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Special purpose entities in the organisational structures of multinational enterprises: A systematic literature review and discussion of future research directions

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Special purpose entities in the organisational structures of multinational enterprises: A systematic literature review and discussion of future research directions

Abstract

Purpose: This study synthesises fragmented research on Special Purpose Entities (SPEs), defined as entities that have minimal employment, physical presence, or operations in host economies yet provide critical services to parent firms. Typically owned by non-residents, SPEs influence firm-level financial flows and complicate foreign direct investment (FDI) statistics. Despite extensive studies across disciplines, the extent of their role and impact remain unclear. This review consolidates existing knowledge, develops an integrative framework based on the antecedents–phenomenon–outcomes structure, highlights research gaps, and proposes a future research agenda.

Design/methodology/approach: This study adopts a systematic literature review methodology to critically assess the theoretical, methodological, and empirical aspects of the literature on SPEs. An exhaustive search of scholarly articles, covering an open-ended period from the inception of relevant research up to August 2024, yields a total of 64 articles published in 37 multi-disciplinary journals for the review.

Findings: The SPE literature draws on diverse theoretical perspectives. Methodologically, studies utilise large-scale, firm- and country-level panel datasets analysed using statistical methods. Empirically, the extant research examines three core components of SPE use: antecedents, the phenomenon, and outcomes.

- Antecedents: Studies identify firm-level characteristics and country-level institutional factors as key determinants of SPE use.
- Phenomenon: SPEs serve critical functions, including holding strategic intangible assets, facilitating financing and securitisation, and enabling tax planning, risk isolation, and complex financial structuring.

- Outcomes: These SPE functions significantly influence the dynamics of global financial flows, often leading to pass-through and round-tripping FDI by MNEs, which can distort the accuracy of country-level FDI statistics.

  Overall, the review highlights the significant implications of SPEs for international tax and FDI policies.

Originality/value: This review provides the first comprehensive and systematic synthesis of the theoretical, methodological, and empirical knowledge base of the extant SPE research, using an antecedents–phenomenon–outcomes framework. The study offers a nuanced understanding of a complex and cross-disciplinary topic and establishes a foundation for advancing future SPE research.

Key words: multinational enterprise (MNE); special purpose entity (SPE); structured entities; systematic literature review.

Special purpose entities in the organisational structures of multinational enterprises: A systematic literature review and discussion of future research directions

1. Introduction

In today's global economy, multinational enterprises (MNEs) have adopted increasingly sophisticated organisational structures to operate effectively within a complex and competitive international business environment. A key aspect of this complexity is the extensive use of special purpose entities (SPEs) which are established to achieve specific strategic, financial or operational objectives and are governed by distinct legal structures (IMF, 2018; OECD, 2014; UNECE, 2014). SPEs are typically established in locations that offer tax and fiscal benefits, with almost all their assets and liabilities representing investments in or from other countries (UNECE, 2014). The primary activities of SPEs include group financing or holding activities (UNECE, 2014), but firms also establish SPEs for other purposes, such as loan securitisation[1], risk sharing, asset transfer and management, financial engineering aimed at corporate tax avoidance[2], enhancing financial statement presentation, and property investment[3] (UNECE, 2014; IMF, 2018) (for a review of the literature of MNEs and corporate tax planning, see Alfadia, 2024; Beer et al., 2020; Cooper & Nguyen, 2020; Dharmapala, 2014; Eerola and Slangen, 2022; Riedel, 2018; Wang et al., 2020).

The significance of SPEs is underscored by their growing prevalence. Their functions have also now expanded beyond their traditional purposes to include core activities, such as research and development, trade, and financing (Amberger & Kohlhase, 2023; Dyreng & Lindsey, 2009; Hope et al., 2013; Shevlin, 1987; Wagener and Watrin, 2014). SPEs now represent a substantial share of global foreign direct investment (FDI), reflecting their growing role in international capital flows and corporate structuring (Emter et al., 2024; UNECE, 2014). The use of SPEs has been linked to intricate financial flows, such

[1] Loan securitisation is a process where financial institutions package a pool of loans into securities, which are then sold to investors. This allows the originating institution to transfer the risk associated with those loans to the investors and free up capital for new lending.

[2] Tax avoidance refers to the reduction of explicit taxes per dollar of income (Dyreng et al., 2008).

[3] SPE is used to acquire and finance a specific investment while limiting risk for all parties involved. For example, SPE is used in synthetic lease, which is a credit-based lease financing structure that allows companies to acquire assets, such as real estate or equipment, while structuring the lease in a way that it is treated as an operating lease for accounting purposes. This means the asset is not recorded on the company's balance sheet as a liability but is instead expensed on the income statement.

as pass-through FDI where capital is moved through intermediate locations before reaching its final destination and round-tripping FDI where domestic capital is channelled abroad, only to return, often to take advantage of preferential treatment granted to foreign investments (O'Mahony and Barry, 2019; OECD, 2015a, b). Consequently, the use of SPEs can distort the accuracy of international FDI statistics (UNCTAD, 2023; IMF, 2018). The International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) have acknowledged this issue and are working to improve the coverage of SPEs in international statistics (IMF, 2018); however, progress remains uneven (Hennart and Sutherland, 2022).

The increasing complexity of corporate structures and the diverse functions of SPEs highlight the importance of developing a comprehensive understanding of their broader implications for international business research. The existing academic literature on SPEs is fragmented across multiple disciplines, including economics, international business, finance, accounting, and taxation. Each discipline brings distinct theoretical frameworks, methodological, and empirical approaches, shaping how SPEs are conceptualised and studied. This presents a critical challenge for researchers and policymakers seeking a cohesive understanding of SPEs. To address this fragmented knowledge base, the aim of this study is to develop an integrative framework to conceptualise the antecedents, phenomenon, and outcomes of SPE use by MNEs while also identifying pathways for interdisciplinary integration. To achieve this, we conduct a systematic literature review of the extant knowledge on SPEs, synthesising and analysing research across multiple disciplines. This review provides a foundation for a conceptual framework that positions SPEs as a central feature of contemporary international business, offering new insights into the drivers for their use, their functions, and the implications for MNE strategy and global economic governance.

To clearly distinguish our study from earlier reviews, we present Table 1, which summarises prior systematic literature reviews and bibliometric analyses. This approach allows us to highlight the unique focus and development of the field addressed in this research.

Insert Table 1 here.

While these prior studies have offered valuable insights into the broader dynamics of MNEs, their international tax planning strategies (Cooper and Nguyen, 2020; Dharmapala, 2014; Eerola and Slangen, 2022; Velte 2024) and the use of tax havens (Temouri et al., 2022), none have explicitly examined the role of SPEs. Specifically, existing reviews do not address how MNEs utilise SPEs as distinct organisational vehicles, nor do they consider the antecedents, phenomenon and outcomes of SPE use for firm-level strategies or country-level FDI patterns. This gap is particularly notable given the growing use of SPEs and their increasing strategic relevance in global business operations. By systematically reviewing the literature on SPEs, this study aims to address these gaps and provide a comprehensive synthesis that informs our understanding of the use of SPEs by MNEs. The gaps identified directly inform our research questions below:

1. *What are the theoretical foundations, methodologies, and empirical findings that currently shape our understanding of the antecedents, phenomenon, and outcomes of SPE use?*
2. *How can future research advance and deepen our understanding of SPEs, particularly by addressing existing theoretical and empirical gaps in the literature?*

This study identifies relevant prior research across multiple disciplines and provides a systematic literature review by surveying 64 papers published in 37 leading journals. The search spans an open-ended timeframe, beginning with the inception of relevant research and concluding in August 2024.

This study makes three contributions to the SPE literature. Firstly, it is the first systematic literature review of SPEs within the organisational structures of MNEs, addressing the highly fragmented nature of existing research. Prior studies on SPEs are dispersed across multiple disciplines, and each offering partial and often disconnected perspectives on the role and strategic use of SPEs. By consolidating these interdisciplinary insights, the review integrates diverse conceptual foundations and empirical observations into a cohesive analytical framework. This synthesis offers novel clarity on how MNEs design complex and frequently opaque corporate structures to enhance operational flexibility, manage risk, and respond to jurisdictional incentives. In doing so, the study not only fills a critical gap in the literature but also establishes a stronger direction for future empirical work and policy-oriented

discussions on the implications of SPE use for corporate governance, accountability, and global economic regulation.

Secondly, this study provides a structured assessment of the current state of knowledge on SPEs within the context of MNEs, highlighting major theoretical, methodological, and empirical developments. It identifies the core theoretical foundations that have shaped the field, while also revealing critical gaps, particularly the lack of direct insights from decision-makers who actively use SPEs. This absence of managerial perspective, whether through interviews or observational studies, limits the development of robust, practice-informed theories and represents an important area for future research. Methodologically, this review categorises and evaluates the diverse approaches used to conceptualise and measure SPE use, offering insight into how scholars have operationalised this complex phenomenon. The study synthesises findings using the antecedents–phenomenon–outcomes framework (Pisani & Ricart, 2016; Sousa et al., 2021; Bicakcioglu-Peynirci, 2023), illustrating how firm-level characteristics and institutional contexts shape the use of SPEs. It examines the varied purposes of SPEs, such as holding intangible assets, facilitating group financing, and enabling securitisation and examines their outcomes including effects on tax avoidance, loan contracting, and regulatory arbitrage, as well as their broader implications for financial reporting and international capital flows. Importantly, the review underscores the distortionary effects of SPEs on country-level FDI statistics (Linsi and Mugge, 2019; Rassier, 2017), and synthesises scholarly efforts to distinguish genuine investment from "pass-through" capital, through methods such as ultimate ownership tracing and capital transit flow estimation (Damgaard & Elkjaer, 2017; Damgaard et al., 2019, 2024; Borga & Caliandro, 2018). By consolidating these insights, this study establishes a foundation for more targeted, interdisciplinary, and policy-relevant research on the role of SPEs.

Thirdly, this study proposes a research agenda aimed at advancing the understanding of SPEs within international business scholarship. It calls on researchers to more fully recognise the strategic and structural importance of SPEs in MNE operations and to investigate their implications with greater depth and rigour. Specifically, future research should prioritise the development of stronger theoretical frameworks that reflect the complexity of the real-world use of SPEs. It should also refine empirical

approaches to better capture their functions and effects. This will provide more actionable insights for policy makers and a clearer understanding of how SPEs shape MNE organisational structures and global business.

The next section of this paper discusses the background of SPEs and describes the methodological approach for this systematic literature review. The findings and critical discussion of the most salient articles are summarised in three key areas: theoretical perspectives, methodological assessment and empirical findings. Future research directions and some specific suggestions are presented in the final section; however, it is acknowledged that this phenomenon is broad and that there are many other issues which are beyond the scope of this study.

2. Background of SPEs

Establishing clear and conceptually precise terminology is an essential initial step in conducting a systematic literature review, as it ensures the use of accurate and appropriate search terms. In the context of SPEs, however, this task is especially challenging. SPEs are examined across multiple disciplinary domains, yet a universally accepted definition has not been established. Their diverse legal forms, functional roles, and jurisdictional contexts contribute to definitional ambiguity.

Table 2 provides a comparative summary of SPE definitions from various sources, highlighting the conceptual and practical challenges in delineating these entities within the organisational structures of MNEs.

Insert Table 2 here

Definitions by both Galstyan et al. (2021) and Kim et al. (2017) focus on the narrow, specific, and limited nature of the entity; however, Kim et al. (2017) use a slightly broader definition which does not refer to the directors of the entity. Kim et al. (2017) also add reference to the "sponsor company", by which they mean the firm that establishes the SPE. Lejour et al. (2019) refer more directly to the ownership of the SPE. Much of the literature on SPEs refers to this ultimate controlling owner as the "sponsor". Golden and Hughes (2018) point out that the sponsor is usually the ultimate beneficial owner of the SPE although this may not always be the case. The OECD definition (OECD 2014) includes reference to the owner being non-resident with few employees and /or little production in the host

economy. The IMF definition agrees that SPEs are controlled directly or indirectly by non-residents and goes further in relation to employees, suggesting that for an entity to meet the definition of SPE it should have a *"maximum of five employees"* (IMF, 2018, page 6).

SPEs are sometimes conflated with subsidiaries located in tax havens or offshore financial centres (OFCs). While both structures can facilitate tax planning or regulatory arbitrage, SPEs are typically established for more specific organisational and financial purposes such as risk isolation, strategic asset management, intra-group financing, and securitisation. Distinguishing between these entities is essential for accurately identifying relevant literature and maintaining conceptual clarity throughout the review.

Moreover, SPEs differ fundamentally from tax haven and OFC subsidiaries in both their legal definitions and underlying purposes. SPEs can serve a range of functions beyond tax optimisation, including risk isolation and management, securitisation, and investment structuring. By contrast, subsidiaries in tax havens or OFCs are primarily established to benefit from jurisdictions offering low or zero corporate tax rates and non-tax benefits, such as high level of banking secrecy, anonymity, moderate or light financial regulation, and a focus on business with non-residents (Jones and Temouri, 2016; Jones et al., 2018). Reflecting these differences, prior empirical studies have examined SPEs and tax haven subsidiaries as distinct variables (Demere et al., 2020). Table 3 outlines the key distinctions between these two types of entities, including their definitions, purposes and roles, structural and legal characteristics, accounting rules and consolidation, financial risks, tax implications, jurisdiction choice, transparency, FDI statistical data compiling guidance, categorisation, and empirical approaches.

Insert Table 3 here

The diverse roles of SPEs are well-documented, with the IMF (2018) identifying six broad categories based on the services SPEs provide to their parent firms: captive financial entities, specialised financial entities, non-financial entities within corporate groups, wealth management structures, government-owned financial entities, and other legal constructs such as shell or shelf companies. This classification

highlights the functional flexibility of SPEs in supporting a wide range of corporate and financial strategies.

SPEs are typically used to facilitate cross-border financial flows, including equity investments and debt financing, often enabling changes in ownership across jurisdictions (IMF, 2009). According to the IMF (2018), SPEs are established to leverage advantages offered by host jurisdictions, such as access to capital markets, risk isolation, regulatory and tax efficiency, and confidentiality. Their operations are predominantly international, with financial positions largely composed of cross-border assets and liabilities.

While SPEs do not inherently generate tax savings, they are frequently embedded within structures designed to reduce tax liabilities (Demere et al., 2020). For instance, they allow firms to isolate high-risk assets, thereby increasing debt capacity and enabling greater interest deductions (Mills & Newberry, 2005). SPEs also facilitate access to external financing, which can support R&D investment and yield tax credits (Shevlin, 1987). Moreover, they serve as vehicles for complex financial transactions such as securitisations and leases (Zechman, 2010).

SPEs also contribute to tax efficiency and tax avoidance by enabling income shifting to low-tax jurisdictions (Dyreng et al., 2013), supporting tax shelter strategies (Graham & Tucker, 2006; Lisowsky, 2010; Wilson, 2009), and structuring related-party transactions that generate tax benefits (Sheppard, 2017). These functions underscore the strategic role of SPEs and justify their inclusion within the Antecedents – Phenomenon – Outcomes (APO) framework.

3. Methodology

3.1. Databases and selection of papers for review

This study employs a systematic literature review, following the Preferred Reporting Items for Systematic Review and Meta-Analysis (PRISMA) protocol (Liberati et al., 2009). Though developed for medical science, it is widely used in business and management disciplines due to its rigour

(Bicakcioglu-Peynirci, 2023; Fan et al., 2021; Temouri et al., 2022). The four-step approach of identification, data screening, eligibility criteria, and inclusion are shown in Figure 1.

Searches were conducted electronically using Scopus and EBSCO Business Source Complete database, with additional manual reference checks to ensure full coverage.The terminology surrounding SPEs varies over time so we included multiple terms: “special purpose entities” (SPEs), “special purpose vehicles” (SPVs), “variable interest entities (VIEs)”, “structured entities”, shell company”, “offshore shell company”, “special financial company”, “shelf company”, “brass plate companies”, “mailbox companies”, “international business companies”, “holding company”, “financial subsidiary”. They were combined with “MNEs,” “MNCs” and “FDI” (OECD, 2014; IMF, 2018).

Inclusion criteria required articles to: (1) focus on SPEs (2) analyse from a micro or macro lens; (3) be published in peer-review scholarly journals listed in the 2024 Chartered Association of Business School (CABS) Academic Journal Guide with the rating levels of 4*, 4, 3, and 2. The initial search yielded 1,796 studies which were refined through exclusion criteria which removed 1,042 items (e.g., proceeding papers; editorial pieces; review articles; book reviews; book chapters, encyclopaedias; record in non-academic sources)

From the remaining 754 publications, another 524 studies were removed due to duplication or not appearing in CABS journals. 230 studies were then manually reviewed further by title, abstract, introductions, and conclusions. 166 studies were excluded for lacking relevance to firm-level activities or country-level FDI use of SPEs. The final dataset includes 64 empirical articles published in 37 journals.

Insert Figure 1 here.

Table 4 shows the journals and article distribution. 83% were published in economics, international taxation, accounting, and finance journals reflecting a focus on specific legal and accounting rules and their impacts on financial risk management and tax planning. Most of these articles are empirical. The remaining 17% of the articles appear in international business (IB) journals examining topics like pass-through FDI by advanced economy MNEs, FDI into tax havens, and round-tripping FDI by emerging

market MNEs (O'Mahony and Barry, 2019). The breadth and the depth of interest demonstrate the importance of SPEs and underline the timeliness of this review.

Insert Table 4 here

3.2. Analytical approach

A qualitative content analysis approach was employed (Welch et al., 2011). Articles were coded using four primary descriptive themes: (1) article name and publication details; (2) underlying theoretical lens; (3) research design and method; and (4) key findings and contributions. To ensure consistency and analytical depth, the coding approach also reflected the study's overarching antecedents–phenomenon–outcomes (APO) framework. Specifically, the key findings and contributions of each article were further coded into three categories: antecedents of SPE use within MNEs, the phenomenon of SPE-related roles and purposes, and the outcomes for firms, and broader FDI statistics. This ensured alignment between the analytical process and the conceptual structure guiding the review.

The coding was conducted independently by two researchers and subsequently cross-checked for consistency. Any minor discrepancies were resolved through discussion, ensuring high inter-coder reliability (Wang & Chugh, 2014; Danese et al., 2018). The study employed an inductive search and synthesis approach, consistent with established systematic literature review protocols (Cooper & Nguyen, 2020; Bicakcioglu-Peynirci, 2023; Pisani & Ricart, 2016; Sousa et al., 2021).

4. Research findings

This section presents the findings of theoretical, methodological, and empirical assessment.

4.1. Theoretical assessment

Table 5 reports the key theoretical perspectives used across the studies. Only 14% of the studies do not identify a theoretical foundation, while the remaining majority draw on at least one theory. Over half (55%) of the studies published in economics, accounting, finance, and international taxation employ theories rooted in those disciplines. Institutional theory, including institutional arbitrage and institutional escape FDI, accounts for 13% of theoretical applications across fields, whereas the resource-based view and agency theory each represent 5%. Internalisation theory is applied in 5% of

the studies, primarily within international business research. The eclectic paradigm, used in 3% of studies, provides additional insights into the motivations underlying SPE use.

Insert Table 5 here.

4.1.1 Institutional theory, institutional arbitrage, and institutional escape FDI

Institutional theory explains how formal and informal institutions shape firm behaviour and economic outcomes. North (1990) and Scott (2005) emphasise that institutions, i.e., rules, norms, and routines, provide the structural context within which firms operate. Institutional theory has been widely adopted in economics, finance, and international business studies to explain how institutional environments shape firm behaviour, including the use of SPEs, and escape FDI (Witt & Lewin, 2007).

In the context of SPEs, institutional theory is applied to understand how firms respond to institutional constraints or opportunities. Two key mechanisms are: institutional leverage, i.e., firms from strong institutional environments use SPEs to extend strategic advantages abroad (Landau et al., 2016; Yan et al., 2018) and institutional escapism, i.e., firms from weak institutional environments use SPEs to bypass domestic constraints, such as regulatory inefficiencies or high taxation (Luo et al., 2011; Mingo et al., 2018).

Empirical studies illustrate these dynamics. For example, Galstyan et al. (2021) show that the geographic distribution of SPE-managed assets reflects institutional arbitrage, where firms locate SPEs in jurisdictions offering favourable regulatory and tax regimes. Kottaridi et al. (2019) and Meyer and Peng (2016) analyse escape FDI by MNEs. Chari and Acikgoz (2016) find that institutional weaknesses in home countries drive MNEs to acquire foreign assets through tax havens and SPEs to access lower taxes and greater financial anonymity. Coppola et al. (2020) and Hurst and Sutherland (2024) further show that SPEs and tax havens facilitate regulatory arbitrage and financial secrecy.

4.1.2 Resource based view of the firm (RBV)

The RBV posits that firms gain competitive advantage from unique, valuable, and hard-to-imitate resources (Barney, 1991; Mahoney and Paradian, 1992; Wernerfelt, 1984). In the context of SPEs, RBV

is used in the discipline of accounting and finance as part of the explanation about how firms leverage internal capabilities such as financial expertise or tax planning knowledge and firm resources to structure SPEs for strategic gain. For instance, Rego (2003) and Richardson and Lanis (2007) show that firms with strong internal resources and tax capabilities use SPEs to minimise tax liabilities. Feng et al. (2009) and Demere et al. (2020) link firm-specific characteristics (e.g., size, international experience, and governance structures) to the ability to exploit SPEs for tax advantages. These studies demonstrate that SPE use is not random but reflects resource-based strategic behaviour.

4.1.3 Internalisation theory

Grounded in economics and international business, internalisation theory explains why firms internalise transactions to mitigate external market imperfections (Buckley and Casson, 1976; Rugman, 1981). Extending this logic, the theory also clarifies how MNEs use internal capital markets to address imperfections in external capital markets (Rugman, 1980; Aulakh & Mudambi, 2005; Mudambi, 1999). By internalising financial flows through SPEs, MNEs can coordinate group-wide financing and manage global cash flows more efficiently (Butler, 2016; IMF, 2018). These structures ultimately represent the internalisation of financial services that would otherwise be vulnerable to external market inefficiencies (Nguyen, 2025).

Empirical evidence shows that MNEs create internal capital markets, especially when external markets are weak or illiquid. Desai et al. (2004), and Foley and Manova (2015) show that MNEs use internal debt via SPEs to finance subsidiaries in countries with underdeveloped financial markets. Nguyen and Rugman (2015), Nguyen and Almodóvar (2018), and Nguyen et al. (2022) show that foreign subsidiaries of British MNEs use internal financing to support exports and performance.

4.1.4 Dunning's eclectic paradigm and FDI motives

Dunning's OLI framework (Ownership, Location, Internalisation) provides a comprehensive lens to analyse SPE use by MNEs. Ownership advantages include financial asset advantages (Dunning, 1993), which include firm size, efficiency, and financial expertise. These advantages enable firms to structure

SPEs for tax and regulatory benefits (Oxelheim et al., 2001). Location advantages are central to SPE domicile. Empirical studies (e.g., Antràs et al. 2009; Barrios et al., 2012; Buettner and Ruf, 2007; Grubert and Mutti, 1991; 2000; Grubert and Slemrod, 1998) show that MNEs choose locations based on favourable tax regimes, legal protections, and financial infrastructure. SPEs are strategically located to exploit these country-level specific advantages (Galstyan et al., 2021; Devereux and Griffith, 2003)

Dunning (1996) identifies escape, support, and passive motives for FDI besides the four well-known FDI motives of market-seeking, efficiency-seeking, natural source-seeking and strategic asset seeking (Dunning, 1996; van Tulder, 2015). These underexplored motives align with SPE use, especially in cases where firms seek to escape restrictive home country policies. On other hand, Demere et al. (2020) show that SPEs are used to reduce corporate tax liabilities.

4.1.5 Agency theory

Agency theory addresses conflicts between principals (firm owners - shareholders) and agents (managers) due to misaligned incentives (Jensen and Meckling, 1976). Principals hire agents to oversee business operations. Managers may act opportunistically, promoting their own interests which may be in conflict with those of firm owners. In the context of SPEs, agency theory is widely used in accounting and corporate governance research, where agency theory helps explain managerial incentives behind SPE use, particularly in relation to tax avoidance. Feng et al. (2009) and Armstrong et al. (2015) show that weak governance increases the likelihood of SPE use and tax avoidance. These findings suggest that SPE use is not only a strategic or institutional response but is also shaped by internal corporate governance dynamics.

4.2. Methodological assessment

Table 6 summarises the methodological approaches used in the reviewed articles. A clear pattern emerges: 75% of studies adopt a firm-level unit of analysis, while only 25% focus on country-level unit of analysis. This finding suggests a strong emphasis on micro-level firm behaviour, particularly in understanding how firms structure and implement the use of SPEs. However, it also highlights a gap in

capturing macro-level institutional and policy influences despite calls in the literature for multi-level approaches to studying MNEs (Eden et al., 2020).

64% of studies rely on single-country data, often due to data availability and regulatory transparency in jurisdictions like the United States, Ireland, and the Netherlands. For example, Demere et al. (2020) use U.S. firm-level data to examine tax avoidance strategies involving SPEs, while Galstyan et al. (2021) leverage Irish data to map the geographic distribution of SPE-managed assets. These studies demonstrate how country-specific datasets can yield rich insights but may limit generalisability across institutional contexts. Only 36% of studies employ multi-country data, which restricts any comparative analysis of the use of SPEs across different regulatory environments. This methodological limitation is particularly relevant given the transnational nature of SPEs and their role in regulatory arbitrage.

A notable strength is the predominant use of longitudinal datasets (97%), which allows researchers to trace the evolution of SPE strategies over time. For instance, Weyzig (2013, 2014) uses Dutch data to examine changes in SPE structures in response to shifting tax policies. Longitudinal designs are crucial for capturing the dynamic interplay between firm behaviour and institutional change. Only 3% of studies use cross-sectional, subsidiary-level survey data, which could offer nuanced insights into managerial decision-making and internal governance. This gap suggests an opportunity for future research to incorporate primary data collection methods to complement analysis.

In terms of analytical techniques, multiple regression dominates (97%), reflecting a focus on identifying statistical relationships between SPE use and firm or country-level variables. Network analysis is under-utilised (3%), despite its potential to uncover complex inter-organisational and jurisdictional linkages. For example, network-based approaches could illuminate how SPEs are embedded within global financial structures, a perspective largely absent from the current literature.

Methodological choices also reflect disciplinary norms. For example, economics, accounting, finance, and taxation studies tend to rely on large-scale longitudinal datasets and regression analysis, focusing on tax optimisation and capital flows (e.g., Demere et al., 2020). In contrast, international business and management studies often emphasise firm-level decision-making and institutional contexts (Buckley et al., 2015).

Insert Table 6 here.

4.3. Empirical assessment

Empirical assessment has been made on the basis of (1) antecedents (2) phenomenon and (3) outcomes of SPE use on firm-level strategy and country-level FDI. Table 7 provides a summary of the empirics and examples of representative studies. Research on the antecedents of SPE use account for 11% whereas research on the phenomenon and the outcomes of SPE use represent 47% and 42%, respectively.

Insert Table 7 here.

4.3.1. Antecedents of SPE use

Empirical studies identify two broad categories of antecedents shaping MNEs' use of SPEs: internal firm-level factors and external country-level institutional factors. Within each category, clearer subthemes emerge that explain the mechanisms through which these antecedents influence SPE use.

4.3.1.1. Internal firm-level factors

Internal antecedents capture organisational characteristics, managerial incentives, and resource conditions that influence how and why MNEs use SPEs. Three core subthemes appear prominently in the literature:

Financial reporting pressure

Financial reporting pressure refers to managerial incentives to meet earnings targets, smooth reported performance, or reduce balance-sheet volatility. Under such pressure, managers may use SPEs to shift assets, reclassify liabilities, or isolate high-risk activities. Feng et al. (2009) show that SPEs are frequently used for earnings management[4] when firms face strong reporting pressure. They find that SPE use increases with intangible asset intensity and marginal tax rates but decreases with stronger governance and foreign operations. Importantly, they distinguish reporting-motivated SPEs, which exhibit earnings management patterns, from economically-motivated SPEs used for tax or operational purposes.

[4] Earnings management is a practice where companies manipulate financial statements to present a more favourable view of their performance, often to meet analysts' expectations, smooth out fluctuations, or achieve specific goals.

Executive compensation and managerial incentives

This factor encompasses bonus structures, equity-based incentives, and managerial discretion, which can motivate opportunistic or strategic use of SPEs. Higher-powered incentives may encourage managers to exploit SPEs to improve reported performance, reduce taxes, or shift risk away from the parent balance sheet. Feng et al. (2009) find that CEO bonus intensity is positively associated with SPE use, suggesting agency-driven motivations. This reinforces an agency-theoretic mechanism: where governance is weaker and discretion is high, SPEs may be used in ways that do not align with long-term shareholder interests.

Resource availability and organisational capabilities

This subtheme reflects the financial, legal, and tax expertise within the firm that enables the structuring, management, and maintenance of SPEs. Large firms with sophisticated operations are better equipped to leverage SPEs for financing, risk management, or tax planning. Studies such as Rego (2003), Feng et al. (2009), and Demere et al. (2020) indicate that firms with greater resources, deeper international footprints, and stronger internal tax planning capabilities are more likely to adopt SPE structures.

4.3.1.2. External country-level institutional factors

External antecedents relate to institutional conditions in host jurisdictions that incentivise the establishment or use of SPEs. The literature reveals three distinct subthemes:

Tax regimes and fiscal incentives

Jurisdictions offering low corporate tax rates, exemptions on interest or royalty withholding tax, and favourable treatment of financial entities attract SPEs designed for tax optimisation. Dyreng et al. (2015) show that U.S. MNEs route equity capital through low-tax holding companies. Lejour et al. (2019) demonstrate that flows of royalties and financial income through the Netherlands and Bermuda are strongly driven by tax rate differentials, with Bermuda receiving substantial inflows from Ireland, Singapore, and the U.S.

Financial development and investor protection

Well-developed financial markets, strong regulatory frameworks, and robust investor protection attract SPEs used for securitisation, financing, or strategic asset management. These conditions reduce transaction costs and provide legal certainty for cross-border financial structuring. Galstyan et al. (2021)

examine the geographic distribution of financial assets managed by Irish-resident SPEs. They differentiate between Financial Vehicle Corporations (FVCs) used for securitisation and Special Purpose Vehicles (SPVs) used for other financial purposes. They find that while FVCs (securitisation entities) are tax-motivated, non-securitisation SPVs are strongly influenced by investor protection and financial infrastructure. Their analysis shows that Ireland's developed financial system attracts a diverse set of SPEs beyond tax-driven vehicles.

International tax treaties and treaty network position

Extensive double tax treaty networks allow MNEs to minimise withholding taxes and reduce treaty shopping risks, making certain jurisdictions preferred conduit locations. Davies and Killeen (2018) demonstrate that the structure of the EU's treaty network significantly shapes conduit FDI flows through non-bank financial SPEs. Galstyan et al. (2021) further highlight that the number of tax treaties between Ireland and sponsor jurisdictions predicts the likelihood of establishing SPEs in Ireland.

Overall, the antecedents literature shows that internal factors (such as reporting pressure, managerial incentives, and firm resources and capabilities) shape firms' propensity to use SPEs. External institutional factors (tax regimes, financial development, and tax treaty networks) influence where and how these SPEs are located.

4.3.2. Phenomenon

4.3.2.1. Conceptualisation and measures of SPE use

Empirical studies conceptualise and measure SPE use through a combination of legal, financial, and operational characteristics. These approaches vary across disciplines, reflecting differences in data availability and the focus of the research. A central challenge in SPE research is simply identifying them, as they are often embedded within complex corporate structures and are not uniformly disclosed. Researchers typically rely on two key criteria. The first approach is to use legal and operational criteria, such as whether the entity operates solely within the corporate group, engages in securitisation or financing activities, or is structured as a pass-through entity. The second approach is to rely on voluntary disclosures, including sponsor directories (e.g., Shelvin, 1987) and financial statement footnotes (e.g., Beatty et al., 1995; Landsman et al., 2008; Callahan et al., 2013). For example, Feng et al. (2009) identify SPEs by examining the legal structure and business activity within the group, using insights

from the US Securities and Exchange Commission (SEC) Office of the Chief Accountant to identify SPEs that are organised as pass-through entities.

Researchers use a variety of data sources to detect SPEs. The first approach is to use Form 10-K filings. For example, Feng et al. (2009) and Demere et al. (2020) developed Python scripts to extract subsidiary data from Exhibit 21 of the U.S. publicly listed firms' mandatory filings. This method allows for comprehensive identification of SPEs and helps mitigate selection bias. The second approach, as adopted by Zechman (2010), is to use DealScan transactions to identify SPEs involved in structured finance deals. The third approach is to use SPE databases. For example, Weyzig (2014) used the Reach database from Bureau van Dijk to identify Dutch financial holding companies that operate exclusively within corporate groups.

Studies typically measure and operationalise SPE use in two ways. Intensity of SPE use is measured as the log of (1 + total number of SPE subsidiaries), capturing the scale of SPE deployment (Feng et al., 2009; Demere et al., 2020). Propensity to use SPEs is a binary variable which indicates whether a firm has at least one SPE subsidiary in a given year. In Weyzig (2014), SPE use is measured using binary indicators for different types of Dutch SPEs (issuing, on-lending, general), allowing comparison across peer groups of EU manufacturing firms.

Some studies aggregate SPE data at the country level to examine macro-economic patterns. Galstyan et al. (2021) combined sponsor and debt issuance data from the Eurosystem's Centralised Securities Database (CSDB) and the Central Bank of Ireland. They constructed a dataset of non-Irish resident SPEs reporting to Irish authorities, enabling analysis of international debt flows and sponsor country characteristics.

These examples demonstrate the diversity of approaches used to conceptualise and measure SPEs, reflecting both disciplinary norms and data constraints. They also highlight the importance of methodological innovation in overcoming disclosure limitations and capturing the strategic use of SPEs.

4.3.2.2. Purposes of SPE use

SPEs serve multiple strategic and financial purposes within MNE structures.

Holding intangible assets (intellectual property, patents and trademarks)

One of the most prominent strategic purposes of SPE use is the management and holding of intangible assets, including intellectual property (IP), patents, trademarks, and proprietary technologies (Dischinger and Riedel, 2011; Forbes and Sharma, 2008; Overesch and Schreiber, 2009). This practice is particularly prevalent in sectors such as pharmaceuticals, technology, and consumer goods, where intangible assets represent a significant portion of firm value.

SPEs used for this purpose typically fall under Category 3 of the IMF's classification: corporate groups' non-financial entities (IMF, 2018). These entities are assigned legal ownership of IP by the parent firm and collect income through royalties, licensing fees, or other payments. Such receipts are often recorded as exports of services and passed on to the parent firm (UNECE, 2014).

The primary motivation behind this structure is tax optimisation. MNEs often separate the development and use of IP from its legal ownership, reallocating it to SPEs located in jurisdictions with favourable tax regimes. These SPEs then charge operating subsidiaries for the use of IP, creating tax-deductible expenses in high-tax jurisdictions and income streams in low-tax jurisdictions (Grubert, 2003a, b; Lipsey, 2010; Taylor et al, 2015).

For example, Ireland is a popular location for IP-holding SPEs due to its 12.5% corporate tax rate and Knowledge Development Box (KDB) tax regime, which offered an effective tax rate of 6.25%, later increased to 10% (EY, 2023a; Chasaida, 2015)[5]. This is significantly lower than the US corporate income tax rate of 21%. Dischinger and Riedel (2011) document cases where U.S. MNEs such as Pfizer, Bristol-Myers Squibb, and Microsoft relocated R&D and patent holdings to Ireland. Apple Inc. used Apple Sales International (ASI), an Irish-based SPE, to hold strategic intangible assets. ASI charged subsidiaries in Europe and Asia for IP use, enabling Apple to reduce tax liabilities in both Ireland and the U.S. due to ASI's non-resident tax status and U.S. tax provisions, such as "check-the-box" and "look-through" rules (Duhigg and Kocieniewski, 2012; Ting and Gray, 2019). Other examples include Shell, whose central brand management is held by a Swiss subsidiary (Cooper and Nguyen, 2020) and

[5] Ireland has adopted the OECD's Pillar Two rules, which introduce a global minimum effective tax rate of 15% for large MNEs (those with consolidated group revenues of €750 million or more in at least two of the four preceding fiscal years, OECD, 2022). This means that while the headline rate of 12.5% remains for most businesses, in-scope entities will pay a "top-up" tax to reach the 15% effective rate.

Starbucks where IP ownership related to its logo and drink recipes was transferred to a UK subsidiary, previously located in the Netherlands.

Empirical studies consistently show that firms with higher levels of intangible assets have greater scope for profit shifting. Desai et al. (2006) and Fuest et al. (2013) find that IP facilitates tax planning due to the difficulty of establishing arm's-length prices for royalties and licensing. Dischinger and Riedel (2011) show that subsidiaries in low-tax jurisdictions hold more intangible assets. Karkinsky and Riedel (2012) find that a 1% increase in corporate tax reduces patent holdings by 3.5%, indicating strong tax sensitivity. Griffith et al. (2014) and Baumann et al. (2020) demonstrate that preferential tax regimes attract high-value patents, often separating the location of R&D input from IP ownership. Demere et al. (2020) find that SPEs enhance both the amount and efficiency of tax savings related to intangible assets and R&D.

Financing (obtaining external debt, intra-group financing, securitisation, risk isolation and tax planning)

SPEs used for financing activities typically include financing companies, which facilitate the movement of funds within a corporate group, often on behalf of a non-resident parent. Another common type is the Special Purpose Vehicle (SPV), which is specifically created to securitise large volumes of bank assets. When the originator of these assets is a foreign bank, the SPVs form a relatively large and homogenous group known as Financial Vehicle Corporations (FVCs) (UNECE, 2014).

Beyond securitisation, SPEs are frequently employed to secure external financing and channel financial resources across subsidiaries within a corporate group (Amoruso & Duchac, 2014; Graham, 2003; Pozsar et al., 2013). Desai and Dharmapala (2015) examine the role of SPEs in three key financing functions: obtaining external capital, facilitating intra-firm lending, and isolating financial risk. Their findings show that firms often prefer debt over equity financing due to the tax shield benefits associated with interest payments. As a result, MNEs use internal debt (i.e., intra-firm loans) to shift profits to jurisdictions with lower tax rates. This practice underscores the significant influence of tax considerations on corporate capital structure decisions (Buettner et al., 2009; Egger et al., 2010; Faccio

& Xu, 2015; Gordon & Lee, 2001; Harrington & Smith, 2012; Huizinga, and Laeven, 2008; Huizinga et al., 2008; Merz and Overesch, 2016).

Obtaining external debt

A key financing-related purpose of SPE use is to obtain external debt while isolating any financial risk for the parent firm. A sponsor firm may separate high-risk assets, such as construction or R&D projects, and allocate them to an SPE, which is a legally distinct entity. SPEs used for this purpose are typically structured to be separate in name, legal status, and financial reporting from the sponsor firm. The SPE can then secure financing through equity or securitised debt, thereby increasing the debt capacity of the entire group (Feng et al., 2009; Demere et al., 2020). Prior research indicates that firms using SPEs are more highly leveraged (Mills and Newberry, 2005; Feng et al., 2009). Due to the capacity to secure external financing, SPEs can also acquire, and hold assets, R&D projects (Beatty et al., 1995), and securitised assets. This, in turn, enhances a sponsor's depreciation, tax credits, and bad debt deductions, respectively (Demere et al., 2020). Furthermore, greater debt capacity results in more tax-deductible interest expenses, lower taxable income, and thus lower cash tax payments, which can then combine to reduce tax liabilities (Blouin et al., 2010; Mills and Newberry, 2005).

An example is provided by Weyzig (2014), who examines the use of Dutch SPEs by large MNEs. He finds that Dutch-issuing SPEs are associated with higher levels of debt financing relative to equity. These entities are used to issue debt securities and facilitate intra-group loans, particularly within the EU. The Netherlands' tax regime, specifically the absence of interest withholding tax, makes it an attractive jurisdiction for such financing structures. As a result, many MNEs use Dutch SPEs to raise external capital while minimising tax exposure. These findings collectively demonstrate that SPEs are not only tools for financial engineering but also serve as strategic vehicles for accessing external capital markets under favourable legal and tax regimes.

Intra-firm financing

A key function of SPEs is to facilitate intra-firm financing, particularly through the use of internal debt (also referred to as intra-firm loans or related-party debt)[6]. This mechanism allows MNEs to allocate capital efficiently across subsidiaries, often for tax planning or liquidity management purposes. However, empirical research on internal debt is limited due to the scarcity of detailed data distinguishing internal debt from external debt in large commercial databases. Only the datasets published by the US Bureau of Economic Analysis (BEA) and the Central Bank of Germany provide data on internal debt and external debt (Cooper & Nguyen, 2020). As a result, many studies use total debt or debt-to-equity ratios as proxies for internal debt financing (Du et al., 2022; Rygh & Benito, 2023).

Several studies provide valuable insights. Desai et al. (2004) use the U.S. Bureau of Economic Analysis (BEA) data to examine how MNEs use internal capital markets to overcome external financing constraints. They find that subsidiaries in countries with weak creditor rights and underdeveloped financial systems borrow less externally and rely more on internal debt. A 10% increase in local tax rates is associated with a 2.8% increase in the debt-to-asset ratio, with internal debt being particularly responsive. Desai et al. (2008) explore how U.S. MNE subsidiaries perform during currency crises and find that while local firms experience asset contraction, MNE subsidiaries continue to grow thanks to access to internal capital from parent firms. This highlights the stabilising role of intra-firm financing during economic shocks.

Manova et al. (2015) provide indirect evidence from China, showing that foreign subsidiaries and joint ventures export more than domestic firms in sectors reliant on external finance. This suggests that MNEs use internal capital markets, including internal debt, to support export performance, especially in financially constrained environments. Nguyen and Almodóvar (2018) and Nguyen et al. (2022) extend this perspective by using survey data to show that internal debt supports strategic objectives such as subsidiary exports and performance.

[6] According to the OECD Transfer Pricing Guidelines (2017), intra-firm loans must comply with the arm's length principle, meaning the interest charged should reflect market rates.

Buettner and Wamser (2013), using data from the Central Bank of Germany, find that while tax significantly influences internal debt levels, the magnitude of debt shifting is modest. This is confirmed by Heckemeyer and Overesch (2017) in a meta-analysis, suggesting that tax is a factor, but not the sole driver of intra-firm financing decisions. These findings collectively show that SPEs play a critical role in enabling MNEs to allocate capital internally, respond to institutional constraints, and optimise tax outcomes, while also supporting strategic and operational goals across subsidiaries.

Securitisation

Another key purpose of using SPEs is securitisation, the process of converting illiquid assets, such as loans or receivables, into tradable securities. This process enables firms to transfer credit risk to investors, access external financing, and reduce capital costs (Acharya et al., 2013; Adrian, 2017). Securitisation also encourages the use of debt over equity, offering tax advantages and balance sheet flexibility (Landsman et al., 2008). In securitisation structures, the sponsor firm typically transfers assets to an SPE, which then issues securities backed by those assets. These SPEs are often structured as Financial Vehicle Corporations (FVCs) or Special Purpose Vehicles (SPVs), depending on the nature of the assets and the jurisdiction (UNECE, 2014).

Empirical evidence from Ireland illustrates the evolving role of SPEs in securitisation. Golden and Hughes (2018) report that the composition of Irish securitisation entities has shifted significantly. In their research, mortgage-backed securities represented only 27% of all securitisation entities, indicating a move toward more diversified asset classes. Pozsar et al. (2013) highlights that SPEs are increasingly part of non-bank credit intermediation chains, allowing firms to bypass traditional banking systems and access capital markets directly. Further research by the Central Bank of Ireland (Golden & Maqui, 2017, 2018) identifies five distinct business models among Irish-resident SPEs. These models reflect different motivations and structures, with FVCs primarily used for securitisation and SPVs for non-securitisation activities. This classification underscores the functional diversity of SPEs and the importance of their strategic role in financial engineering. These findings demonstrate that securitisation via SPEs is not only a financing tool but also a mechanism for risk transfer, regulatory arbitrage, and capital efficiency, particularly in jurisdictions with favourable legal and tax frameworks.

4.3.3. The complementary of SPEs and tax havens in tax planning

A key factor in MNEs' tax planning strategies is the complementary use of SPEs and tax havens. This approach involves establishing SPEs in jurisdictions with low or zero corporate tax rates to hold income-generating assets, such as intellectual property, loans, or investments, and conduct financial transactions that facilitate profit shifting. By relocating profits or high-value assets to SPEs incorporated in tax havens, MNEs can reduce their overall tax liability in higher-tax jurisdictions. This strategy leverages the jurisdictional advantages of tax havens, including low tax rates, financial secrecy, and favourable regulatory environments (Desai et al., 2006; Taylor et al., 2015).

Empirical studies provide several examples of this practice. Martinus et al. (2019) show that firms from countries including Japan and Australia tend to favour tax havens such as Singapore, Hong Kong, the Netherlands, and the Cayman Islands. Jones and Temouri (2016) find that R&D-intensive MNEs are more likely to invest in tax havens, often holding patents and trademarks. This aligns with Rugman's (1981) theoretical framework of country-specific advantages (CSAs) and firm-specific advantages (FSAs), which explains how MNEs exploit institutional differences for strategic gain. Heckemeyer et al. (2018) support this by showing that intellectual property ownership is frequently concentrated in tax havens. The relationship between institutional quality and tax haven use also varies by type of capitalism. For example, liberal market economies may be more prone to aggressive tax planning than coordinated market economies (Jones et al., 2018; Ahmed et al., 2020; Mukundhan et al., 2019).

Beyond tax minimisation, tax havens also serve as financial conduits. Coppola et al. (2020) analyse traded securities issued by firms in tax havens and link them to their ultimate parent companies. Their findings reveal that tax havens are used not only for tax avoidance but also to obscure the origin of investments and facilitate capital market access for emerging market firms.

Further empirical evidence highlights the structural importance of tax havens in MNE tax planning. Dyreng and Lindsey (2009), using U.S. firm-level data, find a strong link between investments in tax havens and profit shifting. They emphasise that group structure, rather than the sheer number of tax haven subsidiaries, is the key determinant of tax planning effectiveness. Gumpert et al. (2016),

analysing German MNEs, report that only 20.4% have subsidiaries in tax havens, largely due to the costs and complexities of establishing and maintaining such entities. However, they find that a 1% increase in foreign tax rates correlates with a 2.3% higher likelihood of owning a tax haven subsidiary, especially among manufacturing firms. Service firms show a weaker relationship, likely due to the difficulty of reallocating service-based income.

These findings collectively demonstrate that SPEs and tax havens are strategically intertwined in MNE tax planning. Their combined use enables firms to optimise tax outcomes, access global capital markets, and navigate complex regulatory environments.

4.3.4. Outcomes of SPE use

4.3.4.1. Facilitating corporate tax avoidance

A widely studied outcome of SPE use is its role in facilitating corporate tax avoidance. SPEs enable MNEs to shift profits across jurisdictions, often to countries with more favourable tax regimes, thereby reducing their overall tax liabilities. The mechanism typically involves allocating intellectual property, R&D, or financial instruments to SPEs located in low-tax jurisdictions. These entities then receive income through royalties, interest, or other intra-group payments, which are tax-deductible in high-tax jurisdictions and taxable at lower rates in the SPE's location.

Empirical evidence supports this view. Demere et al. (2020) analyse a large sample of the U.S. publicly listed firms and find that SPEs significantly enhance tax efficiency. When combined with R&D, depreciable assets, net operating losses, and foreign operations, SPEs can generate substantial cash tax savings. Their interaction analysis shows that SPEs increase the tax efficiency of intangibles and R&D by 61.6% and 87.5%, respectively. Fatica and Wildmer (2018) and Lane and Moloney (2018) show that SPEs are central to profit shifting strategies, particularly in jurisdictions with high volumes of FDI from tax havens. Jansky and Palansky (2019) examine profit shifting across 112 countries and find that a higher share of FDI from tax havens correlates with lower reported returns on investment (ROI). However, they also note that the estimated corporate tax revenue losses do not vary significantly across countries grouped by income level.

Despite these findings, the effectiveness of SPEs in reducing tax liabilities is not uniform. Feng et al. (2009) caution that SPEs may not always yield significant tax savings due to high setup costs, reduced information transparency, and increased regulatory scrutiny. Scholes et al. (2014) argue that when non-tax costs are considered, such as reputational risk and regulatory compliance burdens, SPEs may not be the optimal tax planning tool. Wilson (2009) and Wittendorff (2010) highlight the risk of tax audits and penalties, noting that tax authorities may disallow aggressive tax positions involving SPEs, especially if the structures are deemed artificial or abusive. Dyreng et al. (2016) emphasise the role of public pressure and reputational risk, particularly in high-profile cases where SPE use is linked to tax avoidance scandals.

In summary, while SPEs are often used to facilitate tax avoidance, their effectiveness depends on the broader regulatory, economic, and reputational context. The empirical literature provides strong evidence of tax savings in many cases, but also highlights important limitations and risks.

4.3.4.2. Impacts on loan contracting

Kim et al. (2017) use the DealScan database to investigate the relationship between SPEs and bank loan contracting. They find that lenders may perceive managers' use of SPEs as a means to manage earnings or conceal losses, thereby increasing information risk. As a result, firms with SPEs tend to face unfavourable loan terms, such as higher interest rates, collateral requirements, and restrictive covenants. Additionally, the use of SPEs is associated with a higher likelihood of accounting restatements and greater information asymmetry between managers and external capital providers.

4.3.4.3. Facilitating pass-through FDI and round-tripping FDI

Pass-through FDI

A key outcome of SPE use is the facilitation of pass-through FDI, where investments are routed through intermediary jurisdictions, often tax havens or conduit countries, before reaching their final destination. This practice enables MNEs to benefit from favourable tax treaties, reduce withholding taxes, and obscure the true origin and destination of capital flows. Pass-through FDI is typically associated with jurisdictions that host large volumes of SPEs but have limited real economic activity. These entities distort traditional FDI statistics by inflating investment figures in conduit countries and masking the identity of ultimate investors.

Empirical studies provide strong evidence of this phenomenon. Weyzig (2013) uses data on Dutch SPEs to show how MNEs channel FDI through the Netherlands, one of the world's largest conduit jurisdictions, to exploit its extensive tax treaty network and avoid dividend withholding taxes in host countries. Rassier (2015) analyses U.S. BEA data and finds that non-resident U.S. SPEs differ significantly from operating entities in terms of financial performance and balance sheet composition. Value-added is often disproportionately attributed to SPEs, further distorting economic statistics.

Blanchard and Acalin (2016) examine quarterly data from 25 emerging markets and find a strong correlation between inward and outward FDI flows, driven by pass-through structures. Countries with higher taxes or stricter capital controls host fewer SPEs, indicating that favourable tax regimes are a key driver of pass-through FDI. Lane and Milesi-Ferretti (2017) observe that post- financial crisis growth in FDI positions is largely attributable to flows passing through offshore financial centres (OFCs), reflecting increased use of SPEs.

Casella (2019) argues for reconstructing global FDI networks based on ultimate investors rather than bilateral flows, to better capture the real economic relationships behind pass-through FDI. Damgaard et al. (2019, 2024) estimate that a small group of economies, including the Netherlands, Luxembourg, Hong Kong, Switzerland, Singapore, Ireland, Bermuda, and the Cayman Islands, account for 40% of global FDI, despite representing only 3% of global GDP. They term this phenomenon "phantom FDI", referring to investments in SPEs that lack economic substance and are disconnected from the host economy. Phantom FDI is estimated at $15 trillion globally, rising from 30% to 40% of global FDI between 2009 and 2017. These findings underscore the strategic use of SPEs in routing capital through intermediary jurisdictions, with significant implications for the accuracy of FDI statistics, tax policy, and global financial transparency.

Round-tripping FDI

Round-tripping FDI refers to the practice where firms route capital through offshore jurisdictions, often via SPEs, and then reinvest it back into their home country. This strategy allows firms to access tax incentives and regulatory benefits reserved for foreign investors, while maintaining control over the capital. This phenomenon is particularly prevalent among emerging market MNEs (EMNEs), which face institutional constraints, such as capital market inefficiencies, regulatory barriers, and limited

access to foreign capital. SPEs offer a mechanism to bypass these constraints and optimise tax outcomes.

Empirical studies highlight the scale and strategic use of round-tripping FDI. Aykut et al. (2019) report that in 2008, 60% of Brazil's outward FDI was directed to SPEs in Caribbean OFCs, such as the British Virgin Islands, Cayman Islands, Bahamas, and Netherlands Antilles, as well as European conduits like the Netherlands and Luxembourg. Similarly, in 2014, 70% of Russia's inward and outward FDI flowed through SPEs in Cyprus, the Netherlands, and other OFCs. Sauvant (2017) estimates that 50–80% of outward FDI from BRIC countries (Brazil, Russia, India, China) is channelled into SPEs. A portion of this capital is then redirected back to the home country, enabling firms to benefit from preferential tax treatment for foreign investors, a practice known as round-tripping. The remaining flows may be routed to third countries, a pattern referred to by the OECD as "capital in transit."

Buckley et al. (2015) and Sutherland et al. (2019) show that Chinese MNEs use investment holding companies and corporate inversions to facilitate round-tripping FDI. These structures allow firms to access foreign capital markets, avoid domestic restrictions on outward FDI, and benefit from tax incentives designed for foreign investors. Anderson et al. (2020, 2024) examine how Chinese firms, particularly private MNEs, use SPEs in tax havens to conceal their identity and distort official FDI statistics. Their findings reveal that private firms are more likely to engage in corporate inversions, while state-owned enterprises (SOEs) dominate reported FDI data, leading to systematic bias in assessments of Chinese firms' internationalisation.

These studies collectively demonstrate that round-tripping FDI via SPEs can be used as a strategic tool by EMNEs to navigate home institutional voids, optimise tax outcomes, and access foreign capital. However, this practice also raises concerns about the accuracy of FDI statistics, transparency of ownership, and policy effectiveness, particularly in emerging economies.

4.3.4.4. The impacts of SPEs on international FDI statistics

A critical outcome of SPE use is its distorting effect on international FDI statistics. SPEs often serve as

intermediaries in global capital flows, inflating FDI figures in conduit jurisdictions and obscuring the true origin and destination of investments. This has led to growing concern among economists, policymakers, and statistical agencies about the reliability of traditional FDI data. The mechanism of distortion arises because FDI flows are frequently recorded based on the immediate counterpart economy rather than the ultimate investing economy (UIE). When capital is routed through SPEs in OFCs, it creates phantom FDI, i.e., investments with little or no real economic substance in the host country (Damgaard et al., 2019).

Empirical studies illustrate the scale and implications of this issue. UNCTAD (2013) notes that SPEs have become increasingly important in investment flows, contributing to greater volatility in FDI statistics. The rise in countries offering favourable tax treatment to SPEs has amplified this trend. Damgaard and Elkjaer (2017) use a global FDI network that excludes SPEs and reassigns flows to UIEs. Their analysis shows that total inward FDI is reduced by one-third when phantom FDI is removed, and the dominance of OFCs diminishes significantly. Damgaard et al. (2024) further refine this approach by distinguishing between phantom FDI and real FDI across 246 economies from 2009 to 2017. Their dataset enables more accurate assessments of global investment patterns.

Borga and Caliandro (2018) emphasise the need to differentiate between productive FDI which contributes to economic growth and financial flows routed through SPEs. They identify five drivers of pass-through FDI: tax avoidance, risk mitigation, transaction cost reduction, inherited ownership links, and liability shielding. Dellis et al. (2022) use newly available data on genuine FDI flows from 1985 to 2018 and find that statistical distortions arising from mechanisms such as SPEs and round-tripping FDI, have increasingly distorted FDI data over time. Their findings underscore the importance of refining FDI measurement to better reflect economic realities.

In response to these challenges, international organisations have updated their statistical guidelines. Since 2014, many countries have adopted the IMF's Balance of Payments and International Investment Position Manual (BPM6) and the fourth edition of the OECD's Benchmark Definition of Foreign Direct Investment (BD4) standards, which recommend excluding resident SPEs and accounting for non-

resident SPEs in FDI reporting (UNCTAD, 2023). However, only half of OECD member countries have implemented these guidelines fully (Hennart & Sutherland, 2022), limiting the comparability and reliability of global FDI data. These findings highlight the need for continued refinement of FDI statistics to account for the role of SPEs. Without such adjustments, policymakers and researchers risk misinterpreting the scale, direction, and economic impact of international investment flows.

5. Discussion and suggestions for future research directions

This study examines the role of SPEs within the organisational structures of MNEs, shifting the analytical lens beyond the conventional emphasis on tax havens that has attracted significant research in the international business literature. It conceptualises SPEs as strategic instruments embedded in broader corporate structures with distinct roles to play. Through a systematic synthesis of the literature, the study situates SPEs within a more nuanced organisational and institutional landscape, identifying the antecedents that drive their use, their multifaceted functions, and their implications for firm-level tax planning and international FDI statistics. This review makes three novel contributions, as outlined below:

Firstly, research on SPEs has expanded across multiple disciplines, reflecting their growing prevalence (Demere et al., 2020; Weizig, 2014). In response to the fragmented nature of this literature, the present study synthesises existing research by reviewing its theoretical foundations, methodological approaches, and empirical findings, thereby offering a comprehensive understanding of SPEs. Central to this contribution is Figure 2, which presents an integrative conceptual framework structured around an antecedents–phenomenon–outcomes model. This framework serves both as a tool for organising current insights and as a guide for future research. The antecedents component captures the internal and external factors that motivate MNEs to establish SPEs, including regulatory arbitrage (Galstyan et al., 2021; Kim et al., 2017), firm resources, governance, and underlying motivations (Feng et al., 2009; Donohoe et al., 2013; Mills and Newberry, 2005). Understanding these antecedents is essential for identifying the conditions under which SPEs are most likely to be deployed. The phenomenon component examines how SPEs are embedded within MNE structures, highlighting the propensity and intensity of their use (Feng et al., 2009; Demere et al., 2020), and their roles in facilitating risk isolation,

managing intangible assets, financing, and enabling securitisation (Acharya et al., 2013; Adrian and Jones, 2018; Galstyan et al., 2021; Golden and Maqui, 2018; Weizig, 2014). The outcome component addresses the broader implications of SPE use, such as facilitating corporate tax avoidance (Demere et al., 2020; Dyreng et al., 2013;), impacting bank loan contracts (Kim et al., 2017), distorting FDI statistics through pass-through and round-tripping FDI (Aykut et al., 2017; Damgaard et al., 2024; Sauvant, 2017; Weizig, 2013), challenging governance and transparency, and raising regulatory concerns. By mapping these elements, the framework underscores how the use of SPEs can obscure the visibility of economic activity, complicate policy responses, and raise critical questions about accountability in global business operations. This paper offers a structured lens through which scholars can further explore the strategic logic and systemic impact of SPEs.

Insert Figure 2 here.

Secondly, this study demonstrates that SPEs, as organisational instruments, are embedded within the corporate structures of MNEs. This perspective contrasts with the traditional tax haven literature, which has primarily focused on geographic jurisdictions that facilitate tax avoidance through low or zero tax rates (Jones & Temouri, 2016; Jones et al., 2018; Coppola et al., 2021; for a systematic review, see Temouri et al., 2022). Unlike tax havens, SPEs are not confined to specific locations; rather, they are strategically deployed across multiple jurisdictions to serve a variety of organisational and financial purposes. This study contributes to the MNE literature by shifting the analytical focus from *where* tax avoidance occurs (i.e., in tax haven jurisdictions) to *how* it is operationalised through corporate structuring. In doing so, this study engages with recent developments in international tax regulation, including the OECD's Base Erosion and Profit Shifting (BEPS) framework, the global minimum tax, country-by-country reporting, digital services taxes, tax incentives such as patent box tax schemes in Europe and the UK (Tax Foundation, 2022; UK Government, 2023), and thin capitalisation rules which are not traditionally explored in the tax haven literature. These policy shifts have direct implications for the use and design of SPEs, particularly in the post-BEPS era, where increased transparency and substance requirements are reshaping MNE behaviour. By focusing on the organisational role of SPEs, this review offers a more granular understanding of corporate tax planning mechanisms and provides a

foundation for future empirical research that moves beyond the geographic framing of tax havens. It also shows how important it is for researchers to have a clear understanding of the use of SPEs.

Thirdly, this study offers a set of suggestions for future research. Further investigation is needed to understand the dynamic interplay between regulatory environments and the configuration of SPEs, assess the implications of emerging transparency initiatives, and explore the evolving strategic rationale for SPE use in response to shifting regulatory and economic pressures. Specifically, this study identifies opportunities for theoretical, methodological, and empirical advancement. These suggestions aim to deepen our understanding of how SPEs function within the organisational structures of MNEs and to raise concerns about their broader implications for governance, transparency, and global economic regulation. A summary of these proposed research avenues is presented in Table 8.

Insert Table 8 here

5.1. Theory

Although SPEs are often associated with legal, fiscal, and tax functions, they have broader implications for the strategy, structure, and behaviour of MNEs. To advance theoretical understanding, future research is recommended to explore how SPEs influence real economic outcomes, organisational design, and cross-border investment strategies.

5.1.1. Extending existing theories to capture SPE complexity

Current international business theories, such as institutional theory, internalisation theory, and eclectic paradigm offer valuable foundations but often overlook the structural and strategic role of SPEs. For example, while internalisation theory explains how firms internalise transactions to overcome market imperfections (Buckley & Casson, 2020), it does not fully account for how SPEs facilitate internal capital markets and regulatory arbitrage (Nguyen et al., 2022). Similarly, Dunning's OLI framework (Dunning, 1993) identifies ownership, location, and internalisation advantages, but recent studies suggest that financial asset advantages and escape motives, often operationalised through SPEs, require further theoretical elaboration. Future research is recommended to update and extend these frameworks to incorporate the multi-functional nature of SPEs, including their role in tax planning, risk isolation, and strategic asset management.

5.1.2. Embracing a contingency perspective

A contingency view allows researchers to examine how the use and impact of SPEs vary across contexts. This approach is particularly relevant given the diversity of MNEs in terms of governance structures, resource configurations, and institutional environments. For instance, studies show that firm-level attributes such as governance quality and intangible asset intensity influence SPE use (Feng et al., 2009; Demere et al., 2020), while country-level factors like tax regimes and financial development shape SPE location decisions (Galstyan et al., 2021; Weyzig, 2014). Future research should explore how these internal and external factors interact, especially across manufacturing vs. service sectors and advanced vs. emerging economies, to better understand the antecedents, phenomena, and outcomes of SPE use.

5.1.3. Integrating multiple theoretical perspectives

Given the inter-disciplinary nature of SPEs, combining theories and research from international business, accounting, finance, economics, and taxation can yield richer insights. For example, agency theory can explain managerial incentives behind SPE use (Feng et al., 2009), while perspectives of accounting and economics offer frameworks to assess tax efficiency and regulatory arbitrage (Demere et al., 2020; Desai et al., 2004; Heckemeyer & Overesch, 2017). Such integration can help address complex questions about firm behaviour, cross-border capital flows, and policy implications, which single-theory approaches may not fully capture.

5.1.4. Developing new theory through qualitative inquiry

While much of the existing literature on SPEs relies predominantly on archival and quantitative data, there is a pressing need for new theory that is grounded in qualitative insights. SPEs are embedded within complex, opaque organisational structures and fulfil multifaceted financial, legal, and strategic roles that are often not visible in conventional datasets. Qualitative research, particularly interview-based studies with board members, senior executives, legal advisors, and tax professional, can reveal the underlying motivations, governance rationales, and strategic considerations that shape SPE creation and use. By engaging more closely with practitioners, future research can generate richer,

context-sensitive theories that better capture how SPEs function within contemporary MNE structures. This direction aligns with broader calls in international business for more practice-informed research (Welch et al., 2011; Eden et al., 2020) and opens opportunities for developing new theoretical perspectives beyond simply extending existing frameworks. Building on this observation, this study identifies six promising avenues for theory development through qualitative inquiry:

1. Strategic domicile selection

Future research could explore how firms choose jurisdictions for SPEs beyond purely tax considerations. Interviews with tax directors, treasury directors, and legal advisors could uncover non-tax drivers such as reputational risk management, access to specialised legal expertise, stability of regulatory environments, or the presence of sophisticated financial ecosystems. Such insights would deepen understanding of why certain jurisdictions become enduring hubs for SPE activity.

2. Governance opacity and control

A qualitative lens can illuminate how MNEs maintain real control over SPEs while distancing themselves legally, reputationally, or operationally. This includes understanding mechanisms such as nominee directors, trust arrangements, internal reporting lines, and reserved decision rights. These governance structures are difficult to capture quantitatively but are central to theorising organisational opacity, control, and accountability.

3. Functional hybridity

SPEs frequently blend financial, legal, and operational functions in ways that challenge traditional organisational boundaries. Case-based research could examine how these hybrid roles emerge, how they are managed, and how firms reconcile the multiple identities and purposes of SPEs. This would support new theorisation of organisational forms that operate at the intersection of finance, tax, governance, and strategy.

4. Institutional navigation

SPEs are often used to navigate conflicting regulatory environments across jurisdictions. Qualitative studies could examine how MNEs evaluate institutional frictions, select SPE configurations to mitigate them, and adjust structures in response to regulatory change. This would contribute to institutional theory by highlighting SPEs as active tools of institutional adaptation and arbitrage.

5. Board-level decision-making

The establishment of an SPE frequently involves high-level approval due to reputational, financial, and regulatory compliance considerations. Interviews with board members or senior executives could reveal the risk assessments, strategic deliberations, and professional advice that inform these decisions. Such work would advance understanding of top-level strategic governance and the conditions under which firms authorise opaque and complex structures.

6. Non-adoption rationale

Finally, qualitative inquiry could explore why some firms choose *not* to use SPEs, despite potential financial and tax advantages. Possible explanations include reputational concerns, internal governance complexity, cost burdens, regulatory compliance requirements, or risk aversion. Understanding non-adoption offers theoretical value by highlighting the boundaries of SPE use and contributing to research on restraint, legitimacy, and responsible governance.

5.2. Methodology

Research on SPEs has largely been shaped by quantitative research, particularly those employing archival data from financial statements, regulatory filings, and macro-economic databases. While these studies have provided valuable insights, they have also left significant gaps in understanding the underlying motivations, structures, and strategic uses of SPEs, especially given their inherently opaque and confidential nature.

5.2.1. Advancing qualitative research

Future research should incorporate qualitative methods to uncover the nuanced decision-making processes behind SPE use. Interviews, case studies, and ethnographic approaches can provide access to managerial perspectives, which are often missing from large-scale datasets. This is particularly important for understanding non-tax motivations, such as risk management, strategic asset protection, and internal governance dynamics. For example, Cooper and Nguyen (2019) demonstrate how qualitative interviews with tax professionals and MNE managers can reveal the strategic logic and operational complexity of tax planning structures. Similarly, Eden et al. (2020) advocate for qualitative approaches in international business to capture contextual richness and managerial intent, especially in areas where data is limited or sensitive. Qualitative research can also support new theory development,

helping scholars move beyond existing frameworks and build theoretical perspectives that reflect the real-world complexity of SPE structures, domiciles, and governance.

5.2.2. Enhancing comparative quantitative research

While most quantitative studies focus on single-country datasets (e.g., U.S., Ireland, Netherlands), it is recommended that future research adopts a multi-country comparative design to explore how regulatory environments, tax regimes, and institutional characteristics influence SPE prevalence and effectiveness. For instance, Galstyan et al. (2021) show that the geographic distribution of SPE-managed assets in Ireland is shaped by tax treaties, investor protection, and financial development. Expanding such analyses across jurisdictions would allow researchers to identify patterns of regulatory arbitrage and institutional escape, especially the effects of SPEs on corporate tax avoidance (Demere et al., 2020).

5.2.3. Multi-level analysis

Future research on SPEs would benefit from adopting multi-level analytical approaches that incorporate manager-level, firm-level, and country-level units of analysis. This is particularly important given the complex nature of SPE use, which can be influenced by strategic decisions at the managerial level, structural characteristics at the firm level, and institutional conditions at the country level. Most existing studies on SPEs rely heavily on single-level, firm-level quantitative data, often drawn from public filings or macro-economic databases (e.g., Demere et al., 2020; Feng et al., 2009; Galstyan et al., 2021). While these studies provide valuable insights into patterns of SPE use, they often fail to capture the interactions between individual decision-makers, organisational structures, and institutional environments. Similarly, country-level studies (e.g., Galstyan et al., 2021; Weyzig, 2014) highlight the role of tax regimes and financial development but overlook firm heterogeneity and managerial discretion. This gap has been noted in broader international business literature (Peterson et al., 2019; Šilenskytė, and Smale, 2021) as multi-level designs allow to better understand how firm strategies are shaped by both internal capabilities and external institutional pressures.

By accounting for nested relationships (e.g., managers within firms, firms within countries), multi-level models reduce the risk of ecological fallacy and aggregation bias. Multi-level designs allow researchers to explore contextual richness, such as how managerial characteristics (e.g., risk tolerance, compensation structures), firm attributes (e.g., size, industry, international experience), and country-

level factors (e.g., tax treaties, regulatory quality) jointly influence SPE use. Integrating multiple levels of analysis supports and the development of new frameworks that reflect the real-world complexity of SPE-related decisions.

5.3. Empirics

5.3.1. Antecedents of SPEs use and the jurisdiction choice of SPEs

Future empirical research is suggested to deepen our understanding of the antecedents of SPE use, particularly by examining the interplay between internal and external factors. While prior studies have explored firm-level motivations such as tax planning and governance (e.g., Demere et al., 2020; Feng et al., 2009;), and country-level drivers like tax regimes and financial development (e.g., Galstyan et al., 2021; Weyzig, 2014), few have systematically analysed how these factors interact across home and host country contexts.

Recent literature in international business emphasizes the need for multi-level analysis to capture the complexity of MNE decision-making (Peterson et al., 2019; Šilenskytė & Smale, 2020). Future research could consider this approach by integrating manager-level, firm-level, and country-level variables to explore how characteristics such as executive incentives, ownership structure, and institutional quality individually and jointly influence SPE use.

Moreover, the jurisdictional choice of SPEs remains underexplored. While some studies have mapped SPE locations (e.g., Damgaard et al., 2024), there is limited empirical work on why specific jurisdictions are chosen for different types of SPEs, such as those used for holding intangible assets, financing, or securitisation. Future research should investigate how factors like banking secrecy, IP protection, transfer pricing rules, and networks of tax treaties shape these choices (Temouri et al., 2022; Cooper & Nguyen, 2020). Firm-level characteristics, such as degree of multinationality, capital structure, related-party transactions, and corporate social responsibility orientation, may also influence jurisdictional decisions. Understanding these dynamics is essential for developing a more generalizable framework of SPE use across industries and geographies.

Another promising area for future research is the role of SPEs in facilitating pass-through FDI and round-tripping FDI, particularly in combination with tax havens. While studies have documented the

scale of these flows (e.g., Aykut et al., 2017; Damgaard et al., 2024), there is a need to examine the motivations, organisational structures, and resource requirements behind these strategies.

Comparative research could explore differences in SPE use between MNEs from advanced and emerging economies, building on findings that EMNEs often use SPEs to navigate institutional voids and access foreign capital (Buckley et al., 2015; Sutherland et al., 2019).

Future research could explore further central research questions, for example, why are firms from certain countries more inclined to use SPEs? How do different sectoral or industry characteristics influence SPE strategies? What drives aggressive tax avoidance behaviour across jurisdictions? Addressing these questions will help clarify the strategic logic behind SPE use and its implications for global investment patterns and regulatory oversight.

5.3.2. Phenomenon

5.3.2.1. Global minimum tax rule, country-by-country reporting (BEPS initiatives), digitalisation, and SPE use

Recent global developments, including the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS), the global minimum tax (Pillar Two), and country-by-country reporting requirements, have significant implications for the use of SPEs. These initiatives aim to curb base erosion and profit shifting by increasing transparency and reducing the incentives for aggressive tax planning through low-tax jurisdictions (OECD, 2022). The global minimum tax, effective from 2024, sets a floor of 15% for corporate income tax for large MNEs. This reform is likely to have ambiguous effects on SPE-related tax avoidance. It may reduce the attractiveness of low-tax jurisdictions and discourage the use of SPEs for aggressive tax planning but firms could also respond by restructuring their SPE networks or revising profit-shifting strategies towards jurisdictions that still offer relative advantages (OECD, 2022; EY, 2023b).

Only hours into his second term on January 20, 2025, President Donald Trump signed an executive memorandum formally withdrawing the United States from the OECD-led global corporate tax agreement, declaring that the accord would carry no legal effect within the U.S. jurisdiction (Reuters,

2025). The U.S. withdrawal from the OECD-led global minimum tax agreement has significant implications for international taxation and global economic relations. U.S. MNEs may now face top-up taxes in host countries that enforce the 15% minimum tax, increasing their tax burden and compliance complexity (Anderson, 2025; Sallabank, Wilson, 2025). This move undermines global tax harmonisation, prompting certain countries to retaliate through digital services taxes, trade barriers, or investment restrictions targeting U.S. firms. The U.S. may respond with counter-measures following Section 891 of the Internal Revenue Code, which allows the US President to double U.S. tax rates on citizens and corporations of foreign countries that impose discriminatory or extraterritorial taxes on U.S. persons or entities (Cayman Compass, 2025; Tax Risk Management, 2025).

Future research could investigate how these reforms affect both the propensity and intensity of SPE use. For example, studies could compare MNE behaviour across North America, Europe, and Asia-Pacific before and after the implementation of the global minimum tax. This would build on existing work that highlights jurisdictional differences in tax planning strategies (Galstyan et al., 2021) and respond to calls for more comparative, cross-country analysis in international taxation research (Dellis et al., 2022).

Moreover, digitalisation has transformed global business models, enabling firms, especially those based around digital platforms, to operate across borders. This technological change challenges traditional notions of permanent establishment and source-based taxation, and raises questions about how SPEs are used to manage intangible assets, digital revenues, and cross-border transactions (Manyika et al., 2016; Brouthers et al., 2016). Large digital firms such as Amazon and Alphabet often combine digital platforms, physical infrastructure (e.g., Amazon's fulfilment centres), and SPEs in complex global structures (Cooper, 2018). These firms are likely to be directly affected by the global minimum tax, particularly as jurisdictions begin to assert taxing rights over revenues generated locally. Future research should explore how digitalisation influences the design, location, and function of SPEs, especially in relation to intangible asset management, data monetisation, and regulatory compliance (Lee et al., 2023; EY, 2023b; PwC, 2022). Additionally, the rise of digital services taxes (DSTs) and unilateral tax measures in certain countries further complicates the landscape. These developments may incentivise

firms to restructure their SPE networks to mitigate exposure to overlapping tax regimes and regulatory compliance burdens.

Future empirical research could examine the impact of BEPS and Pillar Two on SPE use across regions and industries, investigate how digitalisation and intangible assets reshape the strategic role of SPEs, explore the evolving definitions of constituent entities and permanent establishments under new tax frameworks, and assess the implications of country-by-country reporting for transparency and regulatory enforcement. These directions are essential for understanding how MNEs adapt their structures in response to global tax reforms and technological change, and for informing policy on the regulation of cross-border investment and corporate tax planning, which has been long standing areas of debate over decades (Hines, 1999; Dyreng et al., 2016).

5.3.2.2. SPEs purposes in intangible asset holding, financing, securitisation activities and tax rules

Future empirical research could deepen our understanding of SPEs based on their specific design and strategic purposes, particularly in relation to tax planning, financing, and intangible asset management. While prior studies have examined SPEs in general terms (e.g., Demere et al., 2020; Weyzig, 2014), there remains a gap in research that differentiates legal, financial, and operational characteristics across SPE types, including those used for IP holding, intra-firm financing, and securitisation.

5.3.2.2.1. SPE role in holding intangible assets and tax incentives

Future research could examine the use and impact of SPEs that are specialised in holding intangible assets and tax incentives. They are often located in jurisdictions which offer preferential tax regimes such as patent box tax schemes or R&D credits. These incentives have been shown to influence the location of IP ownership (Griffith et al., 2014; Karkinsky & Riedel, 2012). However, the implementation of the OECD's global minimum tax (Pillar Two), effective from 2024, may reduce the effectiveness of these incentives, particularly if they lower the tax rate below the 15% threshold (EY, 2023b). Future research should examine how this reform affects the network of SPEs used for IP holding, including the geographic separation between IP creation and ownership, and whether it leads to changes in the internationalisation of R&D and innovation activities. This builds on recent calls to

reassess the strategic allocation of intangible assets in light of evolving tax rules (OECD, 2022; Borga & Caliandro, 2018).

5.3.2.2.2. SPE role in intra-firm financing and thin capitalisation rules

An important direction for future research is the examination of intra-firm financing and thin capitalisation rules. SPEs play a central role in intra-firm financing, particularly when located in low-tax jurisdictions. MNEs often use SPEs to issue internal loans to operating subsidiaries in high-tax countries, enabling interest deductions that reduce taxable income. This practice has prompted many countries to introduce thin capitalisation rules, which limit the deductibility of interest expenses (Mardan, 2017; Buettner et al., 2018). Despite its relevance, the impact of these rules on SPE-based financing remains underexplored. Future research could investigate how firms from countries with strict thin capitalisation regimes adjust their financing structures and how this affects FDI flows into jurisdictions with varying regulatory environments. Additionally, scholars could explore the non-tax functions of intra-firm financing, such as supporting value-creating activities like exports and innovation, which have been highlighted in recent studies (Nguyen & Almodóvar, 2018; Nguyen et al., 2022).

5.3.2.2.3. SPE role in securitisation and jurisdictional arbitrage

Another avenue for future research is to explore securitisation and jurisdictional arbitrage. SPEs are widely used in securitisation transactions, where financial assets are pooled and sold to investors. However, the jurisdictional choice for establishing securitisation SPEs is often driven by regulatory arbitrage, with firms selecting locations that offer favourable legal frameworks, investor protections, and tax neutrality. Future research should examine how securitisation laws across jurisdictions influence the domicile and structure of SPEs, and whether certain countries are emerging as specialised hubs for securitisation due to regulatory advantages. This would build on work by Pozsar et al. (2013), Amoruso & Duchac (2014), Galstyan et al. (2021), and contribute to understanding how legal environments shape financial engineering strategies.

5.3.3. Outcomes of SPE use

5.3.3.1. SPE use and corporate tax avoidance

Future research should revisit the relationship between SPE use and corporate tax avoidance, particularly in light of recent global tax reforms. While prior studies have established that SPEs are frequently used to facilitate profit shifting and reduce effective tax rates (e.g., Demere et al., 2020; Dyreng et al., 2015), the implementation of the OECD's global minimum tax (Pillar Two) introduces a new regulatory environment that may alter firm behaviour. For example, the 2017 U.S. Tax Cuts and Jobs Act, which lowered the federal corporate tax rate to 21%, was expected to reduce incentives for tax avoidance. However, studies such as Demere et al. (2020) show that while incentives were reduced, they were not eliminated, and firms continued to use SPEs strategically. Future research should explore whether similar patterns emerge under the global minimum tax regime, and whether firms adapt by modifying the intensity, location, or structure of SPE use.

5.3.3.2. SPE use and post-BEPS era

The use of SPEs in facilitating pass-through FDI has been documented in Western MNEs (Borga and Caliandro, 2018). Similarly, the role of SPEs in enabling round-tripping FDI has been observed in several contexts, particularly firms from China and other emerging economies (Buckley et al., 2015; Geng, 2004; Haberly & Wójcik, 2015; IMF, 2004). Future research could examine how MNEs are adapting their use of SPEs for pass-through and round-tripping FDI in response to the OECD's BEPS initiatives. BEPS measures targeting treaty abuse, substance requirements, and economic nexus rules are designed to limit the use of SPEs that lack real economic activity (OECD, 2015; Damgaard et al., 2019). However, the effectiveness of these measures remains uncertain. Scholars such as Sauvant (2017) and Anderson et al. (2020) have shown that MNEs often respond to regulatory changes by re-routing capital flows through alternative jurisdictions or restructuring their SPEs to meet minimum substance requirements. Future research could investigate whether BEPS measures lead to a decline in SPE-driven FDI, or simply a shift in routing and jurisdictional preferences.

Additionally, comparative studies could explore how different jurisdictions are competing to attract or deter SPE-related FDI in the post-BEPS era. For instance, some countries may introduce compliance-friendly regimes to retain SPE activity, while others may tighten enforcement to protect tax revenues.

Understanding these dynamics is crucial for assessing the global distribution of FDI, the effectiveness of international tax cooperation, and the strategic responses of MNEs.

5.3.4. Emerging roles of SPEs: Sanction evasion and trade policy circumvention

5.3.4.2.1. Sanctions evasion

Recent reports have begun to uncover the role of SPEs in facilitating sanctions evasion, particularly in contexts where MNEs or state-linked actors seek to maintain access to restricted markets or financial systems. Reports by the Financial Action Task Force (FATF, 2025) and policy briefs from institutions such as Royal United Services Institute **(**RUSI, 2024) and the Strategic Trade Research Institute (STRI, 2023) document how SPEs and similar legal structures are used to obscure beneficial ownership, reroute sensitive goods, and maintain financial flows in defiance of international sanctions. For example, the use of SPE-like vehicles such as the Instrument in Support of Trade Exchanges (INSTEX) in humanitarian trade with Iran illustrates how legal innovation can be employed to bypass the U.S. secondary sanctions[7] while remaining within international legal norms (Morris, 2025). These cases highlight the strategic flexibility of SPEs in navigating geopolitical constraints and regulatory arbitrage.

Despite these developments, the academic literature on SPEs and sanctions evasion remains limited and fragmented (Menkes, 2024). Future research could benefit from qualitative case studies and interviews with compliance professionals, legal advisors, and policymakers to better understand the operational mechanisms and strategic intent behind such structures. These lines of inquiry could contribute to a more comprehensive understanding of SPEs as instruments of strategic adaptation in a shifting global regulatory landscape.

5.3.4.2.2. Trade policy circumvention

[7] The U.S. secondary sanctions are measures imposed by the United States on non-U.S. individuals, companies, or institutions that engage in certain types of business with entities or countries already subject to primary U.S. sanctions. Unlike primary sanctions which apply directly to U.S. persons and entities, secondary sanctions extend the reach of U.S. law extraterritorially, effectively forcing foreign actors to choose between continuing business with sanctioned parties or maintaining access to the U.S. financial system and markets. These sanctions are enforced primarily by the Office of Foreign Assets Control and are often used to increase pressure on sanctioned regimes by isolating them from global trade and finance. Secondary sanctions can result in severe penalties, including exclusion from U.S. markets, blocked access to dollar-based transactions, and asset freezes, even for entities outside U.S. jurisdiction (Geraldo and Challet, 2024).

SPEs have been used by MNEs to navigate trade barriers, including anti-dumping duties and tariffs. Empirical studies have shown that firms often respond to protectionist measures by establishing or restructuring foreign subsidiaries, frequently through SPEs, to maintain market access. Blonigen (2002), Blonigen et al. (2004) and Belderbos (2003) provide evidence of tariff-jumping FDI, where firms invest in local production facilities to circumvent trade restrictions, with many of these entities later divested once the duties are lifted.

These findings underscore the role of SPEs not only in tax planning but also in trade policy circumvention. Future research could explore how SPEs are used to facilitate tariff and non-tariff barrier jumping, the lifecycle of such entities in response to shifting trade regimes, and the implications for host country industrial policy and global value chain governance.

6. Conclusion

This study provides a comprehensive review of the literature on SPEs, highlighting their critical role in international business. It synthesises theoretical, methodological, and empirical contributions and introduces an integrative conceptual framework that captures the antecedents, phenomenon, and outcomes of SPE use. The review also outlines clear directions for future research, encouraging theoretical development, methodological diversity, and deeper empirical inquiry.

Importantly, the study demonstrates that SPEs are integral to the strategic and structural configurations of MNEs. Their use influences not only firm-level decision-making and behaviour but also the compilation and interpretation of international FDI statistics. Despite their significance, many aspects of SPEs remain underexplored in the existing literature. Further research drawing on diverse theoretical lenses and empirical approaches is essential to uncover the complexities of SPE use.

Moreover, this review underscores the practical relevance of SPEs for both managers and policymakers. While SPEs can facilitate substantial financial flows and income inflows, their contribution to GDP is often minimal. Many are deliberately structured to obscure profit-shifting and tax avoidance activities (UNECE, 2014), which in turn distort economic data and complicate policy responses. Understanding these dynamics is crucial for improving transparency, governance, and the accuracy of international FDI statistics.

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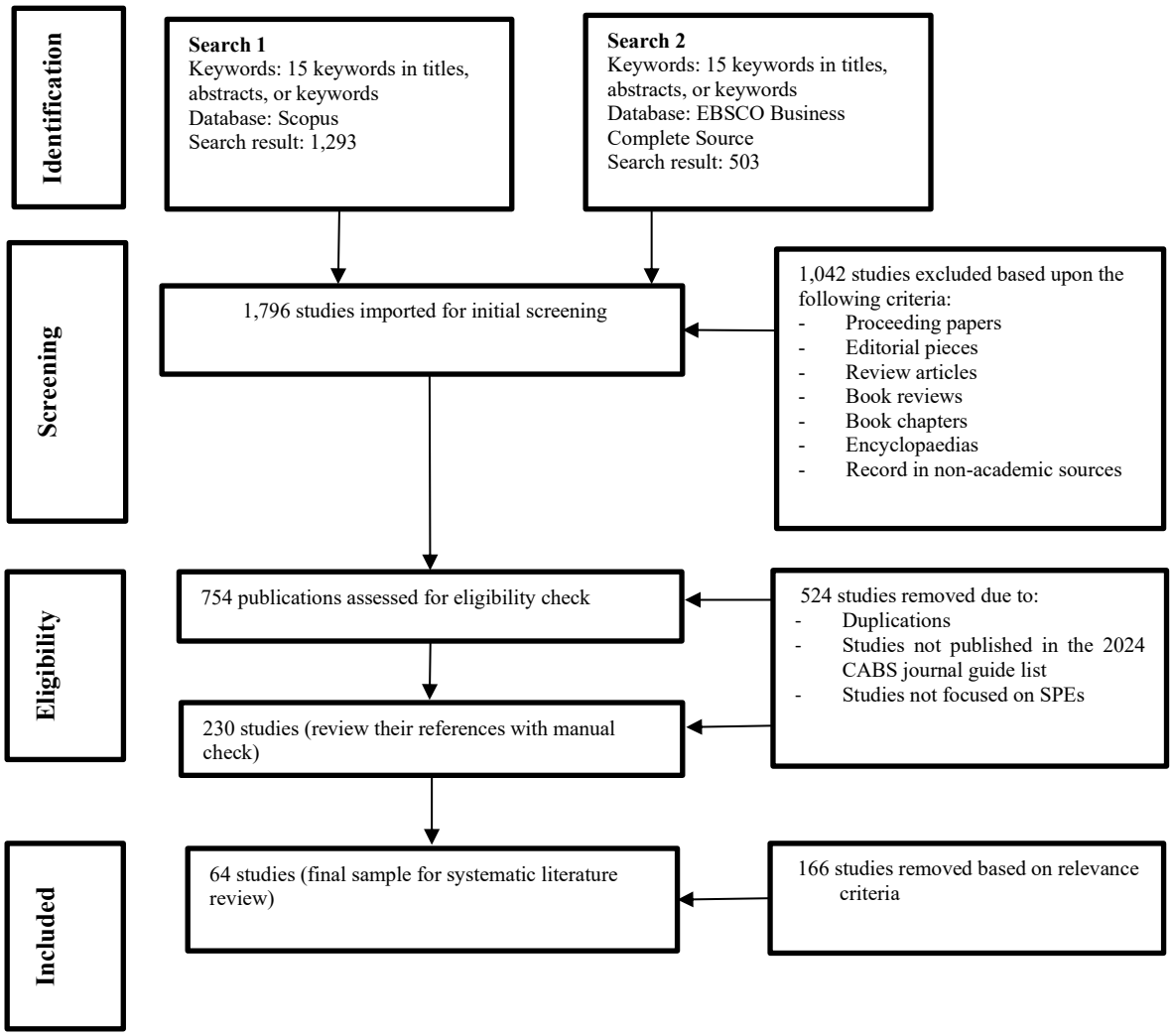
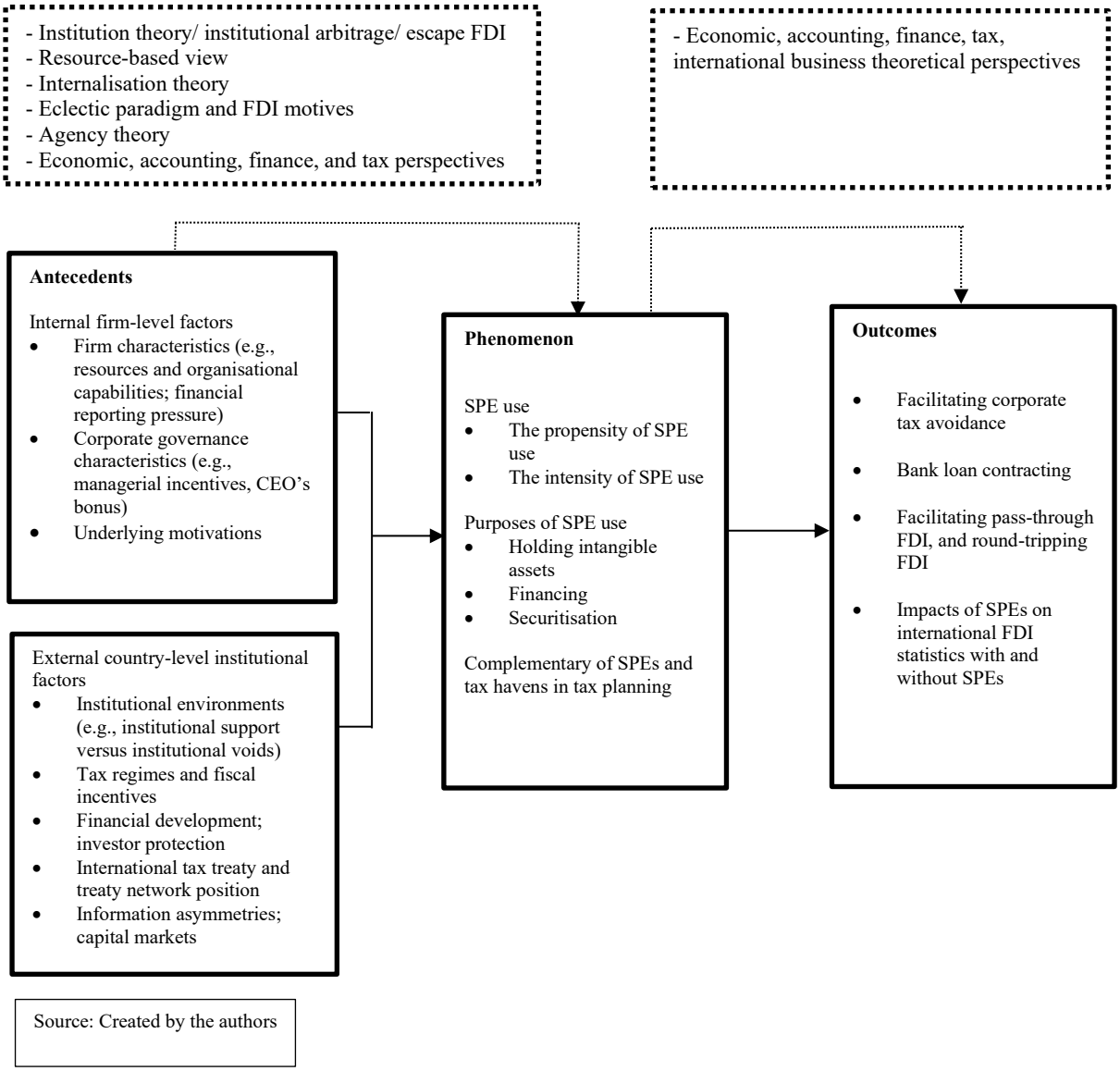
Figure 1: Summary of search strategy and sampling process



Source: Created by the authors, following Prisma statement (2009)

Figure 2: An integrative conceptual framework for research on SPEs in MNE organisational structures



Source: Created by the authors

Table 1: An overview of previous systematic literature reviews and bibliometric analysis

Study	Research method	Thematic scope	Time span	Number of publications included	Number of journals covered	Review scope	Review of theories	Review of methods	Contexts	Insights into SPEs	Key insights
Dharmapala (2014)	Systematic literature review	Base erosion and profit shifting (BEPS)	n.a.	n.a.	n.a.	Empirical literature on BEPS published in economics and tax journals	No	Yes	Firms from advanced economies (North America and Europe)	No	• Review different empirical approaches in identifying profit shifting, existing data sources, and the findings of the empirical literature. • The estimated magnitude of BEPS is much smaller than that found in earlier studies. • Three suggestions for future research (tax havens; costs and benefits of corporate tax planning; corporate governance and tax avoidance activity).
Cooper and Nguyen (2020)	Systematic literature review	MNEs and corporate tax planning	1966-2017	120 articles, and books	51	Key mechanisms and the firm's characteristics that may influence corporate tax planning	Yes	Partly	Firms from advanced economies and country-level estimated tax avoidance	No	• An extensive review on macro/ country-level estimates of tax avoidance and challenges of conducting empirical research. • Key mechanisms for corporate tax planning (transfer pricing; capital structure and the use of internal debt; location choice – location for real economic activities; the use of tax havens; the location/ relocation of intangible assets to low-tax jurisdictions). • Firm characteristics and tax avoidance aggressiveness (the degree of multinationality; size; profitability; top management team; corporate social responsibility). • Three key suggestions for future research (theoretical development; research method; and nine empirical research topics).
Temouri et al. (2022)	Objective and scientific bibliometric analysis	Tax havens and international business: A conceptual framework of accountability-avoiding foreign direct investment	1973–2020	647 research documents (research articles, review articles, book chapters and books)	n/a	Defining, measuring, and categorizing tax havens (the financial secrecy index; the corporate tax havens index; conduits and sinks)	No	No	Financial secrecy index; corporate tax haven index; sink and conduit offshore financial centers	No	• Defining, measuring, and categorising tax havens. • Development of a framework of accountability-avoiding FDI • Three key suggestions for future research (tax havens and emerging market MNEs; tax havens and corporate governance; MNE strategy)
Eerola and Slangen (2022)	Systematic literature review	A review of international management research on	1978-2020	56 conceptual and empirical articles	23	Topics addressed in by international management studies of	No	No	Primarily firms from advanced economies and a few from	No	• Review of income shifting; international relocation of headquarters; internationalisation of operational activities; tax evasion. • Three key suggestions for future research: improvement in operationalisation; further research of the effects of tax-related institutions (the effects of tax-related formal institutions and

		corporate taxation				corporate taxation			emerging economies		informal institutions); the study of tax-related corporate political activities.
Velte (2024)	Systematic literature review	A review of ownership structure and corporate tax avoidance	2001-2022	69 empirical articles	51	The impact of ownership on tax avoidance	No	Yes	Firms from advanced and emerging economies	No	• Review of six categories of ownership (institutional, state, family, foreign, managerial, and cross-ownership/ ownership concentration) as determinants of tax avoidance. • No clear tendencies on the impact of included ownership types can be found in line with the agency theory. • Suggestions for future research with four recommendations for empirical topics and three recommendations for research methods.
The present study	Systematic literature review	A review of special purpose entities (SPEs) in the organisational structures of MNEs	From inception until 8/ 2024	64 studies	37	Antecedent-Phenomenon-Outcomes of SPE uses	Yes	Yes	Firms from advanced and emerging economies; the impacts of SPEs on country-level FDI statistics and tax implication	Yes	• Review the extant literature and present a critical assessment of theoretical, methodological, and empirical aspects, covering antecedents, phenomenon, and outcomes of SPE use. - The antecedents of SPE use: firm-level, corporate government management-level, and country-level characteristics. - The phenomenon of SPE (conceptualisation and measurement). - Purposes of SPE use: facilitate tax-advantage activities (financing, holding intangible assets, securitisation) in the group-wide financial and tax planning, risk isolation strategies. - The outcomes of SPEs use: corporate tax avoidance; bank loan contracting; the impacts on pass-through FDI and round-tripping FDI and international FDI statistical data with and without SPEs. • Highlight the implications of SPEs for public policies on FDI and taxation for home and host countries. • Four suggestions for theoretical advancement, three suggestions for methodological refinement, and ten suggestions for deeper empirical research.

Source: Created by the authors.

Table 2: Comparative summary of definitions of special purpose entities (SPEs)

Source	Definition summary	Key features
Galstyan et al. (2021)	Legal entities with narrow, predefined financial objectives; directors have no discretionary powers.	Risk segregation, asset/liability isolation, cash conduit, contractual constraints.
Kim et al. (2017)	Legally distinct entities with limited life and activities, created by a sponsor company.	Limited scope, sponsor company involvement, contractual purpose.
Lejour et al. (2019)	Entities controlled by foreign owners, with assets/liabilities primarily in other countries; may form clusters under the same ultimate owner.	Foreign control, cross-border asset structure, ownership clustering.
Golden and Hughes (2018)	SPEs are complex entities used in cross-border, multi-entity structures, playing a role in global risk dispersion; often linked to ultimate beneficial owners.	Complexity, cross-border structures, risk dispersion, beneficial ownership. The scale and significance of SPEs in Ireland's financial sector.
OECD (2014)	Separate from economic value generation; assets/liabilities are foreign investments; minimal physical presence in host economy.	Non-resident ownership, investment vehicle, low operational footprint.
IMF (2018)	Registered legal entities with ≤5 employees, minimal physical presence/production; controlled by non-residents.	Employment cap, institutional recognition, foreign control, low production activity.

Source: Synthesized by the authors

Table 3: Key differences between special purpose entities (SPEs) and subsidiaries located in tax havens or offshore financial centers

Key differences	Special purpose entities (SPEs)	Subsidiaries located in tax havens or offshore financial centers
Definition and Purposes	- No universal, commonly agreed definition. - Definition (accounting and finance literature): legally separate entity created by a sponsor firm to perform narrow, specific and/ or predefined business activities or series of transactions (Feng et al., 2009; Galstyan et al., 2021; Kim et al., 2017). - Purposes: Primarily used for financial objectives, such as isolating financial risk, conducting financial engineering, often involving securitisation or debt financing, facilitating asset transfers, and structuring complex financial transactions. - Definition (IMF, 2018): An SPE, resident in an economy, is formally registered and/or incorporated legal entity recognized as an institutional unit, with no or little employment up to maximum of five employees, no or little physical presence and no or little production in the host economy. They do provide services to the parent firm. - Purposes: Used to access capital markets; isolate owners from financial risks; reduce regulatory and tax burdens; manage transfer of assets and associated rights; safeguard confidentiality of their transactions and owners (IMF, 2018).	- Entities primarily established to take advantage of jurisdictions with low or zero corporate tax rates and financial secrecy laws. - Purposes: Minimise tax obligations for the parent firm, route profits through low-tax jurisdictions or regulatory arbitrage.
Structural and legal characteristics	- Structure: legally separate from the parent firm, which helps to isolating financial risk and protecting the parent firm's assets (Shakespear, 2020). - Can be structured as trusts, companies, limited liability companies (LLCs), or limited partnerships (Feng et al., 2009; Demere et al., 2020; IMF, 2018). - Entity with limited employees and operations (OECD, 2014). - Directly or indirectly controlled by non-residents (IMF, 2018).	- Structure: May or may not have economic substance; some operate with limited economic activity. Their existence is primarily for legal and financial structuring to achieve tax benefits. - Often structured as holding company. - Fully owned or controlled by the parent firm.
Accounting rules and consolidation	- Under US GAAP, SPEs fall into the broader category of the "variable interest entity" (VIE), whereas under IFRS, SPEs are referred to as "structured entities." - US GAAP: a number of accounting standards apply to SPEs, most notably FIN46R (Consolidation of Variable Interest Entities) that sets out the consolidation treatment of these entities (FASB 2003, 2009). - IFRS: the relevant standard is IAS27 (Separate Financial Statements) in connection with the interpretation of SIC12 (Consolidation – Special Purpose Entities) (IASplus, SIC-12, 1998; IASplus, IAS27, 2008) - For periods beginning on or after 1 January 2013, IFRS10 Consolidated Financial Statements supersedes IAS27 and SIC12 (IASplus, IFRS10, 2013). - Consolidation: May or may not be consolidated depending on control and accounting rules.	- No accounting rule. - Consolidation: typically consolidated unless deemed independent.
Financial risk	- Designed to isolate financial risk, meaning the parent firm's creditors cannot reach the assets held by the SPE in case of bankruptcy.	- May increase financial risk by creating opportunities for profit-shifting and potentially exposing the parent firm to regulatory scrutiny.
Tax implications	- Function as a vehicle to facilitate tax-advantage activities and tax savings although they do not directly generate tax savings (Demere et al., 2020).	- Minimise global tax liabilities by taking advantage of low or zero corporate tax rates and preferential tax treatments of tax havens.
Jurisdiction choice	- Jurisdiction chosen for legal protections, accounting benefits, or securitisation laws. - While commonly linked to tax havens/ offshore financial centers, SPEs can be situated in various locations (IMF, 2009).	- Chosen primarily for low/no corporate tax rate and secrecy laws.
Transparency	- Their purpose generally focuses on isolating financial risks.	- Can be used to obscure ownership and financial flows, potentially raising concerns about transparency and tax implications.

FDI statistical data compiling guidance	- International organisations (IMF, OECD, UNCTAD) provide definitions and recommend specific methods for identifying and reporting FDI transactions and positions involving SPEs. These include the IMF's Balance of Payments and International Investment Position Manual (BPM6) (IMF, 2009) and the OECD's Benchmark Definition of Foreign Direct Investment (BD4) (OECD, 2014). - UNCTAD: compiling FDI data with and without resident SPEs, allowing for more accurate assessments. - National statistics office (e.g., the UK Office for National Statistics provides guidance on identifying and classifying SPEs within FDI data. This guidance is important for ensuring accurate measurement of FDI flows and identifying the true beneficiaries and risk takers of cross-border investment). - Concerns on the use of SPEs to facilitate pass-through and round-tripping FDI.	- No official guidance documents from international organisations (OECD, IMF, UNCATD) for reporting FDI transactions and positions involving tax havens subsidiaries. - No guidance from national statistics office for classifying and reporting tax haven subsidiaries within FDI data.
Categories	- Categories are based on the services that SPEs provide to the parent firm. - Six categories of SPEs are classified by the IMF (IMF, 2018). o Category 1: Corporate groups' captive financial entities o Category 2: Specialised financial entities o Category 3: Corporate groups' non-financial entities o Category 4: Wealth management entities o Category 5: Government owned financial entities. o Category 6: Other structures	- Categories are based on jurisdictions that offer low or zero tax and non-tax benefits (e.g., high level of banking secrecy; anonymity; moderate or light financial regulation, and a focus on business with non-residents). - Varied categories are developed by academics, e.g., dot tax havens and Big Seven (Hines and Rice, 1994); conduit jurisdictions and sink/secrecy jurisdictions (Garcia-Bernando et al., 2017; Temouri et al., 2022). - Several international bodies have their own lists of tax havens, which are frequently skewed by political expediency (Tax Justice Network, 2007).
Empirical approach	- SPEs are identified and searched by legal structures (Fang et al., 2009; Demere et al., 2020). - Holding, financing, and securitisation activities (Weizig, 2014; Galstyan et al., 2021) - Business engagement within the group (Weizig, 2014) - SPEs in securitisations are compiled by several central banks, e.g., Central Bank of Ireland, European Central Bank (Galstyan et al., 2021)	- Tax haven subsidiaries are typically identified based on their location in predetermined lists of tax havens or offshore financial centers (Dyreng and Lindsey, 2009; Jones et al., 2018). - However, these lists vary across studies, leading to inconsistencies in classification.

Sources: Synthesized by the authors.

Table 4: Distribution of articles by journals

No.	Publication	Number of studies	CABS disciplines	Percentage (%)
1	Journal of Public Economics	5	Economics	
2	National Tax Journal	4	Economics	
3	Quarterly Journal of Economics	3	Economics	
4	Review of Income and Wealth	2	Economics	
5	Review of International Political Economy	1	Economics	
6	Canadian Journal of Economics	1	Economics	
7	Fiscal Studies	1	Economics	
8	World Economy	1	Economics	
9	Economic Geography	1	Economics	
10	Economics Letters	1	Economics	
11	European Economic Review	1	Economics	
12	Journal of Economic Geography	1	Economics	
13	Journal of Economic Perspective	1	Economics	
14	Journal of International Economics	1	Economics	
15	Quarterly Review of Economics and Finance	1	Economics	
16	Review of International Economics	1	Economics	
17	Review of Economics and Statistics	1	Economics	
	Sub-total (economics)	*27*		*42%*
18	International Tax and Public Finance	6	Finance	
19	Journal of Financial Economics	3	Finance	
20	Accounting Review	3	Accounting	
21	Journal of Accounting Research	3	Accounting	
22	Journal of International Money and Finance	2	Finance	
23	Journal of Accounting and Economics	2	Accounting	
24	Journal of Finance	1	Finance	
25	Journal of Banking and Finance	1	Finance	
26	Journal of Accounting and Public Policy	1	Accounting	
27	Journal of International Accounting Research	1	Accounting	
28	Contemporary Accounting Research	1	Accounting	
29	Research in International Business and Finance	1	Finance	
30	Review of Financial Studies	1	Finance	
	Sub-total (finance and accounting)	*26*		*41%*
	Sub-total (economics, finance, and accounting)	*53*		*83%*
31	Asian Business and Management	3	IB and Area	
32	Journal of World Business	2	IB and Area	
33	Transnational Corporations Journal	2	IB and Area	
34	Journal of International Business Studies	1	IB and Area	

35	International Business Review	1	IB and Area	
36	Critical Perspectives on International Business	1	IB and Area	
37	China Quarterly	1	IB and Area	
	Sub-total	*11*		*17%*
	Total	**64**		**100%**

Sources: Created by the authors.

Table 5: Theoretical underpinnings of SPE research

Theories and frameworks	Key theorists	Key arguments	Examples of empirical works	Percentage (n=64)
Institution theory; institutional arbitrage, and escape FDI	North (1990); Scott (2005) Witt and Lewin (2007)	- Firms must conform to the structures which consist of schemas, rules, norms, and routines to establish legitimacy. - The institutional differences between countries offer MNEs opportunities for arbitrage. - Escape FDI is a response of a firm to an institutional misalignment between its corporate goals and its country of origin (e.g., institutional voids; bureaucracy; high corporate tax, etc.). - MNEs locate their activities in institutions that offers favourable environments.	- Institutional characteristics that explain the geographic distribution of financial assets managed by resident SPEs (Galstyan et al., 2021). - The links between SPEs, tax havens, pass-through FDI, round-tripping FDI, and corporate tax avoidance (Demere et al., 2020; Weyzig, 2013). Subsidiaries in tax havens and SPEs can intersect, particularly when utilized together for tax planning strategies (Demere et al., 2020; Dyreng and Lindsey, 2009). Establishing an SPE in a tax haven allows for the dual advantages of isolating risks and managing specific financial and operational risks, while also benefiting from the zero or low tax provided by tax havens. - MNEs from advanced economies use SPEs to pass FDI through intermediate or conduit locations, before reaching final destinations (Weyzig, 2013). They want to escape high corporate income tax in developed countries (Kottaridi et al., 2019). - MNEs from emerging economies channel capital to SPEs located in tax havens to escape home country institutional constraints and then channel the financial flows back to the home country, known as round-tripping FDI, to benefit from tax incentives (Chari and Acikgoz (2016). - MNEs from emerging economies use SPEs incorporated in tax havens to obscure their true corporate identity (Sutherland et al., 2018) and access international capital markets (Coppola et al., 2021).	13%
The resource-based view of the firm (RBV)	Wernerfelt (1984); Barney (1991); Mahoney and Paradian, (1992)	- Firms possess a bundle of distinct resources and capabilities that create sustained competitive advantages. - Resources that are valuable, rare, imperfectly imitable, and non-substitutable are sources of competitiveness.	- Firm attributes, resources, and capabilities as determinants of SPE use and earnings management (Feng et al., 2009). - SPE use and corporate tax avoidance (Demere et al., 2020).	5%
Internalisation theory	Buckley and Casson (1976); Rugman (1980, 1981)	- Classic internalisation theory is built upon the Coase transaction cost theory (1937). - The firm creates an internal market within the MNE to respond to external market imperfections and externalities in the good and factor markets. - External capital market imperfections as drivers for internalisation, resulting in the creation of internal capital markets within the structure of MNEs (Rugman, 1980). - Rugman (1981)'s framework of firm-specific advantages (FSAs) and country-specific advantages (CSAs) to help formulate the strategic options of the MNE.	- External capital markets affect the use of internal capital markets within MNEs (Mudambi, 1999; Aulakh and Mudambi, 2005). - The role of the group's corporate treasury (as an internal capital market) in providing internal debt to foreign subsidiaries to support their value-adding activities, such as exports (Nguyen and Almodovar, 2018; Nguyen et al., 2022). - Tax planning in MNEs is influenced by opportunities and motivation to avoid tax (Cooper and Nguyen, 2019). - The relationships between the characteristics of MNEs, their countries of origin and the likelihood in setting up subsidiaries in tax havens (Jones and Tamouri, 2016; Jones et al., 2018).	5%
Dunning's eclectic paradigm and FDI motives	Dunning (1993)	- Ownership, location, and internalisation advantages affect the location choice decision of MNEs for real economic activities and locations for SPEs. - Financial asset advantages.	Dunning's concept of 'financial asset advantages' and the motives for foreign direct investment (FDI) can help explain why firms use SPEs, for instance, to minimise corporate tax liabilities (Demere et al., 2020).	3%

		-	Besides four traditional FDI motives of market-seeking, efficiency-seeking, natural resource-seeking, and strategic asset seeking, other FDI motives are escape investments, support investments, and passive investments; however, these motives are under-explored in the international business research.			
Agency theory	Jensen and Meckling (1976)	-	The theory focuses on internal corporate governance.	-	Corporate governance, CEO's bonus and SPE use (Feng et al., 2009).	5%
		-	Firm owners (e.g., shareholders) as principles hire managers as agents to manage business operations.	-	Corporate governance, executive compensation, managerial incentives and corporate tax avoidance (Armstrong et al., 2015; Desai and Dharmapala, 2006)	
		-	Agency problem: the conflicts between owners and managers because managers may behave opportunistically and act in their own interests rather than the firm owners.			
Others		-	Economic, accounting, finance, and taxation perspectives	-	SPEs in the organisational structures of the firm, the legality, and accounting standards (FASB, 2003, 2009; IFRS10, 2013).	55%
				-	The determinants of SPE use and earnings management (Feng et al., 2009).	
				-	The purposes of SPE use in holding intangible assets and financing activities (Mills and Newberry, 2005) and securitisation (Galstyan et al., 2021)	
				-	The effects of SPE on corporate tax avoidance (Blouin et al., 2010; Demere et al., 2020; Dyreng et al., 2016) and bank loan contracting (Kim et al., 2017)	
				-	The impacts of SPEs on traditional FDI statistics (Dellis et al., 2021) due to pass-through FDI and round-tripping FDI (Weizig, 2013, 2014; Damgaard et al., 2024).	
None or not specified						14%

Source: Created by the authors.

Note: Count data are not mutually exclusive because some articles refer to more than one theoretical framework.

Table 6: Methodological aspects of SPE research

Methodological assessment	Examples of empirical works	Percentage (n=64)
Unit of analysis		
Firm-level	Weyzig (2014); Kim et al. (2021)	75%
Country-level	Galstyan et al. (2021); Dellis et al. (2021)	25%
Number of countries in the dataset		
Single	Demere et al. (2020); Galstyan et al. (2021)	64%
Multiple	Damgaard et al. (2024); Damgaard and Elkjaer (2017)	36%
Time frame		
Longitudinal	Lejour et al. (2021); Dellis et al. (2021)	97%
Cross-sectional	Nguyen and Almodovar (2018); Nguyen et al. (2022)	3%
Data collection method		
Secondary data from databases	Baumann et al. (2020); Weyzig (2013)	97%
Primary data from surveys	Nguyen and Almodovar (2018); Nguyen et al. (2022)	3%
Analytical approach		
Statistical techniques (e.g., multiple regressions, generalized linear models, hierarchical models, etc.)	Demere et al. (2020); Galstyan et al. (2021)	97%
Other (e.g., network analysis)	Hong (2018); Van't Riet and Lejour (2018)	3%
Measure of SPE use (studies using firm-level data (n=48))		
Number of SPEs	Feng et al (2009); Demere et al (2020)	53%
Binary variable (1=SPE use otherwise 0)	Feng et al (2009); Demere et al (2020); Weizig (2014)	47%

Source: Created by the authors

Table 7: Empirical research: antecedents – phenomenon - outcomes

Antecedents, Phenomenon, Outcomes	Empirical research	Examples of empirical works	Percentage	Disciplines
Antecedents	Internal factors: Firm-level characteristics		8%	Accounting, finance.
	- firm attributes	Mills and Newberry (2005)		
	- financial reporting pressure	Feng et al. (2009)		
	- corporate governance quality	Feng et al. (2009)		
	- underlying motivations: reporting motivations, economic and tax motivations	Feng et al. (2009)		
	External factors: Country-level institutional characteristics		3%	Accounting, finance, economics
	- double tax treaties	Galstyan et al. (2021);		
	- investor protection	Galstyan et al. (2021);		
	- financial development	Kim et al. (2017)		
	- financial market constraints	Kim et al. (2017)		
	- legal and bankruptcy laws	Galstyan et al. (2021)		
Phenomenon	SPE use			
	- SPE use intensity	Feng et al (2009); Demere et al (2020)	3%	Accounting
	- SPE use propensity	Feng et al (2009); Demere et al (2020); Weizig (2014)	5%	Accounting
	Purposes of SPE use			
	- Holding intangible assets (e.g., patents, trademarks, etc.): royalty and licensing companies (SPEs) in low-tax jurisdiction are assigned with the ownership of intangible assets and then charge operating subsidiaries with royalty and licensing fees for the use of intellectual properties.	Dischinger and Riedel (2011); Forbes and Sharma (2008); Grubert (2003b); Mutti and Grubert (2007); Heckemeyer et al. (2018)	9%	International taxation; public economics; public finance
	- Financing: financing and holding companies are in charged with • Debt raising	Weyzig (2014); Blouin et al. (2010); Feng et al. (2009); Mills and Newburry (2005)	8%	Accounting; international taxation; public economics; public finance; international business

		• Intra-group financing and the use of internal debt for tax-motivated reasons versus for non-tax-motivated reasons (e.g., to support value-adding activities, such as exports).	Desai et al., (2004); Desai et al., (2008); Buettner et al. (2009); Buettner and Wamser (2013); Heckemeyer and Overesch, (2017); Nguyen and Almodovar (2018); Nguyen et al. (2022)	8%	International taxation; public economics; public finance; international business
	-	Risk isolation and securitisation	Acharya et al., (2013); Adrian and Jones (2018); Galstyan et al. (2021); Golden and Maqui (2018)	6%	Accounting; economics
	-	Complementarity of SPEs and tax havens in MNE strategy	Demere et al. (2020); Jones and Temouri (2016); Jones et al. (2018); Coppola et al. (2021);; Hines (2010); Hines and Rice (1994)	8%	International business; economics; accounting
			Sutherland and Anderson, (2015); Buckley et al. (2015); Anderson et al. (2020); Anderson et al. (2024); Hurst and Sutherland, (2024)		International business ; economic geography
Outcomes	-	The role of SPEs in shifting profits between jurisdictions	Graham and Tucker (2006); Wilson (2009); Lisowsky (2010); Fatica and Wildmer (2018); Lane and Moloney (2018); Merz and Overesch (2016); Davies and Killeen (2018)	11%	Accounting; international taxation; public finance; financial economics
	-	The economic effects of SPE and tax havens on corporate tax avoidance	Demere et al. (2020); Mills and Newberry (2005); Dyreng and Lindsey (2009); Dyreng et al. (2013)	11%	Accounting
			Hines and Rice (1994); Hines (2010); Grubert and Slemrod (1998); Desai et al. (2006); Taylor et al. (2015)		Accounting; international taxation; economics; public finance
	-	SPEs might not facilitate economically large tax savings	Feng et al., (2009); Dyreng et al., (2016); Scholes et al., (2014)	5%	Accounting
	-	SPE use and bank loan contracting	Kim et al. (2017)	2%	Finance
	-	SPEs and pass-through FDI of Western MNEs	Weyzig (2013); Casella (2019); Damgaard et al. (2019); Damgaard et al. (2024)	9%	Economics; public finance; international business
	-	SPEs and round-tripping FDI of emerging market MNEs	Aykut et al., (2017); Sauvant (2017)	4%	Economics; international business

Source: Created by the authors.

Note: Count data are not mutually exclusive because many articles examine more than one empirical area.

Table 8: Suggestions for future research agenda

Areas	Proposed research direction
Theory	Institutional theory/ institutional arbitrage/ escape FDI • Paying more attention to two competing theoretical perspectives between institutional leverage and institutional escapism, considering the different nature of home and host country institutions that affect the SPE use and the SPE domicile of Western MNEs versus emerging market MNEs. • Featuring institutional leverage that provides Western MNEs with opportunities in using SPEs to facilitate tax-advantage activities and enhance tax efficiency by shifting profits to lower-tax jurisdictions and pass-through FDI. • Exploring further institutional escapism that prompts emerging market MNEs to escape home country institutional voids and search for better institutional environments abroad by establishing SPEs to facilitate round-tripping FDI and also obscure their identities and to access international capital markets.
	Resource-based view of the firm • Examining the role of firm attributes as antecedents of SPE use. • Investigating the moderating role of firm resources and capabilities on the link between as of SPE use and outcomes (e.g., corporate tax avoidance).
	Internalisation theory • Advancing the understanding of the internalisation of services that SPEs provide to the parent firm (holding, financing and securitisation activities). • Focusing on the value appropriation (tax avoidance from the services provided by SPEs) versus value creation (e.g., internal debt financing to support value-adding activities of operating subsidiaries).
	Dunning's eclectic paradigm • What kind of ownership-, location-, and internalisation-specific advantages as determinants of the SPE use and jurisdiction choice of SPEs? • To what extent tax-inducing motivations and financial asset advantages can explain the SPE use and the link to pass-through FDI, round-tripping FDI, and corporate tax avoidance?
	Agency theory • Exploring the internationalisation of board of directors, SPEs, and corporate tax avoidance. • Examining further corporate governance quality (independent directors, stock holding of independent directors, directors on the board who serve on more than two other company boards), executive compensation, incentives and SPE use and the link to pass-through FDI, round-tripping FDI, and corporate tax avoidance.
	Other suggestions • Extending existing theories to capture SPE complexity: adapt and expand established theories to reflect the diverse functions of SPEs, including their roles in tax planning, financial structuring, risk management, and strategic asset protection. • Embracing a contingency perspective: examine how firm-level characteristics and institutional environments interact to shape SPE use, with particular attention to differences across sectors (e.g., manufacturing vs. services) and economies (e.g., advanced vs. emerging markets). • Integrating multiple theoretical perspectives: aaddress the complexity of SPE-related decisions that requires combining insights from multiple disciplines, such as international business, finance, accounting, and taxation, to develop more holistic explanations of firm behavior and cross-border financial flows. • Developing new theory through qualitative inquiry: qualitative methods (e.g., interviews, case studies) can uncover the underlying motivations, governance structures, strategic rationales, and management of SPE use that are often not visible in archival data.
Methodology	• Considering qualitative research to supplement the predominant quantitative research in developing new theoretical framework which provides deeper insights into the complex organisational structures that facilitate corporate tax avoidance. • Enhancing comparative quantitative research: Exploring data from multiple countries in comparative research to provide a comprehensive understanding across different legal and tax jurisdictions on how varying regulatory environments influence the prevalence and effectiveness of SPE-driven tax avoidance. • Adopting multi-level analysis consisting of manager-level, firm-level, and/or country-level units to ensure validity and avoid bias.
Empirics	Antecedents • Country-level factors: institutions; legislation and regulations; fiscal policy (e.g., tax regimes, tax rates, network of tax treaties; capital movement); and law enforcement (e.g., tax authority, budget, revenue collection). • Management-level factors: management diversity, internationalisation of management team; compensation and incentives.

	• Firm-level factors: ownership; corporate governance; corporate culture; top management team; firm size; degree of multinationality; technological and marketing intensity (patents, trademarks, intangible assets); capital structure; corporate tax policy (tax minimization versus tax optimisation); the extent of related party transactions (trade, financing, and IP); performance; ethics and corporate social responsibility.
	Jurisdictional choice of SPEs • Examine factors to explain why specific jurisdictions are chosen for different types of SPEs.
	Phenomenon • Propensity and intensity of SPE use by examining global minimum tax rules, country-by-country reporting, digitalisation. • Purposes of SPE use in holding strategic assets, financing, and securitisation activities by considering tax rules (patent box tax incentives in Europe and the UK; R&D tax credit; thin capitalisation rules; securitisation laws; global minimum tax rules).
	Outcomes • SPE use and corporate tax avoidance, considering the global minimum tax. • SPE use, pass-through FDI and round tripping FDI, in response to OECD's BEPS initiatives, particularly measures related to treaty abuse and substance requirements.
	Others • Strategic use of SPEs for sanction evasion and trade policy circumvention. • The evolution of SPEs in response to changing trade environments, and the resulting consequences for industrial policy in host countries and the governance of global value chains.

Source: Created by the authors