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The Big 4 offshore: Transparency arbitrage across legal...

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Big 4 offshore: Transparency arbitrage across legal and geographical boundaries

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Accepted by Crawford Spence.

This paper has been in the making for about six years, and I offer my thanks to Len and, most especially, Saila for their persistence with it, building on the idea that started us all on this trail. It has now been published in one of the highest-ranked accounting journals.

The abstract is as follows:

How do global firms manage conflicting constituencies in complex markets? The Big 4 accounting firms have expanded their size and scope to the extent that they need to relate to different constituencies simultaneously, sometimes on controversial issues. This is particularly relevant given their engagement in aggressive tax planning services alongside their traditional professional obligations, as this generates a conflict between discretion offered to "offshore" clients and accountability offered to other stakeholders. This requires strategic duplicity—sending differentiated signals to different stakeholders. We suggest that firms use organizational partitioning across legal structures and geographies to enable strategic duplicity. We test this by collecting a unique data set on the Big 4's ownership structures and staff numbers across all locations, showing that their organizations are heavily segmented. We show that the Big 4 use this geographical and legal differentiation to send contrasting signals to constituents about their organizations, engaging in a type of strategic duplicity that we *term transparency arbitrage, in which "onshore" stakeholders receive a signal of transparency and "offshore" stakeholders receive a signal of discretion. This duality enables them to engage in controversial issues with conflicting stakeholders.*

The paper is free to access and can be found here.