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Transforming value chains in multinational enterprises 2/45/21

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The global tax scene has undergone some historic changes and keeps changing. This has caused multinational enterprise (MNE) groups to revise their global business models and take steps to stay competitive. Facing the evolution of technology, environmental changes and the impact of the pandemic, MNEs are beginning to revise and transform their value chains to make their business even more efficient and profitable.

A value chain

A value chain is a process of creating goods and services in which the production of goods or provision of services is divided into activities and processes where particular activities or processes are carried out by several MNEs working together. A key feature of the value chain is that decisions on participation in the value chain and how it should be organised are made by the MNEs based on commercial and strategic considerations.

Value chain transformation

Value chain transformation is an integrated portfolio of cross-border capabilities aimed at supporting the alignment of tax, legal and business models to achieve sustainable financial and operational benefits in the course of business transformation.

MNEs leverage technology and innovation to market new goods and services, while adopting them internally to boost efficiency and cut costs. Automation and other changes allow companies to transform their value chain by increasing their customer engagement, changing the type and nature of their assets, and using alternative forms of employment.

Changes to value creation methods trigger changes to the international tax scene. This is how the work on BEPS actions began. Because of these changing international tax concepts, companies can no longer undertake tax planning in isolation. Rather, they have to combine tax planning with the substance of their business, which may require significant changes to their business models and structures. This poses new risks and increases the tax burden, forcing MNEs to undertake business changes globally.

MNE groups are assessing the need to transform their value chain in order to achieve certain objectives, such as eliminating any duplication of functions and centralising them in one or more geographically important strategic locations.

In addition to the dynamic and uncertain environment of international taxation and trade, many companies are facing severe problems and feeling forced to reconsider the way they operate. Yet these factors can also offer opportunities to companies that are capable of leveraging innovation and technology to obtain a strategic benefit.

Optimising infrastructure processes and systems to provide competitive customer service may be a huge challenge – especially if there are so many variables, from technology to workforce mobility and legislation. Value chain transformation is driven by the alignment of strategic, operating and financial needs, and this transformation can help improve business models while relocating or redesigning operations.

The process of value chain transformation

The process of transformation varies from company to company and comes down to each company's profile (location, staff, functions, risks etc), risk factors, and business purpose. Each MNE level can be involved in each business situation, and their impact covers their business, tax and legal matters. Companies are looking for opportunities to develop and adopt an efficient value chain governance process that takes into account and combines all these aspects to help achieve smoother running, higher profitability, and more sustainable growth.

So, in the course of MNE value chain transformation it is important to do several things:

- Analyse how other companies act in these changing conditions and how strategies are implemented
- Evaluate your business objectives to understand what the goals of this process are
- Assess your value chain governance process and find a way to improvements
- Explore opportunities for improving your value chain and devise the best solution for your company

When it comes to planning value chain improvements in today's unstable tax and trade environment, we also need to consider tax risks and opportunities, including tariff implications, trade agreements, transfer pricing, economic substance, holding intangible assets, permanent establishment considerations, withholding taxes, and treaty relief.