contemporary management studies, little research has been carried out on internal decision-making under the tax pressure and the process by which organisational change for tax avoidance affects corporate strategy (Glaister & Hughes, 2008). Exploring causal chains generated by a tax law leads to peering into the black box of the association of tax-minimisation and corporate-level strategies and makes us further understand how tax factor was dealt with within corporations. Additionally, the use of corporate historical records as a research method must have some advantage, from the point of view that researchers could trace internal decision-making through archival ethnography.

Following the above interest, this article explores historical cases of British MNEs and international taxation from 1914 to 1945. The year 1945 was selected as the end point because a basic framework of British international taxation policy was maintained between the First and Second World Wars, after which British government pursued a new tax policy (Picciotto, 1992, pp. 4-41; Avery-Jones, 2009). Following previous works in the business history field, this study analyses the behaviours of British MNEs in the study period by using corporate archival records, companies' history books and newspaper data. This study can be considered a prototypical case study on the relationship between MNEs and international taxation, considering the economic presence of the UK in the first half of the 20th century and the imprinting period of the tax issues (Hague & Harrop, 2004, p.81). Furthermore, this study aims to provide heuristic cases that inductively identify new variables, hypotheses, causal mechanisms and causal paths regarding the relationship between corporate strategy and international taxation (Eckstein, 1975; Bennett, 2004, pp. 34-35).

## 2. International Double Taxation and Business History Studies

War has long provided business opportunities, seeds of innovation and changes in fiscal policy (e.g. Torres-Sánchez, Brandon, & 't Hart, 2018). Especially, the Great War delivered numerous major ruptures to the socio-economies of many countries. Among them, 'the international interaction of tax systems has been recognised since at least the First World War as an important element in international finance and investment' (Picciotto, 1992, p. xi). That is, international double taxation deteriorated by the War became regarded as serious burden on firms and individuals engaging in foreign investment. Therefore, national governments introduced some relief systems (e.g. UK's Financial Act of 1916;

US’s Revenue Act of 1918; Japan’s Income Tax Act of 1920)[2] and concluded tax treaties or international tax agreements such as the 1928 Model Tax Treaties by the League of Nations (e.g. Jogarajan, 2017). Although this patchwork system contributed to the new post-Great War global economic order, it did not function well at least from the viewpoint of investors to foreign markets. The international tax order, hence, gave some room to rise tax haven countries (e.g. Switzerland, Luxembourg and Lichtenstein) in the 1920s (Farquet, 2012).

The impact of international double taxation on corporate behaviour has attracted the interests of some business historians, though taxation was generally treated as a neglected topic in business history (Higgins & Toms, 2000, p. 60).[3] Again, Mollan and Tennent (2015) asserted that international taxation had been given scant systematic treatment within the field of business history and demonstrated that some British overseas businesses responded to international taxation in a dramatic manner by changing their corporate structure, location and/or domicile. That study clearly grasped the point of the history of British overseas and international double taxation but did not quantify the dataset developed using newspaper sources. More importantly, the work claimed to have only drawn upon newspaper archives because ‘corporate archives are non-existent or difficult to access’ (Mollan & Tennent, 2015, p. 1058). However, other historical studies based on corporate archival data have sporadically, if not frequently, mentioned the impact of international taxation on the management of MNEs. In fact, there are descriptions of international taxation issues in British company histories’ books or articles[4], including Mollan (2010). All in all, historians who tend to thickly describe ‘interesting’ phenomena have noted the impact of international taxation.

Therefore, the feasibility to use corporate archival data should be re-considered in the field of business history on international taxation. As a matter of course, reliance on newspaper sources itself cannot be a discussion point except from archival fetishists (Hansen, 2004). My point is that an analysis is generally enriched through the process of triangulation (Kipping, Wadhwani, & Bucheli, 2014). Hence, archival sources, which also have various types of biases and silences but some advantages to follow ‘written’ evidence of corporate internal decisions not included in other sources (Decker, 2013), would provide some information on corporate management under tax pressure and thus complement newspaper sources.

### 3. Corporate structural change for tax avoidance change corporate management?

Whereas some international business historians observed that the international double taxation problem made international businesses change their corporate structure, the consequence of such changes has been less investigated and clear-cut. Even among the same author’s works, the result of analyses can vary. For example, the classic book, Mira Wilkins and Frank Hill (1964) showed that the Ford Motor Company Ltd. (British Ford) set up a holding company in Luxembourg in 1930 to protect the English company from international double taxation. But there was no description of the impact of this step on corporate management. On the other hand, in other work on the history of foreign investment in the United States, she noted that corporate reorganisations such as relocation of residence to avoid home taxation ‘were common and had no impact on operations’. However, she did not conclude that international double taxation did not affect the operation of MNEs. In the book on global history of electrification, she introduced an economist’s view of 1930s that registration abroad for tax and other reasons ‘often did serve to undermine the British influence’. (Wilkins, 2008, p. 157).

The observation similar to that of Wilkins’ is seen in company books on British MNEs or business interest group documents. Some international business historians described corporate structural changes for tax reasons yet did not trace the effect on inner management (Cox, 2000; Jones, 2000). Meanwhile, Reader (1970, 1975) described that overseas selling companies of Brunner, Mond (later, Imperial Chemical Industries), which were turned from branches into subsidiaries with local directors to avoid British taxation, remained under strict control of British headquarters, mainly because the local directors’ careers depended on the good will of the home authorities. In contrast, A. H. Kilner of Courtaulds, in the Taxation Committee of the Federation of British Industries (FBI), mentioned in 1922 that the fact that the UK did not introduce a relief system such as the US ‘resulted in driving the control of firms carrying on businesses abroad, out of this country’ (Federation of British Industries, 1922). Considering these findings, we might conclude that the observations are just contradictory but could consider that MNEs respond to international tax law in several ways.

In fact, these different responses to international double taxation theirself are not theoretically unexpected. Some institutional theorists emphasise that organisational scholars should draw more attention to organisations’ heterogeneous responses to institutional pressure (e.g. Oliver, 1991; Powell & Colyvas, 2007, p. 978). Certainly, pioneering works of new institutionalism such as Dimmagio & Powell (1983) and Scott (1995, p.35) regarded a stipulated law, including that of taxation, as a coercive or regulative pressure, which lead to a homogeneity of organisations. However, current theorists raise doubts about functionalist explanations of the effect of laws on organisations (Edelman & Suchman, 1997; Kraatz & Block, 2008, p. 250). Moreover, these insights on organisational heterogeneity would be connected to or complement a perspective of institutional logics that ‘strategies’ are employed by organisations when faced with multiple logics (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011; Decker, Üsdiken, Engwall, & Rowlinson, 2018) or political capabilities proposed by international business theorists who did not regard political risk as exclusively an exogenous variable (Holburn & Zelner, 2010; Jiménez, Luis-Rico, & Benito-Osorio, 2014).

Having said that, little attention has been paid in the business history or management literature to the process wherein MNEs’ responses to international double taxation actually emerge and develop. Indeed, many researchers have demonstrated that taxation affects the volume and location of FDI, relocation of operations, timing of dividend repatriations and choice of legal form (e.g. Hanlon & Heitzman, 2010). However, Glaister and Hughes’ argument still hits the mark: ‘little attention has been given in the literature to the interaction of tax and nontax factors in strategy formulation’ (Glaister & Hughes, 2008, p. 35). Although this criticism addresses the study of strategy formulation[5], another study left as a future work the indirect impact of a MNE’s legal structure to adopt a tax environment on firms’ governance (Lewellen & Robinson, 2013, p. 25). Considering the growing interest in strategy implementation[6] or long-term effects of various policies or practices in organisations,[7] process studies including strategy formulation and implementation in face of international double taxation should be conducted. In short, deeper analysis on the process of MNEs’ management and international double taxation is needed to understand corporate management in situations of internal and environmental complexity.

**4. British international tax system in the first half of the 20th century**

The institutional pressure on which this study focuses, international double taxation, was not a brand-new question raised by the First World War but arguably became serious at that time. In the UK, the issue was firstly taken up in the House of Commons in 1860, when the government of India introduced its income tax law. The issue of so-called ‘double income tax’ was also discussed at the Imperial Conference of 1911 (Royal Commission on the Income Tax, 1920, appendix 7 (c), p. 175). However, these concerns were not dealt with as a pressing issue, and no tax relief was granted in cases of international double taxation. This situation only decisively changed following the First World War. For example, the UK tax rate on business income (standard rate of income tax) was 5.8% in 1913, 8.3% in 1914, 12.5% in April 1915, 17.5% in October 1915, 25% in 1916 and 30% in 1918 (Peden, 2000). In parallel, the US federal tax rate on corporate income was 1% in 1913, 2% in 1916, 6% in 1917 and 12% in 1918 (Taylor, 2013). Moreover, in the case of the UK, the Finance Act of 1914 removed the remittance basis and levied income tax on income abroad even if it was not remitted to the UK (Avery-Jones, 2013, p. 3). At that point, the British government virtually gave tax relief in the form of a foreign tax deduction, which allows taxpayers to write off the cost of any tax they pay to a foreign country. However, that tax relief method is known to be defective in preventing international double taxation (United Nations, 2011).

This unprecedented situation prompted British government to introduce a new tax relief system. The Finance Act of 1916 and 1918 provided temporary tax relief within the Empire. After the Great War, the Financial Act of 1920 issued foreign tax credit up to one-half of the effective UK income tax rate. Nonetheless, this foreign tax credit was given only for investment within the British Empire, despite the consideration of the Royal Commission on Income Tax held from 1919 to 1920. The British government eventually adopted a foreign tax deduction outside the Empire and a foreign tax credit within the Empire in 1920.[8] This basic international tax framework remained until 1945, when the government concluded bilateral comprehensive tax treaties with the United States (Avery-Jones, 2009, 2013; Izawa, 2016).[9]

In addition, the UK's tax legislation retained a 'central management and control' rule, which was established by the legal case of *De Beers v. Howe* in 1906. Although the interpretation of the test was opened by several legal cases, overall, British investors in a foreign business could not escape potential liability to British income tax on trading profits unless the whole of business activities as well as all management and control took place abroad. Therefore, changing the corporate domicile or establishment of foreign-resident companies became important techniques to avoid international double taxation by preventing the British authority from acknowledging that real control of the business remained in the hands of British investors (Picciotto, 1992; Avery-Jones, 2008).

**5. Corporate responses to international double taxation: Newspaper sources**

Before the firm-level analysis, it is beneficial to overview the actions of British MNEs regarding the problem of international double taxation by using a dataset drawn from newspaper archives. Newspapers such as *The Times, The Financial Times* and *The Economist* have provided reliable business information and once devoted pages to reporting on company meetings. These were also used in Simon and Mollan (2015) that used the data on firm responses to international taxation less rigorously than how they have been used here.This study, hence, gives more systematic treatment of the data sources.

[Figure 1 near here]
[Table 1 near here]

Figure 1 shows UK income tax rates and the number of British companies complaining about 'double income tax' and 'double taxation' according to news stories on company meetings published in the newspapers from 1914 to 1945. This analysis reveals that the number of disgruntled companies surged during the Great War, receded during 1920s and early 1930s (except fiscal years of 1930 and 1932), and resurged after the late 1930s. Undoubtedly, these trends corresponded with changes in British income tax rates. In addition, some companies, as Table 1 also shows, not only complained about the tax problem but engaged in tax planning, e.g. changes of corporate domicile[10], divestment of overseas businesses, alteration of legal form or timing of dividend repatriations. Breaking down the transition of tax schemes taken up in companies' annual meetings revealed the following trends: (1) divestment for tax reasons rarely occurred in 1930s; (2) establishment of new subsidiaries or holding companies and retained earnings in overseas countries surged around 1930.

However, newspaper archives did not provide information about the internal processes of companies facing international double taxation. To further understand the relationship between corporate management and international taxation, the next chapter analyses corporate archival documents and official/unofficial company history books to explore the process by which the problem of international double taxation actually affected corporate-level strategy. The three case studies still hold the 'lack of representativeness' problem (Bennett, 2004, pp. 42-43), but each case appears to constitute an ideal-type reaction to international taxation.

## 6. Corporate responses to international double taxation according to corporate archival sources

### *(1). Rio Tinto and Silica Gel Corporation—Nominal structural change, no change of corporate strategy*

Under the leadership of Auckland Geddes, who was inaugurated the chairman of Rio Tinto in 1925, the firm started a business expansion to regain the front rank of mining and metallurgical enterprises. As a part of this endeavour, the company became deeply involved in chemicals, taking a stake of 20% in Davison Chemical Corporation in 1927 at a cost of £420,000, thus giving them an interest in the fourth largest producer in the US fertiliser industry. The American firm had a subsidiary, Silica Gel Corporation, which had been formed in 1921 on grounds that there could be a number of important commercial applications for silica gel. As the time of its establishment, the Silica Gel Corporation was no more than a Davison's special research division. However, as the possibility of technological application was foreseen by 1928, the American companies decided to make a vast investment to manufacture and sell the chemical compound (Harvey, 1981).

Due to the lack of managerial expertise and the need of capital, Silica Gel Corporation entered a partnership with Rio Tinto to market silica gel outside the North America. In February 1929, the companies jointly set up a Swiss holding company, Silica Gel Holdings, S.A. in Geneva (the partners holding 51% and 49% of the issued share capital, respectively). They established the Swiss holding company as owner of the European subsidiaries in the UK, France and Germany in order to escape British taxation (Avery, 1974, appendix II; Harvey, 1981).[11]

More specifically, their original plan intended for the overseas division outside of North America to be established in the UK. In letters dated 4 April and 12 June 1928 to Thomas Robbins, a staff of Rio Tinto, Silica Gel Corporation and Rio Tinto planned to set up a new company in the UK to jointly control whole European and Asian business on silica gel (Rio Tinto, 1928a). Yet, one month later, Slaughter and May, an international law firm in London, advised that formation of a Swiss holding company was preferable to a British one in terms of tax saving because dividends from outside the British Empire were taxed by British authorities. And the law firm added that royalty paid to the American corporation could not be deducted as an expense (Rio Tinto, 1928b). This meant that imposition of international double taxation could not circumvent if a British holding company was established. Considering this advice, Silica Gel Corporation and Rio Tinto ultimately set up the new company in Geneva. According to an internal document, a holding company in Geneva, which had nominal capital of Swiss Frs. 1,000,000 and net profit of Swiss Frs. 25,000, had only to pay as much as 4% of the net profit as Federal and Canton taxes. In contrast, the British tax on business income was 20% in 1929 (Rio Tinto, 1928c).

However, the archival record also reveals that this organisational change was nominal. Indeed, Swiss law required the majority of company directors to be Swiss citizens living in Switzerland. Accordingly, the board members of Silica Gel S.A. consisted of two Britons (both Rio Tinto staff: Alexander James Anderson and Thomas Robbins) and three Swiss.[12] Yet the 1000 shares was monopolised by Britons (Anderson, 511 shares; Robbins, 485 shares; the others, 4 shares). More remarkably, true control of the overseas business was handled by 'Overseas Organisation Central Office' in London. The Central Office was 'the channel through which all information will flow to and from' the parent and subsidiary companies. In addition, some technical staffs were attached to the Central office, although their status was retained as employees of Silica Gel Corporation because of labour immigration regulations of the UK (Rio Tinto, 1928c, 1929). This scheme must follow the advice of Slaughter and May that it would not amount to the exercising of acts of control as far as an Advisory Committee's 'recommendation forwarded to Switzerland from time to time' (Rio Tinto, 1928b).

In sum, while the Swiss holding company to be established for tax reasons owned subsidiaries in the UK, Germany and France in the legal corporate structure, the London 'Central Office' actually controlled the European business, as Silica Gel Corporation and Rio Tinto had planned originally.[13]

***(2). Imperial Continental Gas Association—Structural change entailing change of corporate strategy***

The Imperial Continental Gas Association (ICGA) was a gas and electricity provider, mainly to Continental Europe, and one of the largest multinational utility companies in Europe (Wilkins, 2008, p. 109). Its 1930 market value was £9.24 million, comparable to that of Tate & Lyle, the UK's 36th-largest manufacturing company (Chandler, 1990, Appendix B.2). In addition, the company had a character of so-called free-standing company because its original purpose was to provide an 'admirable' English gas system to the principal towns of continental Europe, and UK revenue only accounted for approximately 15% in 1930.

According to a chairperson's statement from a company meeting in 1931, the ICGA openly regarded itself as 'one of the most unfortunate victims of double taxation'. This view was based on the fact that 'the Belgian taxation authorities deduct 22 percent from the gross amounts of our dividends and the British authorities 22 1/2 per cent from the remainder' (Imperial Continental Gas Association, 1931, p. 11).

Therefore, the company reported having undertaken two measures to alleviate international double taxation. First, the ICGA stated that it used 'the Utility Loan Company, which is the channel through which we finance our associated companies for the very good reason that by so doing we avoid a large part of the foreign taxation which would otherwise be borne by us' (Imperial Continental Gas Association, 1931). This tax planning aimed to take advantage of differences in the taxation on dividends and interest—a tax-minimisation technique known as thin capitalisation. Belgian law defined companies without offices or permanent establishments in Belgium as foreign companies, and interest paid to foreign companies was taxed at the reduced rate of 5%. Therefore, ICGA decided to engage in thin capitalisation and established Utility Loan Company in the UK to lend money to its Belgian divisions (Bourne-Paterson, 1970, p. 155).[14] In 1927, when the revenue of financial subsidiary was not reflected, interest revenue from Belgium was only £518. However, this amount increased to £13,824 in 1928. The percentage of Belgian total revenue peaked at approximately 25% in 1933, when interest revenue was £101,941 (Bourne-Paterson, 1970, appendix 3a.1).[15]

ICGA's second action, which it undertook in 1930, was to convert branch offices in Belgium into Belgian subsidiaries. International double taxation applied when overseas subsidiaries remitted dividends; however, no British income tax was applied when subsidiaries retained their profits. Therefore, by converting branches into subsidiaries, ICGA could retain profits in Belgium. In the annual meeting of 1931, the company decided 'not to press the subsidiary companies for dividends in excess of the sum required to yield a reasonable rate of dividend'. While the 'reasonable rate of dividend' was not defined, it appears that the dividend policy did not cause complaint of shareholders because the yearly dividend rate was 20% in 1931, compared to 17.5% in 1929 and 15% in 1928. The policy also encouraged subsidiaries and associated companies to build up internal reserves (Imperial Continental Gas Association, 1932, p. 11).[16]

More importantly, ICGA's 1930 reorganisation propelled the decentralisation of its management. This intention was publicly announced during the 1929 Annual Meeting, when the Chairman stated that 'direct branch establishments of an English Company had become an anachronism'. He subsequently said, 'local capital and local interest ought to be given the opportunity to associate themselves with their undertakings' and that ICGA 'was assuming more the character of a holding company' (Imperial Continental Gas Association, 1929, pp. 8-9). Furthermore, ICGA created a new Belgian position of 'Liaison Officer for ICGA and its Associated Companies', to which it appointed a Belgian, Maurice Périer, in December 1930 (Bourne-Paterson, 1970, p. 192).

The localisation and personnel reshuffle in the Belgian business along with corporate reorganisation brought great success to ICGA in the 1930s. When the company renegotiated its contract with communes in Antwerp in 1931, Périer and his young and capable staff in a new, small office found that taxes on profits and dividends would be extremely low if ICGA's gas or electricity distribution subsidiaries formed profit-sharing joint associations with the communes. The system, later-termed 'intercommunale' system, was introduced immediately and the first association was formed between a Belgian subsidiary, Antwerpsche Gsmaatschappij, and the communes of Antwerp in 1932. In the case of the subsidiary, the dividend tax was 22% in 1930, 5% in the contract year 1932, and nil in 1935 (Bourne-Paterson, 1970, pp. 190, 210). The system, which also protected the interests of ICGA and local authorities, ended up being applied to all former concessions by 1936. The company, released from the pressures of a heavy tax burden and contract termination, formed a holding company in Belgium called Compagnie Belge et Continentale de Gaz et d'Electricité (Contibel) in 1933 (Anon, 1974, pp. 32-33). It goes without saying that Perier was appointed the Managing Director of Contibel.

The case of ICGA demonstrates that a firm's tax strategy can directly affect human-resource strategy and stimulated the localisation of the Belgian business. Given that the company began localising its overseas business from the turn of 20th century in order to prevent municipalisation of Hungarian, German and French stations, the decision to decentralise corporate management was not motivated solely by the issue of international taxation (Hill, 1950; Anon, 1974). However, in 1931, the company did regard tax reasons as a legitimate basis for undertaking organisational change. Ultimately, the reorganisation of the Belgian business entailed a change of the extant corporate strategy.

***(3). Unilever—Nominal change later affecting corporate strategy***

The most remarkable corporate organisational aspect of Unilever, a giant among consumer goods companies, was the dual structure that the company maintained from the formation of 1929. At the time of the formation, the company had two parent headquarters, one in the UK (Unilever Limited) and one in the Netherlands (Unilever N.V.), in its legal corporate structure in order to prevent Dutch shareholders being taxed twice. Despite this separation, 'the membership of the boards of the two companies was identical, their interests were linked and largely identified by an agreement providing for an equal dividend to be paid by each, and equal distribution on liquidation'. The agreement was called an equalisation agreement (Wilson, 1954a, p. xvii).[17]

However, the notable points of the Unilever case are not only its motivation to adopt this dual structure but also an outcome caused by the organisation to avoid international double taxation and the accompanying agreement. Eight years later in 1937, Unilever was forced to reorganise its business structure to implement the equalisation agreement. The emergence of Nazi administration reduced the profits of Unilever N.V from two-thirds of Unilever's overall profits in 1930 to one-third in 1937 (Wilson, 1954b, p. 313). Therefore, Unilever N.V. would incur international double taxation 'if a direct transfer of profits were made from' Unilever Limited to Unilever N.V. To alleviate or prevent this problem, Unilever assigned the entire continental European and US business to Unilever N.V, while Unilever Limited was restricted to conducting business within the British Empire (The Times, 1937).

Behind the scene of this 1937 reorganisation, concern about loss of control from London was discussed in the top management team of Unilever. Although Unilever had two headquarters at its formation, the unified company was managed from London headquarters, as its name indicates (Wilson, 1954b, pp. 309-312). In particular, the Special Committee, formed in September 1930 and composed of no more than eight executive members, was ‘primarily responsible for Unilever’s general business policy; it focused on overall monitoring, planning and resource allocation’ (Wubs, 2008, pp. 20-21). However, one week before the reorganisation was considered at the directors’ meeting of 11 March 1937, a memorandum submitted by two secretaries was circulated to the directors of Unilever Ltd., Unilever N.V. and Lever Brothers Ltd. The subhead of ‘Taxation’ specified that the ‘only disadvantage to the scheme is that if all the Continental Interests are held by Unilever N. V. the question of the control of Unilever N. V. from London will become acute’ (Unilever, 1937). Although details on the board’s discussions are unknown, Wilson’s book wrote that Francis D’Arcy Cooper, chairman of Unilever Ltd., patiently and carefully dealt with colleagues who countered any suggestion that it might not be in the interests of the British Group. And doubts held by the British board members had been apparently alleviated by July 1937 (Wilson, 1954b, p. 313). But, two years after reorganisation, Unilever changed its organisation entirely in September 1939, upon the outbreak of World War II. As a result, the company created two autonomous boards, one in London and one in Rotterdam (Wubs, 2008, pp. 77-80).

It is certain that the Unilever’s corporate structure for tax avoidance affected corporate management over time.[18] Although London’s absolute loss of control of Unilever N. V. occurred in 1939, the 1937 reorganisation also contributed to the London headquarters’ loss of control of the Continental business. Unilever’s history illustrates how adopting a corporate structure to circumvent taxes can cause unintended decentralised management over time.

**7. Conclusion**

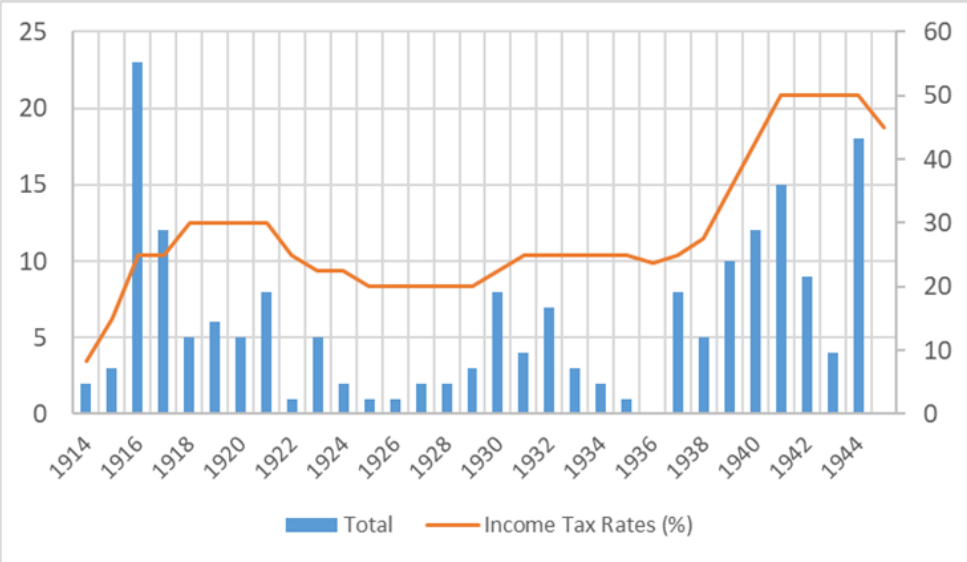
This study demonstrated the impact of international double taxation on British MNEs in the context of British international taxation between the First and Second World Wars. Aggregate data tallied from newspaper archives reconfirmed that tax pressures during that period encouraged British MNEs to engage in tax planning, e.g. change of the corporate domicile, divestment of overseas business, formation of new holding companies or subsidiaries, and alteration of timing of dividend repatriations. However, this study focused on tracing the influence of tax-minimisation strategy on corporate-level strategy. In all three cases examined, namely Rio Tinto and Silica Gel Corporation, ICGA, and Unilever, the companies reorganised their corporate legal structure for tax avoidance reasons. Interestingly the effects on their management were not uniform: (1). The Swiss holding company of Rio Tinto and Silica Gel Corporation was nothing more than letterbox company. In that case, structural change undertaken for tax avoidance did not change the extant corporate strategy. (2). The reorganisation of Belgian business of ICGA, however, entailed the change in human-resource strategy and prompted the localisation. In that case, structural change for tax avoidance entailed change of extant corporate strategy. (3). The dual headquarters structure and equalisation agreement of Unilever was nominal character at the formation of 1930 yet over time, it came to impact overall corporate management. In that case, structural change for tax avoidance gradually and unintendedly influenced the extant corporate strategy.

This study contributes to the field of business history and international taxation history; firm-level investigations of international corporate tax planning was regarded as valuable research agenda where more studies are needed (Mollan and Tennent, 2015, p. 1069). The heuristic case study undertaken in this research revealed three types of reactions by MNEs facing pressure from the international tax system. In particular, the type (3) appears to highlight an atypical case compared with those examined in previous studies on MNEs and international taxation, which mainly paid attention to direct impacts of reorganisation for tax reasons. Here, this third type indicates the importance of an additional variable, time, in understanding this topic. Considering the indirect influence of corporate structural change for tax avoidance, it can be seen that the impact of tax planning, as demonstrated by newspaper archival data, must be reconsidered in light of consideration of long-term effects. Therefore, additional firm-level analyses will be needed and generalisations about effect of international double taxation on MNEs' management, even in the case of British MNEs between 1914 and 1945, should be less hasty.

This study has several limitations that must be noted. First, the study provides absolutely historical case studies, where the agencies and institutions are constrained by a specific historical context (Suddaby, Foster and Mills, 2014). Given that the UK's international tax system in 1914–1945 differed from the contemporary regime as well as other nations' systems of the same period, some observations from this study are not directly applicable to the current debate or other regional studies. However, the argument of ‘process matters’ in the study of the relationship between MNEs' management and international taxation is still valid. In addition, difficulties in accessing corporate internal information on tax planning must be shared among scholars concerned with the issue. Therefore, use of corporate or other organisational archival documents thoughtfully or thoughtlessly holding sensitive inside information will definitely attract more attention. Second, the corporate political activities of British MNEs in attempting to change international tax system were beyond the scope of this study. In fact, British MNEs and the business interest groups such as FBI, the London Chamber of Commerce and the International Chambers of Commerce did lobby vociferously for tax relief. In light of the growing interests in corporate political activities or non-market strategy,[19] firm activities in that area should be examined in separate studies (Izawa, 2017). Third, the role of international law and/or accounting firms was not able to investigate closely. While some scholars have begun to examine the role of those actors,[20] studies incorporating international law and/or accounting firms appear to be scant. However, given the sensational leaks that made the news in mid-to-late 2010s (e.g. Panama Papers and Paradise Papers), this area of research is both urgent and relevant, and should definitely be pursued in future works.

Notwithstanding the abovementioned open questions, this study underlined that tax avoidance of MNEs, currently concerned in the global forum, was not a new topic. The problem of international double taxation, which has deteriorated since the First World War, encouraged firms to engage in tax-minimisation strategy. Furthermore, this study highlighted the heterogeneous responses of MNEs towards an international tax system. Non-change in the corporate-level strategy and change in the legal structure for tax purpose reminds us that tax planning is a part of corporate activities. This also suggests that we might find some MNEs not engaging in aggressive tax planning to prioritize other factors such as nationality, reputation, social responsibility, or corporate sustainability. On the contrary, the long-term effect of change in legal structure as a result of tax-minimisation strategy would make us pay more attention to the role of path dependency. Not only the reorganisation in 1937 but also the removal plan of British headquarters in 2018 of Unilever (Economist, 2018a, 2018b), which could set up a single British head office at the formation unless international double taxation became a serious problem in 1920s, appears to be a symbolic event. The insight of this study also helps better understand the contemporary world and enterprises which have been embedded in the intertwined history of countless tax competition and coordination.

**Figure 1** Number of companies complaining about 'double income tax' and 'double taxation' columns of company meetings in newspapers, *The Times, The Financial Times* and *The Economist*, 1914-1945




Note: It does not count duplicated opinions within the same fiscal year. Duplication of reports in different newspapers is also eliminated.

Sources: *The Times, The Financial Times* and *The Economist*

**Table 1.** Tax planning by British MNEs, 1914–1945

| Tax Scheme | Year | Company Name |
|---|---|---|
| Relocation of Domicile | 1914-25 | Bombay Electric Supply andTramways (1915), Farmer and Co.; Aramayo Francke Mine; Anglo-Continental Supply (1916), Adelaide Electric (1920), Rangoon Electric Tramway and Supply (1921), Lonely Reef Gold Mining Company ofRhodesia; British Australian Broken Hill (1923) |
| | 1926-35 | Godfrey Phillips; Forestal Land, Timber and Railways; Argentine Land and Investment (1930) |
| | 1936-45 | Luipaard Vlei Estate & Gold Mining (1937) |
| Divestment | 1914-25 | Alabama, New Oreleans, Teas, and Pacific Junction Railways (1916), London, Singapore, and Java Bank, Arizona Copper (1920) |
| | 1926-35 | European Gas (1935) |
| Formation of New Subsidiary or Holding Company | 1914-25 | Joseph Nathan and Co. (1921) |
| | 1926-35 | Imperial Continental Gas Association (1928), Unilever (1929), British Ford (1930), Erinoid; Lamot (1931) |
| Change of Reserve Policy | 1926-35 | Royal Dutch and Shell Transport (1932), Olympic Portland Cement (1933) |

Note: The data exclusively cover the companies extracted from Figure 1.

Sources: *The Times, The Financial Times* and *The Economist*

## Notes

[1] A report showed that 83 per cent of the largest US companies and 95 out of the 96 largest quoted companies in the UK, the Netherlands and France had tax haven subsidiaries (Tax Justice Network, 2009). Besides, 4 of listed 60 Canadian companies reported no subsidiaries in known tax haven jurisdictions (Gibson, 2017).

[2] The following works show brief histories of international tax system before the Second World War; UK: Picciotto (1992), Avery-Jones (2009, 2013), US: Graetz and O'Hear (1996), Japan: Fuchi (2016).

[3] The trend appears to be changing when we look over the recent articles' titles of Business History. See, Deconinck, Poelmans and Swinnen (2016); Chick (2018); Pittaki (2018).

[4] E.g. Unilever: Wilson (1954), Courtaulds: Coleman (1969), Brunner, Mond: Reader (1970, 1975), Imperial Continental Gas Association: Anon (1974), United Africa Company: Fieldhouse (1994), British American Tabacco: Cox (2000), Royal Dutch Shell: Jonker and Zanden (2007)

[5] Mulligan (2008) and Hong (2011) performed experimental studies, under the same concern as Glaister and Hughes (2008), by using interview and questionnaire methods.

[6] See, Hutzschenreuter and Kleindienst (2006), Hitt et al. (2017).

[7] See, Tilcsik (2010), Bromley and Powell (2012).

[8] For instance, let the income of Country B's Branch Y of parent Company X, residing in Country A be 100, A's tax rate be 20% and B's tax rate be 15%. Under the foreign tax credit introduced in the UK during the period, income after tax = $100 - (100 \times 0.15) - \{100 \times (0.2 \div 2)\} = 75$. Under the foreign tax deduction, income after tax = $100 - (100 \times 0.15) - \{(100 - 100 \times 0.15) \times 0.2\} = 68$.

[9] Before 1945, the UK had only concluded a comprehensive bilateral tax treaty with Ireland Free State in 1926. In contrast, there were 54 treaties, mainly within continental European countries. Between 1945 and 1955, the UK made 60 tax treaties (50 treaties with Dominions and Colonies; 10 treaties with other countries). See, Avery-Jones (2009, p. 231; 2014, p. 29).

[10] Changes of corporate domicile, it must be the typical technique to avoid international taxation during that period. In fact, when the Second World War broke out, the British government first prevented the way and promulgated article 6A of the Defence (Finance) Regulations, 1939. The rule of 'the prohibition of transfer of businesses abroad, &c' demanded that firms were not able to transfer their corporate domicile, except with the consent of the Treasury (H.M. Stationery Office, 1941). The regulation really applied to the case of Great Boulder Proprietary Gold Mines on 27 Sep. 1940, in spite of the fact that an extraordinary general meeting of the company had approved the transfer of domicile to Australia one week before (The Times, 1940a, 1940b).

[11] In 1928, Rio Tinto purchased a 10% interest in Silica Gel Corporation (Harvey, 1981).

[12] Three Swiss: Gustave Dunant (Banker, Geneva), Pierre Lombard (Banker, Geneva), and Eugène Borel (Lawyer, Geneva).

[13] It is hard to trace the actual function of the Office. Rio Tinto decided to withdraw from the silica gel business because many technical problems could not be solved by the end of 1930. Eventually, the

second largest investment project of the1925–1931 period failed. See, Harvey (1981), p. 222.

[14] The financial company could sometimes charge higher rates than were politically possible for ICGA.

[15] Belgian revenues were £326,203 (total revenue of ICGA: £499,126) in 1927, £410,791 (£755,631) in 1931 and £387,645 (£748,940) in 1933.

[16] The amount placed in Belgium was Frs. 67,759,225 (approximately £500,000) during the 1936–1940 period (Bourne-Paterson, 1970, p. 232).

[17] The organisation of Van den Berg was referred at the formation of dual structure (Wilson, 1954b).

[18] Later, Unilever became regarded as a company which 'a strongly held philosophy of management built around independent operating companies whose managers were given maximum responsibility and freedom' (Bartlett and Ghoshal, 1989). See also, Jones (2005b).

[19] See, Hillman, Keim, & Schuler (2004) and Mellahi, Frynas, Sun, & Siegel (2016).

[20] See, Sævold (2017) and Jones, Temouri, & Cobham (2018).

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