

# Calm before the storm?

Most accounting firms posted double-digit growth in 2008 despite the economic downturn in the world's developed markets. *International Accounting Bulletin* reports that networks and associations are escalating investments in vibrant, emerging economies while service line focus is shifting from transactions-based work into restructuring and insolvency

What a difference a year makes. Twelve months ago this survey reported an outstanding year for accounting networks and associations with average growth of 20 percent. This year the numbers indicate a similar story -- healthy double-digit growth -- but scratch beneath the surface and firms are moving into survival mode.

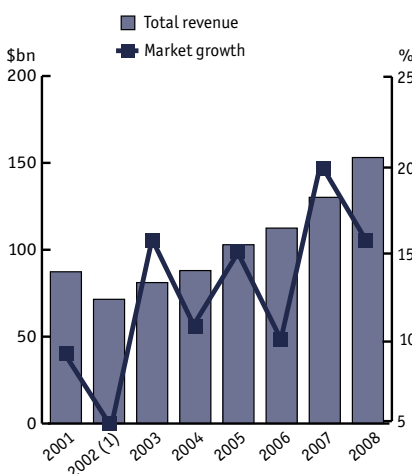
Professional services organisations can see the storm clouds forming as the credit crunch bites deep into developed markets. They are continuing to invest vast amounts of money into emerging economies, in particular the BRIC countries.

Firms are shifting their focus away from corporate finance work and more into business recovery, restructuring and insolvency services. As a result, some are being forced to shed staff in the consulting areas that have been hardest hit by the credit crisis.

Audit demand is cooling off somewhat and there is even talk of downward pressure on Big Four fees, providing the mid-tier with a new set of challenges.

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### Total revenue vs average growth of market: 2001-2008\*



Notes: \*The number of networks and associations surveyed each year fluctuates between 35-40 organisations. Growth is the market average of networks and associations surveyed; (1) Total revenue declined due to the collapse of Arthur Andersen. During this year firms grew on average by 5 percent. Source: *International Accounting Bulletin*

The Big Four are restructuring in order to present a more cohesive regional workforce to the marketplace while the mid-tier implement their own strategies for greater cohesion. Organisations are now clearly defining their structure as either being a network or association of independent firms with legal implications on either side of the fence.

### Solid growth

Both networks and associations posted strong average growth of 16 and 15 percent respectively. This is a sign that the profession has been resilient to the economic downturn in 2008 financial year, although the full effect of a downturn will not really be displayed on firm balance sheets until 2009 year-end results start trickling through.

The combined fee income of networks was \$130 billion, while the total revenue of associations reached \$22.6 billion.

PricewaterhouseCoopers (PwC) remains the largest network in terms of revenue although close rival Deloitte has made ground in the past year. PwC grew member revenues 14 percent to \$28.2 billion in the year ended 30 June 2008. Deloitte reported network revenues of \$27.4 billion, an increase of 19 percent in the year ended 31 May 2008.

The revenue gap between the two networks now stands at \$785 million. Last year it was \$2.1 billion.

Deloitte's consulting business grew 22 percent and contributed \$6.3 billion in revenues in the past financial year. Deloitte's decision to retain its consulting arm in the wake of Enron, at a time when rival firms were selling off these service practices, continues to pay dividends. For example, while PwC sold its IT business to IBM, Deloitte has established itself as key market player in enterprise resource planning and other IT-related service areas.

"The business model definitely has an impact and the diversity of the businesses we have under the umbrella," Deloitte Global chief executive James Quigley says. "Our consulting business this past year has had an outstanding year, which definitely contributed to our results."

PwC International chief executive Samuel DiPiazza says the network will continue to

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### Accountancy market at a glance

#### Revenue

**Largest by revenue:** PwC - \$28.2 billion

**Smallest by revenue:** A.C.E.E - \$26 million

**Market audit revenue:** \$80.3 billion

**Tax revenue:** \$36.3 billion

**Mgt. consulting revenue:** \$11.2 billion

**Corporate finance revenue:** \$3 billion

**Recovery/insolvency revenue:** \$1.1 billion

#### Staff

**Largest workforce:** Deloitte - 161,300

**Smallest workforce:** A.C.E.E. - 209

**Most professionals:** Deloitte - 124,000

**Most partners:** Deloitte - 9,100

**Most offices:** Fiducial International - 1,307

**Most admin staff:** PwC - 30,155

Source: *International Accounting Bulletin*

fight to remain the market leader although both leaders stress their firms are more motivated by quality than size.

Ernst & Young (E&Y) is the third largest network in terms of combined revenues, reporting growth of 16 percent to \$24.5 billion.

The largest mid-tier network is BDO International, which grew combined revenues 9 percent to \$5.15 billion in the year ended 30 September 2008. Rival Grant Thornton achieved 14 percent growth to \$4 billion during the same financial year.

SMS Latinoamérica, a small mid-tier network that primarily operates in the Americas region, reported the highest revenue growth of 36 percent. Nexia International, which merged with SC International a year ago, reported strong growth of 30 percent.

Praxity is the highest earning association with combined member revenues of \$3.23 billion. Praxity's revenues include the network Mazars, which has also been represented separately in the network tables.

Parker Randall International was the fast-

est growing association, more than tripling its revenues to \$129 million after merging with the International Accountants Consortium. There was also rapid growth from BKR International (49 percent), IGAF Worldwide and Leading Edge Alliance (both 29 percent).

Some partners note that currency fluctuations impacted on global revenues, especially those with strong UK firms.

Nexia International executive director Nigel Hodges says the fee income of all members is up although changes in the US dollar/British pound exchange rate has meant some of this increase has been eroded.

**Go east**

Asia-Pacific has been the standout region mentioned by virtually all accounting leaders. While Chinese growth has been responsible for much of this, firms in Australia, Singapore, Japan and Malaysia have also had strong showings.

The scramble to establish a presence in emerging markets continues at a rapid pace. Networks and associations have increased investment and recruitment in the BRIC countries and are being rewarded with explosive growth.

PwC, E&Y and Deloitte all note Russia is a strong market for firms but whether it remains in such a strong position in 2009 may depend on its faltering economy, which this month showed the weakest third quarter growth in three years.

Mid-tier network RSM International reported good increases in Brazil, the Middle East and Asia-Pacific, due to new additions.

Deloitte's Asia-Pacific firms also recorded

strong growth, particularly in Australia, India and China.

E&Y global chief operating officer John Ferraro says the network is mid-way through a four-year global plan to invest more than \$1 billion in emerging markets.

"The billion dollar investment is really to help recruit and develop our people and to do it ahead of the curve so we can have a controlled growth in these vitally important markets. You could never rely on the ability of the local practice to make those investments, they are just too steep. The size of those practices and their tremendous growth rates really calls for a global investment," Ferraro says.

Ferraro believes E&Y's 2008 results are beginning to show payback on those investments with revenues in local currencies increasing between 30 and 40 percent in Russia, India and China.

The battle to dominate emerging markets is a unique opportunity for the mid-tier to establish themselves. These areas are not yet completely dominated by the Big Four and present opportunities to mid-tier networks.

"There is no doubt that China would prefer to see a significantly greater number of major players in the Chinese market dealing with the very biggest businesses there. Therefore, there is a lot of inclination to seek services from outside the Big Four and we are a major beneficiary of that," Grant Thornton International chief executive David McDonnell says.

Grant Thornton is changing its strategy in China, moving from a purely organic route to expansion towards looking for merger opportunities. In 2008, Grant Thornton's Chinese firm grew 18 percent and McDonnell hints there could be "significant progress by M&A", possibly within a year.

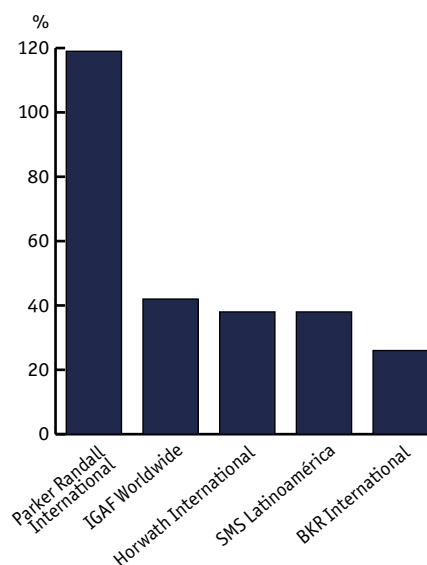
BDO International chief executive Jeremy Newman says the Chinese market has "everything to play for" and mid-tier firms can prevent the Big Four from completely dominating the large listed clients space.

McDonnell says Grant Thornton's Brazilian firm has "raced ahead", growing revenues organically 68 percent to \$54 million last year. The network's Indian firm grew revenues 63 percent due to an aggressive expansion strategy based on acquiring people rather than firms. The firm now has annual fee income of around \$30 million, which in the context of India's weak currency is quite large, and more than 1,100 staff.

India has also been a special focus for BDO. About five months ago, the network's UK firm, BDO Stoy Hayward, began directly investing in BDO's new Indian member firm. This entitles it to a shareholding in the Indian firm and a partner on its supervisory board. As a result, Newman says there has been an

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**Top five professional staff growth**



Source: International Accounting Bulletin

increase in referred work between the UK and the sub-continent.

**Structure shake-up**

As the mid-tier builds capacity away from its traditional base, the Big Four is attempting to knit operations across vast regions. 2008 was a watershed year for the international integration of the Big Four. KPMG consolidated a European grouping that now includes the UK, Germany, Switzerland and Spain, with the Netherlands indicating an intent to join. In July, E&Y brought together 87 national practices across Europe, the Middle East, India and Africa (EMEIA) and 15 national practices across Asia.

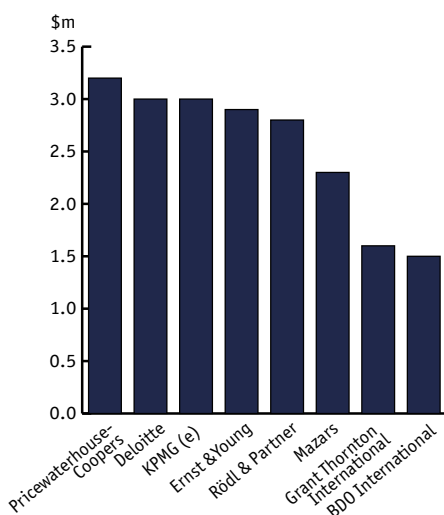
Ferraro makes it clear that E&Y's EMEIA and Far East integration moves are the culmination of a long, thought-out process, not the result of one frenzied year. E&Y's first integration move was in 2000 when Canada and the US joined their practices. Ferraro says the EMEIA and Asian integration is helping E&Y win new clients and provides greater efficiency and accelerated decision making.

"During this recent banking crisis we had the need to put people on the ground to help a client think through some options in the financial services area. The fact that we had one financial services group across EMEIA meant we were able to mobilise a team of 40 people across EMEIA on a Friday evening and they got there on Saturday morning. We didn't have to negotiate how they were going to get paid [or] when they were going to get there," he says.

"Integrating those country practices into a seamless global organisation with one strat-

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**Top eight revenue per partner**



Notes: (e) = estimate Source: International Accounting Bulletin

egy and one management team means we can execute across the globe quickly, we can muster investments on a global basis.

"All the firms started out as networks of 140 individual country practices, which was 140 partnerships, governances, management structures, strategies and decision points. You really can't serve the global market place today with that structure," he says.

PwC remains unlikely to follow E&Y's lead toward global integration, focussing its efforts on strengthening three regional clusters: Asia Pacific; Central, which includes Europe, the Middle East, Africa and South Asia; and West, which covers the Americas.

"We don't believe it is about integrating to one global firm," DiPiazza says. "We don't think that is necessary. What we do think is necessary is to have a high level of alignment across regions. We're demanding the delivery against standards. We have accountability and we have governance structures but we don't believe profit sharing is the magic."

DiPiazza doubts that E&Y has undergone a true financial integration and sees it more as a management structure.

The threat of vicarious liability stemming

from the US is mentioned by McDonnell as one stumbling block towards true financial integration by the Big Four. It's also one of the main reasons the mid-tier are reluctant to consider large-scale integration. Long-term, a fully-integrated global firm is the ideal model for some of the largest networks.

**"We have accountability and we have governance structures but we don't believe profit sharing is the magic"**

Samuel DiPiazza, PwC International

Quigley says Deloitte has been working on a strategy of regionalisation since 2003. Deloitte has clusters of firms in the Caribbean, Latin American, South East Asia and parts of Europe. Firms collaborate on key business processes.

Quigley says it is culture, not structure, that really matters when it comes to delivering borderless client service.

Big Four-style integration remains off the radar for mid-tier networks but they still believe in greater global cohesion. Newman says BDO will look at cross-holdings to increase joint commercial interest between key firms, similar to the UK/India arrangement. Its Israeli firm also has interests in Georgia.

Grant Thornton says its approach will be sector and market driven.

### Tax is king

Tax has been one of the strongest performing service lines in 2008.

PwC says its tax businesses has been going well for the past three to four years. DiPiazza says tax revenue increases have been driven by the growing complexity of global structures and companies seeking better ways to conduct tax compliance activities. Ferraro agrees that increasing globalisation is driving cross-border tax services, even though the IPO market has slowed dramatically.

Assurance services have also slowed in line with the drop off in the global economy and the simplification of regulation, particularly Sarbanes-Oxley work in the US.

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### Leading networks: fee data

Rank	Name	Most recent year's fee income (\$m)	Growth rate	Fee split (%)							Year-end
				Audit & Accounting	Tax services	Management consulting	Corporate finance	Corporate Recovery / Insolvency	Litigation support	Other	
1	PricewaterhouseCoopers* (1)	28,185.0	14%	49	27	-	-	-	-	24	Jun-08
2	Deloitte*	27,400.0	19%	46	22	23	5	-	2	2	May-08
3	Ernst & Young*	24,500.0	16%	68	27	-	-	-	-	5	Jun-08
4	KPMG* (1)	22,690.0	15%	47	21	-	-	-	-	32	Sep-08
5	BDO International*	5,145.4	9%	57	20	6	6	4	4	3	Sep-08
6	Grant Thornton International*	4,000.0	14%	51	21	9	7	6	3	3	Sep-08
7	RSM International* (2)	3,576.5	19%	49	29	17	-	-	-	5	Dec-08
8	Baker Tilly International*	2,955.7	18%	50	24	11	5	3	4	3	Jun-08
9	Horwath International* (3)	2,894.5	19%	54	21	11	2	1	-	11	Dec-08
10	Nexia International*	2,220.0	30%	57	19	11	2	2	1	8	Jun-08
11	PKF International*	2,020.0	17%	43	19	17	5	6	1	9	Jun-08
12	HLB International*	1,906.0	10%	49	26	12	4	7	2	-	Nov-08
13	Mazars* (4)	1,116.6	13%	85	13	-	-	-	-	2	Aug-08
14	UHY International*	666.1	8%	59	20	8	2	1	1	9	Dec-08
15	Russell Bedford International*	348.0	6%	-	-	-	-	-	-	-	Jun-08
16	Rödl & Partner* (5)	289.0	11%	33	26	6	-	-	-	35	Dec-07
17	Ecovis*	238.6	21%	43	37	3	5	3	-	9	Dec-08
18	SMS Latinoamérica*	52.3	36%	50	28	12	10	-	-	-	May-08
Total revenue/growth		130,203.7	16%								

Notes: \*Disclaimer = Only data from firms working solely and exclusively within the network/association concerned is included here. Data relating to non-exclusive, associate or affiliate firms and/or organisations is not included; n/a = Not applicable; (1) Other includes advisory services; (2) RSM International's fee income does not include correspondent and non-exclusive members. If it were to the combined revenue of the network would be \$3,627.6 million; (3) Horwath International's fee income does not include correspondent and non-exclusive members. If it were to the combined revenue of the network would be £3,063.1 million; (4) Other includes legal services; (5) Other includes legal services.

Source: International Accounting Bulletin

"The audit business tracks the global economy and when there is a drop off in raising capital, a drop off in transactions, when there is a fall in much of the structural activities in industry, our assurance business slows a bit," DiPiazza explains.

He says another reason for the slowdown is the simplification of regulatory requirements surrounding Sarbanes-Oxley, which reduced the scope of audit work.

McDonnell views more modest audit revenue growth as a correction in the market rather than a slowdown, particularly following a period of high audit growth.

"We have gone through a period where there's been growth in the audit market in the post-Enron era, the past five to six years, where there was a refocus on the value of

audit and audit committees took the view that they shouldn't be so tough on audit fees," he says.

Another regulation that impacts upon the assurance service line is IFRS. In November, the US Securities and Exchange Commission released its long-awaited roadmap proposing the use of global accounting standards by the very largest US issuers from 2011, a move first hinted at in August. Firm leaders believe the challenges of IFRS implementation previously faced in Europe may be multiplied in the US and efforts to educate staff are in full swing. US firms are also aware there are massive opportunities to advise clients on implementing IFRS, which would eventually help grow assurance revenues.

Some markets are bucking the assurance

decline in growth, such as Japan, where firms have benefitted from assisting clients with the new requirements around J-SOX, the new Japanese regulation for internal control reporting. Baker Tilly has seen a rise in due diligence and J-SOX work in the past year and expects to see an increase in IFRS advisory in 2009.

DiPiazza says the recent banking crisis has shifted the financial services landscape dramatically, affecting audit demand.

"[There's] no question the shift in the financial services means that auditing in that space will change and probably diminish as that whole sector gets much smaller," he says.

Interestingly, DiPiazza believes PwC could benefit in some ways as many of its clients, including Bank of America, JPMorgan and

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### Leading associations: fee data

Rank	Name	Most recent year's fee income (\$m)	Growth rate	Fee split (%)							Year-end
				Audit & Accounting	Tax services	Management consulting	Corporate finance	Corporate Recovery / Insolvency	Litigation support	Other	
1	Praxity (1)(2)	3,232.6	14%	63	23	9	1	-	1	3	n/a
2	Moore Stephens International* (3)	2,237.0	19%	54	25	6	2	2	1	10	Dec-08
3	Kreston International (4)	2,087.0	22%	52	22	8	3	1	-	14	Oct-08
4	Leading Edge Alliance (5)	2,078.5	29%	46	25	20	3	1	1	4	Dec-08
5	Fiducial International (6)	1,500.0	11%	60	15	10	-	-	-	15	Sep-08
6	AGN International* (7)	1,479.8	12%	55	24	-	-	-	-	21	Oct-08
7	IGAF Worldwide*	1,332.6	29%	33	26	17	16	-	-	8	Dec-07
8	BKR International*	1,330.0	49%	55	29	2	-	-	-	14	Jun-08
9	DFK International*	951.0	8%	51	29	7	2	3	4	4	Sep-08
10	IAPA*	921.0	7%	-	-	-	-	-	-	-	Dec-08
11	CPA Associates International*	812.0	7%	47	32	12	-	-	-	9	Oct-08
12	Morison International (8)	625.9	-22%	34	8	3	5	10	1	39	Dec-08
13	JHI International*	588.7	7%	43	28	8	4	2	8	7	Dec-07
14	Polaris International*	543.1	-4%	-	-	-	-	-	-	-	Nov-08
15	EuraAudit*	489.1	11%	66	20	14	-	-	-	-	Dec-07
16	MSI Global Alliance*	477.8	10%	58	20	4	7	5	5	1	Nov-08
17	MGI*	388.7	17%	-	-	-	-	-	-	-	Jun-08
18	Enterprise Network Worldwide*	330.0	12%	45	34	21	-	-	-	-	Dec-08
19	K S International*	311.8	6%	49	16	11	5	3	1	15	Jun-08
20	INPACT*	284.4	-2%	49	26	14	1	3	1	6	Dec-07
21	Integra International*	225.5	-	45	30	10	5	5	5	-	Dec-08
22	GMN International*	241.9	6%	51	30	7	2	-	1	9	Dec-08
23	Parker Randall International* (9)	124.8	207%	67	20	8	5	-	-	-	Dec-08
24	A.C.E.E.*	26.0	-	100	-	-	-	-	-	-	Dec-07
<b>Total revenue/growth</b>		<b>22,619.2</b>	<b>15%</b>								

Notes: \*Disclaimer = Only data from firms working solely and exclusively within the network/association concerned is included here. Data relating to non-exclusive, associate or affiliate firms and/or organisations is not included; n/a = Not applicable; (1) Fee income includes \$56.4 million from correspondents; (2) Accounting years of independent firms ended in 2008; (3) Moore Stephens International has reported its member firm and correspondent firm fee income separately. However, please note that all correspondent firms work solely and exclusively within the MSIL association. Fee income of correspondents is \$50.7 million; (4) Fee income includes \$350.9 million from correspondent and non-exclusive members; (5) Fee income includes \$133.3 million from correspondent and non-exclusive members; (6) Fee income includes \$500 million from correspondent and non-exclusive members; (7) Other includes management consulting, corporate finance, corporate recovery/insolvency and litigation support; (8) Morison International's figures exclude affiliated organisations in the US and Canada; (9) Merged with International Accountants Consortium. Parker Randall International's name is retained for the whole network.

Source: International Accounting Bulletin

Barclays, are “survivors in this environment”.

Baker Tilly International chief executive and president Geoff Barnes predicts audit and tax work will continue at similar levels to 2008. He says corporate recovery and insolvency demand will escalate.

An increase in restructuring, insolvency and performance improvement business over the next 12 to 24 months looks set to counter-balance some of the decline in corporate finance work.

As firms switch from growth to survival mode, McDonnell says Grant Thornton will continue to invest in specialist services in line with its global strategy. He predicts a resurgence in corporate finance driven by the network’s restructuring business, as well as a rise in forensic and litigation work.

DiPiazza is also optimistic about M&A, corporate finance and due diligence work, -- services that are dependent on capital raising. He predicts the current inactivity won’t last long.

“I think you are going to start seeing over the next 12 to 18 months companies beginning to transact businesses as they get more focussed on their core performance and they look for ways to access capital and to move capital into higher performing businesses. They are going to start spinning off, transacting and moving businesses that are underperforming. Once the debt markets free a bit, and it has already begun to happen somewhat, you are going to see another flood of transactions,” he says.

The drop in transaction volumes is set to affect Deloitte’s financial advisory services

business, which Quigley admits will not be able to match last year’s 26 percent growth rate. But other components, including corporate restructuring, insolvency and recovery will take some of the slack from the drop in M&A activity.

RSM reports risk management has performed better than other business lines due to the economic environment and the network’s specific depth in the area.

**Feeling the pinch**

Pricing and cost pressures are set to become issue across the profession. The credit crunch means clients will become more scrupulous with spending and could demand lower fees.

DiPiazza says this should not affect a stronger focus on accountability and robust reporting. “We don’t see people cutting deep-

**RESEARCH**

**Profession outpaces economy, emerging markets lead the way**

Accounting firms in the emerging markets are growing on average at explosive rates, according to *International Accounting Bulletin* country surveys.

Firms in Russia topped the list, growing on average by 38 percent in their most recent financial years – nearly five times the growth rate of Russia’s economy.

Although China had the fastest-growing economy, the Chinese profession struggled to recruit enough talent to service demand, which could explain why firms are not growing to the same extent in relation to GDP growth as other BRIC counterparts.

BRIC economies are providing firms the

greatest opportunities for growth and this is also reflected by the amount of money networks and associations are investing there.

A large proportion of the \$1 billion Ernst & Young is investing across its network is going towards recruitment and capacity building in emerging markets.

One of the key focuses for new BDO International leader Jeremy Newman is strengthening the network’s presence and cohesion in China, while Grant Thornton and RSM International are also building their presences.

“If I look in purely UK terms, the Big

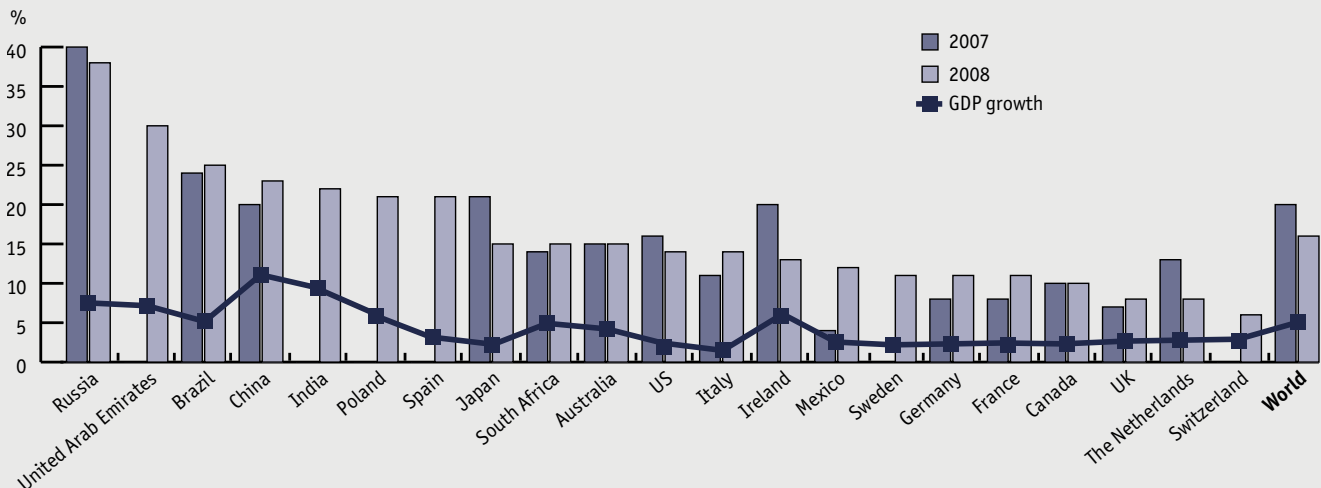
Four have a stranglehold on the FTSE 100 and you’re not going to smash it. In China the market still has everything to play for,” Newman said.

The second-largest profession in terms of revenue, the UK, posted modest growth of 8 percent when compared to other developed countries.

However, this is due to the fact that most firms in our UK survey reported 2008 year ends and are starting to feel the effects of the economic downturn. US firms, which will be surveyed next February, are not likely to see double-digit growth rates this time around. ■

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Average growth by country\*



Notes: \*Average growth of International Accounting Bulletin survey results. United Arab Emirates, India, Poland, Spain and Sweden were not surveyed in 2007. GDP growth is for 2007 and sourced from the International Monetary Fund

ly into the scope of work, therefore maybe increasing the risk of a mistake or problem. But we do see clients being much more focussed on what it costs," DiPiazza says.

Barnes says he hasn't had any indication from member firms that the credit crisis may put downward pressure on fees, but hinted that pricing issues may become a factor as more competition sets in.

Newman senses that it is the mid-tier that will lose out as the more difficult economic times force the Big Four to cut their fees to hold onto business and market share.

Horwath International chief executive Frank Arford acknowledges member firms are seeing pricing pressure where the Big Four and other networks are trying to lower prices to compete in audit and tax.

"That may moderate some of the growth opportunities in tax and audit," he explains. "It will be hard to say that we wouldn't see some slower growth overall but not a real dramatic change."

### Membership merry-go-round

The only significant change to Big Four membership was reverberations from the break up of PwC's former Japanese firm Misuzu, following its involvement in the Nikko Cordial scandal.

E&Y's Japanese practice, Ernst & Young ShinNihon, recruited more than 1,000 former Misuzu staff. This injection, plus equally strong organic growth, helped the Japanese firm generate more than 40 percent growth in 2008, pushing it above the \$1 billion revenue mark for the first time.

Mergers and movements continued at a steady pace amongst the mid-tier. One of the most notable moves was Meyers Norris Penny, a large Canadian firm with annual fee income of \$200 million, which left Baker Tilly to join Horwath International.

Arford says the merger has strengthened Horwath's North American presence. Horwath has also built strength in Europe by combining 13 French practices into Horwath Partenaires France to form a \$90 million group.

About half of RSM International's revenue growth was due to new members, in particular additions in Germany, China and Italy.

In October, RSM launched a new network of 11 firms in Germany with a combined fee income of \$150 million.

Zhongrui Yuehua Certified Public Accountants increased RSM's Chinese footprint in March. The firm, which claims to be one of the largest outside the Big Four in China, reported annual revenues of about CYN500 million (\$70.7 million) in 2007.

In June, Italian firms H-Audit and Synergia Consulting Group added €32.8 million

### ■ NETWORK DEFINITION

## Forum membership value still in question

Accounting firm leaders largely support the Forum of Firms' efforts to help raise standards for transnational audits but are less convinced about the commercial value of being a member.

This year, the Forum of Firms admitted its first full members. Membership requires networks to maintain high audit quality control standards, put in place systems to ensure transnational audits are conducted in line with International Standards on Auditing and make sure auditors comply with ethical codes.

PwC chief executive Samuel DiPiazza said the forum's main role is to promote a high level of quality of transnational audits.

"It brings a heavy focus into the standards of auditing and the ability to test it, to qualify it," he said. "Without consistent auditing, consistent accounting standards will not deliver the answer people are looking for."

Audit quality control systems have been common place at large networks like PwC for years. But smaller groups, including Russell Bedford International, have invested heavily to upgrade their own systems and run inspection regimes.

In contrast, some organisations that wished to fall under the 'association of independent firms' category, such as AGN International, this year scaled back internal monitoring regimes and stripped other

'network' characteristics from members, including common branding.

"It will be interesting to see how the networks and associations begin to be differentiated in the minds of clients," RSM International chief executive Jean Stephens said. "We haven't seen that yet and I think that we should."

BDO International chief executive Jeremy Newman said forum membership is "a badge of something" to member firms in smaller countries but has little impact on firms in developed markets.

Nexia International conducts central quality control reviews but is not a forum member.

Executive director Nigel Hodges believes forum membership offers little value and he is particularly critical of more peer reviews, which he said are a burden on member firms.

### Full Members

Baker Tilly, BDO, Constantin Associates, Deloitte, E&Y, Grant Thornton, HLB International, Horwath, INPACT Audit, KPMG, Mazars, Moore Stephens International, PKF International, PwC, RSM, Russell Bedford International, SMS Latinoamérica, Talal Abu-Ghazaleh International, UHY International

### Provisional Members

IEC, JHI, Polaris International ■

(\$52.1 million) to the network.

RSM International chief executive Jean Stephens says the recent additions have helped invigorate the network.

"They are looking for new opportunities and they push everyone to a higher level because they have that excitement and they want to use it as much as they can," Stephens says.

Stephens believes the credit squeeze may encourage some firms merge upstream.

"Do they stay an independent firm or do they sell, should they merge or should they not merge. It won't be anything new. It'll be where they were going anyway but it may bring it forward," she says.

BDO was another to fill gaps in Western Europe following the loss of its previous member firm to Deloitte. In December 2007, BDO merged three practices, Léger & Associates, PG Audit and ABPR, to create BDO France.

Another notable merger in 2008 was between BDO's Polish member and Grant

Thornton's former Polish member firm. Grant Thornton then recruited a former HLB International member firm that is much larger than Grant Thornton's previous Polish representative. Grant Thornton also combined its Australian firms into a single national firm and picked up part of Misuzu's audit business in Japan.

The consolidation of professional firms in the US is a work in progress for Nexia, according to Hodges. The network has 35 US firms with combined revenue of about \$700 million.

"The intention is to have fewer firms but with substantial turnovers and doubling of the revenue," Hodges says.

One of Nexia's newest member firms is former Baker Tilly member Rehmann Group, a Michigan firm with about \$70 million in turnover and 600 staff. Rehmann left Baker Tilly after the network granted exclusive naming rights to its largest US firm Virchow Krause. According to Barnes, Rehmann would have been disadvantaged trading ▶

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## Leading networks and associations: staff data

	Offices		Partners		Professional staff		Administrative staff		Total staff	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
<b>NETWORKS</b>										
Baker Tilly International*	509	505	2,576	2,629	16,456	16,336	5,731	5,291	24,763	24,256
BDO International*	671	626	3,443	3,146	33,437	29,679	7,122	6,581	44,002	39,406
Deloitte*	-	-	9,100	8,500	124,000	112,000	28,200	26,100	161,300	146,600
Ecovis*	188	177	268	212	2,087	1,890	327	247	2,682	2,349
Ernst & Young*	-	-	8,244	7,604	99,203	89,680	28,283	27,051	135,730	124,335
Grant Thornton International*	498	480	2,539	2,423	21,822	19,418	5,529	5,436	29,890	27,277
HLB International*	451	446	1,721	1,753	10,355	10,187	3,164	3,231	15,240	15,171
Horwath International *	558	465	3,324	2,452	17,729	12,847	5,196	3,828	26,249	19,127
KPMG*	700	696	7,677	7,159	104,057	92,924	25,162	23,239	136,896	123,322
Mazars*	183	170	481	402	7,439	6,114	1,539	1,226	9,459	7,742
Nexia International*	522	-	2,180	-	12,771	-	3,063	-	18,014	-
PKF International*	400	357	2,928	2,723	14,731	14,379	4,262	3,774	21,921	20,876
PricewaterhouseCoopers*	749	766	8,603	8,578	116,935	108,926	30,155	29,263	155,693	146,767
Rödl & Partner* (1)	81	74	100	80	2,395	2,230	255	240	2,750	2,550
RSM International *	732	662	2,918	2,411	21,424	17,013	5,916	5,469	30,258	24,893
Russell Bedford International*	188	173	510	492	3,729	3,738	591	583	4,830	4,813
SMS Latinoamérica*	49	49	134	134	1,297	940	254	204	1,685	1,278
UHY International*	211	198	629	543	5,087	4,812	1,315	1,032	7,031	6,387
<b>Totals</b>	<b>6,690</b>	<b>5,844</b>	<b>57,375</b>	<b>51,241</b>	<b>614,954</b>	<b>543,113</b>	<b>156,064</b>	<b>142,795</b>	<b>828,393</b>	<b>737,149</b>
<b>ASSOCIATIONS OF INDEPENDENT FIRMS</b>										
A.C.E.E.* (1)	-	19	-	35	-	-	-	-	-	209
AGN International*	486	492	1,057	1,165	6,178	6,998	1,609	1,915	8,844	10,078
BKR International*	376	353	1,016	921	7,667	6,101	1,183	1,133	9,866	8,155
CPA Associates International*	296	297	870	845	5,220	5,070	1,570	1,520	7,660	7,435
DFK International*	345	332	1,126	1,063	5,885	5,297	1,832	1,975	8,843	8,335
Enterprise Network Worldwide*	110	98	275	245	1,430	1,274	385	343	2,090	1,862
EuraAudit* (1)	302	257	697	654	3,757	3,413	2,207	2,217	6,661	6,284
Fiducial International	1,307	1,321	-	-	-	-	-	-	13,068	14,225
GMN International*	144	128	291	307	2,068	2,071	621	460	2,980	2,838
IAPA*	339	433	1,374	1,141	4,071	7,882	4,326	-	9,771	9,023
IGAF Worldwide* (1)	434	243	1,239	945	8,325	5,853	2,318	1,805	11,882	8,603
INPACT* (1)	199	204	458	448	2,582	2,541	506	499	3,546	3,488
Integra International*	129	-	325	-	1,634	-	331	-	2,290	-
JHI International* (1)	228	220	667	651	3,843	3,493	1,013	958	5,523	5,103
K S International*	129	108	373	338	1,987	1,805	697	648	3,057	2,791
Kreston International	740	665	1,329	1,167	15,682	14,183	3,223	2,998	20,234	18,348
Leading Edge Alliance*	430	390	1,433	1,100	10,063	8,750	2,683	3,000	14,179	12,850
MGI*	278	273	623	588	2,630	2,794	2,023	1,607	5,276	4,989
Moore Stephens International*	647	621	2,231	2,069	15,320	13,593	3,693	3,617	21,244	19,279
Morison International (2)	221	261	580	663	4,583	5,562	1,281	1,432	6,444	7,657
MSI Global Alliance*	157	160	654	664	3,567	3,551	1,088	1,151	5,309	5,366
Parker Randall International*	191	114	191	114	1,209	551	140	80	1,540	745
Polaris International*	252	302	857	965	4,547	5,531	2,960	2,639	8,364	9,135
Praxity	511	475	2,211	2,135	17,934	16,834	4,547	4,559	24,692	23,528
<b>Totals</b>	<b>8,251</b>	<b>7,766</b>	<b>19,877</b>	<b>18,223</b>	<b>130,182</b>	<b>123,147</b>	<b>40,236</b>	<b>34,556</b>	<b>203,363</b>	<b>190,063</b>

Notes: \*Disclaimer = Only data from firms working solely and exclusively within the network/association concerned is included here. Data relating to non-exclusive, associate or affiliate firms and/or organisations is not included; (1) 2007-2006 staff data; (2) Morison International's figures exclude affiliated organisations in the US and Canada.

Source: *International Accounting Bulletin*

▶ head-to-head with a Baker Tilly-branded firm in Michigan.

Hodges speculates that Crowe Horwath and Virchow Krause are causing "turbulence" to their respective networks in the US because of their ambitious plans to grow their businesses into national practices. Barnes contends the loss of Rehmann Group and Meyers Norris Penny will not change Baker Tilly's North American strategy. This strategy is based on cementing the Baker Tilly brand in key geographic areas, including Phoenix, Denver and San Diego.

Barnes agrees merger opportunities are increasing in the US and says Baker Tilly is looking at six to eight US firms with aggregate revenue of up to \$100 million. Baker Tilly's US members are also looking for new acquisitions in their individual regions.

### Trimming the edges

Accounting networks employ nearly 615,000 professionals and more than 156,000 administration staff. Associations employ about 130,000 professionals and 40,236 administration staff. Deloitte has the largest workforce with 161,300 staff, including 9,100 partners and 124,000 professionals.

Human resources is one of the key implications of the credit crisis. Staff cuts have been announced in the UK recently, mostly in consulting practices such as corporate finance.

Deloitte Netherlands recently laid off 50 consulting staff while Deloitte US firm laid off about 800 staff in September, although this only represented about 2 percent of the workforce.

Ferraro would not comment on E&Y's staff cuts but says the network's newly integrated approach will help it deal with the recruitment requirements around the globe.

Ferraro is adamant E&Y is not backing off its \$1 billion investment programme, developing services and people.

DiPiazza rules out major staff reductions

across the PwC network but concedes there will be pockets of businesses that might have to re-position themselves in a minor way because of excess capacity.

The mid-tier has generally ruled out substantial staff cuts but leaders say recruitment has slowed in most parts of the world, apart from China and India.

Stephens confirms RSM firms are making cuts to experienced hires but are continuing with recruitment at entry level to ensure they do not have a gap in managers in four to five years time.

While some job cuts may loom in developed economies, networks and associations are struggling to find enough employees in India and China, although sources note that staff cuts are taking place in practices that service IPOs.

Deloitte currently employs 7,000 staff in China and aims to increase that to 10,000 by 2011. Similar expansion is planned to grow its Indian firm from 8,500 to 12,000. Quigley says last year Deloitte employed 40,000 new people and would continue to recruit in key markets and "re-purpose" staff to work in other lines of business.

Accounting firms are also attracting graduates and employees from the financial services sector who view firms as a more stable choice in an uncertain economy.

Overall, networks and associations will continue to grow their workforces with minor corrections in some lines of work.

### The year ahead

Firms are keeping any indication of 2009 growth rates close to their chests.

Ferraro says while E&Y expects to have a reasonable performance there is definitely a slowdown in services across the globe.

Nexia is experiencing falling demand in the UK but good performances in Asia-Pacific, especially in Japan and Australasia.

Newman says BDO's global strategy is focussed on making sure that it has the right quality and sufficiency of resources in each location rather than "a land grab".

Barnes expects 2009 will not be business as usual but could provide strong public accounting firms with opportunities as companies look for alternatives in a freer market place.

Networks and associations face uncertain times over the next 12 months. Firms in developed markets will work towards survival and investment attention will focus more on emerging economies.

The question will be whether efforts to invest in these 'new' economies will protect the profession from the full force of recession that looks set to envelope many of the firms' clients. ■

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## A Christmas wish



"I would like to see our economies respond to the stimulus that has been committed by our national governments and find a rapid end to the financial crisis that we are experiencing. I also hope we have a lot of snow in Utah by Christmas time so that I can have some great skiing for my Christmas vacation."

*Jim Quigley - chief executive of Deloitte Global*

"The confirmation that the world economic system, institutions are working as intended and that liquidity is returning to the system."

*David McDonnell - chief executive of Grant Thornton International*

"My wish is that from a global standpoint we come out of this downturn sooner than later and that a lot of this tension and anxiety that is felt by people all over the world is relieved."

*John Ferraro - chief operating officer of Ernst & Young*

"To wish, hope that our member firms are able to deal with this economic environment - I'm confident they will. I'd also like to see the Spurs do a bit better in the Premiership, our goal keeper is available whenever anybody wants him."

*Geoff Barnes - chief executive of Baker Tilly International*

"Peace among all our different cultures and religions. I really hope that as we work our way through the globalisation of business, that just doing business with one another helps us get comfortable with working with people from other cultures and places."

*Frank Arford - chief executive of Horwath International*

"In 2009 that the firms really focus on where they're going, what they're doing, how they're developing and use this as a time of reflection to come out stronger... and a Ferrari."

*Jean Stephens - chief executive of RMS International*

"You can weep about how difficult and challenging business is but there are couple of hundred people in Mumbai who no longer live and there are countless thousands of people who would have lost a relative, family or loved one. I think there are much bigger challenges in the world than the accounting profession addresses and much bigger things that we need for Christmas."

*Jeremy Newman - chief executive of BDO International* ■

### 2008

## World Survey

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