LOCAL RESPONSIBILITY IN A GLOBAL LANDSCAPE

Do firms owe loyalty to their country of origin?

BY CURTIS C. VERSCHOOR, CMA, CPA

THE ILLS OF THE GLOBAL RECESSION that began in 2007 have been blamed mainly on the actions of a handful of giant financial institutions. And the decline in the manufacturing sectors of developed countries has been largely attributed to offshoring jobs to developing countries with lower costs. In these and many other ways, the decisions made by multinational business firms have significant impact on citizens in all the countries in which the corporations do business.

These company activities, which hurt stakeholders in countries that are home to many large parent companies, often appear to be within the letter of the law. But questions of ethics remain: Do companies have an ethical obligation to financially support the home country where they received their license to operate and where a socioeconomic and legal structure was present that allowed the firm to start up, grow, and become profitable in the first place?

As one example of such responsibilities, I believe multinational companies based in the United States should be willing to contribute more to support the systems that provided them with significant benefits and fostered their success. These benefits include a culture of innovation, excellent education opportunities for many, protections derived from well-established rules of law and property ownership, and a large and efficient financial market for raising capital at a reasonable cost.

In the latest tax-avoidance strategy, a process known as “inversion,” global companies achieve a lower overall effective tax burden by acquiring a smaller company in a country with a lower tax rate and shifting their headquarters’ address to that country—often while the primary operations and leadership remain in the original country. Another method is the use of a process known as “earnings skimming,” which allows the entity in a higher-tax-rate country to borrow funds from a lower-rate entity within the consolidated group so the borrower gets a larger tax benefit than the lending entity's tax cost. Loyalty to a home country's affairs apparently is never considered.

It seems that the high U.S. corporate income tax rate provides much greater motivation for international companies formed and headquartered in the U.S. to employ tax-saving strategies than it does for firms based in other countries. The outcry resulting from the proposed but later canceled acquisition of Ireland-based Allergan by the U.S. pharmaceutical giant Pfizer led to new regulations designed to curb such activities. Varying income tax rates among countries has also caused avoidance activities resulting in economic harm to some.

Since the responsibilities of management accountants involve all areas of an organization's activities, opportunities exist for them to include consideration of ethical values when determining strategy and implementing policy. If involved in discussions regarding tax avoidance or inversion strategies, for example, management accountants should be mindful of all the factors that need to be considered to make the appropriate, ethical decision for all of a company's stakeholders. They should encourage their employers to realize that their long-term interests are best served by understanding and acting on their ethical and social responsibilities, which include supporting the communities where they primarily operate.

The best mechanism for solving the undesirable side consequences of profit maximization activities that benefit shareholders is through changes in the way business is done rather than more governmental regulation, according to the 2016 Edelman Trust Barometer (ETB). The ETB results from asking 33,000 respondents in 28 countries whether they could trust each of four social institutions to "do the right thing." The study found the four institutions from most to least trustworthy to be nongovernmental organizations, business, media, and government.

The ETB reported that respondents in 21 of 28 countries believe business is in a better position than government to solve problems. Business received the largest gain in trust for the year among all institutions. Eight in 10 believe business can improve socioeconomic conditions in the communities in which they operate while maintaining sufficient profit to be sustainable. Issues that respondents think business should address include facilitating access to education and training, providing access to healthcare, protecting the environment, improving civil rights, addressing income inequality, maintaining a modern infrastructure, and reducing poverty.

On the other hand, ETB 2016 also found most respondents in the general population believe that CEOs don't focus on the issues that the general population thinks are most important. The report states: "Leadership for a divided world must recognize the importance of action, values, engagement, and employee advocacy." The findings show CEOs focus too much on short-term financial results (67%) and lobbying (57%). Half of the respondents say CEOs don't focus enough on job creation, and 57% say they don't pay enough attention to positive long-term impact. In fact, 80% believe CEOs should be willing to be personally accountable for an organization's positions and actions involving societal issues.

According to Richard Stewart, a regional president at Edelman, "Virtually no other spokesperson is more trusted than a company's own employees, yet one of three employees doesn't trust their company." In Japan, Russia, and France, the situation is even worse, with levels of trust below 50%. But in many other geographical areas, employees are viewed as the most reliable sources of information, particularly on financial subjects, operational performance, business practices, how crises are handled, and company practices in dealing with employees and customers.

Involved in many of these practices, management accountants can take actions to apply robust business ethics to decisions as they are made in real time. For example, it could be something as straightforward as ensuring that customer refund requests are treated fairly and in compliance with company policy. Or when evaluating the profitability of a product line extension, management accountants should be sure that marketing tactics don't mislead potential customers.

Guidance concerning employee advocacy for these areas of responsibility is clearly set forth in the *IMA Statement of Ethical Professional Practice*. IMA members are required to act in accordance with the overarching ethical principles of Honesty, Fairness, Objectivity, and Responsibility. Furthermore, they need to encourage others within their organization to adhere to them. Through their actions as well as their words, management accountants need to be advocates of the highest ethical business practices in their organizations. **SF**

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