

# RECESSION BUSTERS

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Global firms are resilient in the face of stiff competition for business and client fee pressure, says **Liz Loxton**

**A**s commentators collectively wonder where they might detect signs of growth in the global economy, they could do worse than look to the rise in fee income among the world's leading accountancy firms.

Accountancy's latest top 25 networks and associations survey shows growth for the second year in a row: in aggregate, an emphatic 8% or \$11.2bn (£7.18bn). Total revenue reported in 2011 was \$155bn.

And although growth was modest in some quarters – RSM International, Fiducial and others reported only a 1% growth – all the firms in the top 25 survey reported increases. That improves on last year's picture, when six organisations reported a drop in fee income.

The results also put PwC back at the top of the league table, following last year's reversal of the top two positions with Deloitte. PwC's income rose 10% to \$29.2bn from \$26.56bn, while Deloitte's rose 8% to \$28.8bn from \$26.65bn (\$420m below PwC).

## HIGHLIGHTS

At the Big Four firms, advisory and consulting work tended to show the biggest increases. PwC's

advisory business grew 20% worldwide, while E&Y's advisory fees grew by 17.5%. At Deloitte it was 15.1% and at KPMG International the percentage growth was 14.8%.

Unsurprisingly, growth across the top 25 global organisations tended to mirror the strengths and weaknesses of international economics. Geoff Barnes, CEO at Baker Tilly International said the global firm's 5% was encouraging when put in the context of continued poor economic news. Growth in Asia Pacific and Latin America was strong for the firm – 40% in Asia Pacific – but flat in the eurozone and North Africa, he said.

That experience was mirrored at RSM International. Restructuring in the US firm dampened performance there and the overall growth in fee income of only 1% was 'not overly exciting', said CEO Jean Stephens. However, RSM has been selectively growing its membership and has grown its cross-border work by 30% over the last financial year. 'Our international work is increasing and that's very satisfying,' says Stephens.

Firms continued to battle with eurozone issues, and natural disasters in Japan and elsewhere in Asia played their part, if a more limited one, in adding to 2011's challenges.

**On mandatory rotation and a ban on non-audit advice to audit clients, both proposals would bring about a transition, rather than a major overhaul in the firm's business model**

*Alan Buckle, deputy chairman, KPMG International*

➔  
**Geoff Barnes,**  
CEO, Baker Tilly  
International



➔  
**Jean Stephens,**  
CEO, RSM  
International



➔  
**Alan Buckle,**  
deputy chairman,  
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Europe continues to be a tough environment, says KPMG International's deputy chairman Alan Buckle. While the earthquake in Japan and subsequent supply chain issues were overcome fairly quickly, he says longer-term issues facing firms include the switch in focus of markets and capital flows. But broadly the greater complexity of business life is a plus for the global firm, he says. 'People are looking for confidence in the future and surety around figures.'

**BARRIER THREAT**

The financial year 2011 finally saw audit revenues start to rebound for the Big Four. In the face of a competitive market and with regulatory reform certainly in the wings, PwC saw assurance revenues worldwide grow 7% to \$14.1bn. At Deloitte, audit and enterprise risk services grew 4.7%. At E&Y, assurance revenues were up 5% and at KPMG International they increased 5.8%.

But while the Big Four have lobbied hard against proposed mandatory rotation and a ban on non-audit advice to audit clients, Buckle appears sanguine at the prospect of change. He argues that both proposals would bring about a transition, rather than a major overhaul in the firm's business model. He points out that audit rotation has been a reality in Italy for a long time and in Brazil more recently.

Restrictions on providing non-audit services to audit clients, meanwhile, are something the profession went through with the introduction of Sarbanes-Oxley in the 1990s. 'It clearly made a difference to how we operated but, if anything, it led to a strengthening of our non-audit offering. Most of our non-audit services are directed at non-audit clients now,' says Buckle.

For smaller firms, the potential opening up of the audit market is significant. Barnes says the proposal to introduce joint audits – which appears to have been kicked into the long grass – might be resurrected and supports mandatory rotation, although for longer terms, 12 to 14 years, rather than the proposed six years. Baker Tilly International supports the separation of audit and non-audit advisory services and the firm does see opportunities in this area. 'Our stance is to wait and see, which is no different to how we look at any global issue,' says Barnes.

**CHINA SYNDROME**

With growth firmly focused on emerging markets, any structural or regulatory changes there are subject to careful scrutiny. In China, three out of four joint ventures between Big Four players and local operators are up for review, with the Chinese authorities looking to change the profile of firms by insisting all partners pass Chinese accountancy exams.

Buckle says the moves are not unexpected and in line with the business strategy to be embedded in local business communities and promote local leadership of KPMG's firms.

At Crowe Horwath International, incoming CEO (from 1 July) Kevin McGrath, says the move is likely to make competition and access to new business opportunities more balanced and as such is

**I would support allowing non-accountants equity partner status within limits – without changing what we are about – but we would allow it for growth**

*Jean Stephens, CEO, RSM International*

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**1** \$29.22bn, up \$2.62bn

PwC has resumed its place at the top of table following a year of strong growth. Last year, Deloitte eclipsed PwC by \$9m. This year, PwC has recaptured its lead with a clear \$420m of headroom. The number of PwC offices worldwide is up significantly by 100 and the firm is now represented in eight additional countries. That said, the number of partners is down by 841.



**2** \$28.8bn, up \$2.2bn

Momentarily at the top of the table last year, Deloitte has reported a rise in global fee income of 8%, its highest revenue growth in three years. The firm reports strong growth in emerging markets and has increased the number of partners by 135 and overall headcount by 7.7%. It expects headcount to grow by over 35% by 2015 to reach 250,000 worldwide.



**3** \$22.9bn, up \$1.6bn

Ernst & Young's 8% increase represents a return to growth after a \$145m drop last year. It increased partnership ranks by 56 and professional staff by over 10,000, giving the firm the largest headcount in the survey at nearly 152,000. E&Y reported growth in all service lines, with advisory services growing fastest at 17.5%.



**4** \$22.71bn, up \$2.08bn

KPMG International claims that the 10% increase in fee income makes the firm the fastest growing of the Big Four for the second year running. The advisory function grew fastest at 15%, while US fees were also up 15%. Partnership numbers were up by 229. The global firm's new chairman, Michael Andrew, took up position at the start of FY 2012.



**5** \$5.68bn, up \$0.4bn

BDO's global figures for 2011 chart an upward course with a 7% fee income hike, 36 new offices, a presence in 16 more countries and 612 additional partners. Two new offices in the Middle East, Lebanon and Saudi Arabia, helped to make this region one of the strongest performers with a 31% fee income growth.



GENEVA GROUP INTERNATIONAL

**6** \$4.29bn, up \$0.07bn

GGI is an alliance of professional firms, whose UK accountancy members include Citroen Wells, Haines Watts and Lawrence Grant. Fee income for the financial year rose by 2%. It increased member firms from 318 to 345, the number of offices went up from 520 to 551 and the partnership rose from 2,044 to 2,537.



**7** \$3.89bn, up \$0.02bn

RSM, in the process of refreshing its international brand, posted a 1% overall increase in fee income plus new member firms in four countries, partner numbers up from 3,113 to 3,132 and a rise in professional staff. A focus on growing the firm in Asia Pacific and Latin America has made up for a more testing time in other markets, notably the US.



**8** \$3.79bn, up \$0.12bn

Grant Thornton International saw a 3% upswing in fee income. There are now 527 offices in 107 countries, up from 482 offices and 105 countries last year. The number of partners is also up to 2,619 from 2,505. Professional staff numbers are up by nearly 1,000, after a significant drop during the financial year 2009.



**9** \$3.69bn, up \$0.31bn

Praxity, an alliance of professional firms, counts Mazars, Forrester Boyd and Garbutt & Elliott among its UK accountancy member firms. It has posted a robust 9% growth in spite of a slight fall in membership from 72 to 69 firms. Partnership numbers are up, however, from 2,428 to 2,513 and offices opened in two more countries.



BAKER TILLY

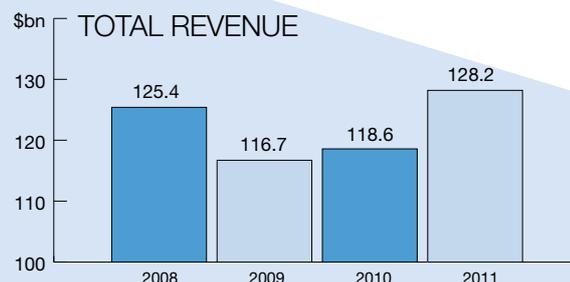
**10** \$3.22bn, up \$0.15bn

Baker Tilly International has seen its fee income rise by 5%, which mirrored growth and recovery trends worldwide. The global firm cites 40% growth in Asia Pacific, for instance. The number of offices rose from 610 to 642, while the number of partners fell slightly, by 12. The firm is currently looking at seven or eight new locations.

FINANCIALS

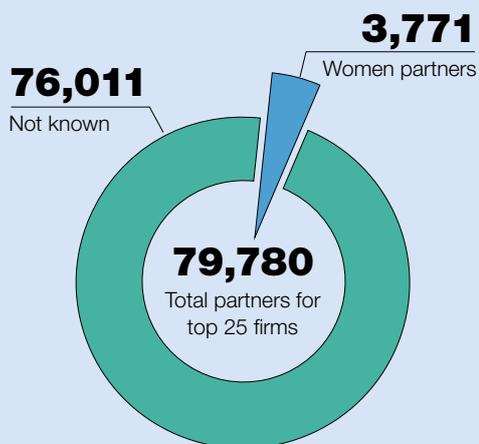
TOP TEN: FEE INCOME (\$bn)

Rank	Firm	2011	+/-	2010	2009	2008
1	PwC	29.22	2.62	26.56	26.17	28.18
2	Deloitte	28.80	2.20	26.65	26.10	27.40
3	Ernst & Young	22.90	1.60	21.25	21.40	24.52
4	KPMG International	22.71	2.08	20.63	20.11	22.69
5	BDO	5.68	0.40	5.28	5.02	5.14
6	Geneva Group International	4.29	0.07	4.22	4.05	3.70
7	RSM International	3.89	0.02	3.87	3.87	3.62
8	Grant Thornton International	3.79	0.12	3.67	3.59	4.0
9	Praxity	3.69	0.31	3.38	3.27	3.20
10	Baker Tilly International	3.22	0.15	3.07	3.13	2.95
	<b>Total revenue</b>	<b>128.19</b>	<b>9.57</b>	<b>118.58</b>	<b>116.71</b>	<b>125.4</b>



## DIVERSITY

## POOR PERFORMANCE: WHERE ARE ALL THE WOMEN?



An honest, if rather lacklustre ‘must do better’, appears to be the mantra of the accountancy profession when it comes to the presence or lack of presence of women in board positions.

A dispiriting number – 17 organisations – could not or would not put a figure to the proportion of their partnership that is held by women partners. Of the eight that do report the figures, there were 3,771 women partners, representing a mere 4.73% of total partner numbers. This figure is well below the average 15% figure of FTSE 100 board composition and a poor performance when compared to the recommendations of the Davies report.

At accountancy firms, women make up 23% of all partners, according to Catalyst, and 49% of all accounting employees. But with a high proportion leaving, the profession as a whole has work to do on promoting a culture where everyone has an opportunity to reach the top.

KPMG International deputy chairman Andrew Buckle says 15% of the global firm’s partnership is female and points to recent head of division appointments in the UK and US, and the promotion of two women members to the global board – Rachel Campbell, head of people and Isabelle Allen, head of sales and markets.

PwC puts the proportion of female partners at 16% and research from Crowe Horwath International indicates that across accountancy practices globally the figure ranges from 5% to 20%.

There is little doubt that firms’ diversity programmes and investment in mentoring and other forms of support are genuine. But with competition only set to increase and a skills shortage ahead, firms will need to focus their efforts on increasing the number of women in senior positions.

likely to benefit the firm. Stephens is also watching developments closely as RSM International has a strong presence in China and the local firm is Chinese-owned and run. ‘This change would only provide opportunity for us,’ she says.

## TRANSATLANTIC PRESSURE

In the US, two states – Connecticut and New York – are set, or in the case of New York state, discussing the possibility of allowing non-accountants equity partner status within firms. Regulatory changes once again have the potential to change the makeup and, potentially, the character of large accountancy players.

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*Geoff Barnes, CEO, Baker Tilly International*

McGrath sees the move as positive. ‘It allows firms to respond to the needs of their clients by hiring the appropriate skill sets irrespective of whether they have audit and/or accounting backgrounds,’ he says.

Stephens sees parallels with the EU Green paper proposals on exploring different ownership structures for accountancy firms which could include public ownership or equity status for non-accountants. Countries like Germany allow this, she points out. ‘I would support it within limits – without changing what we are about – but we would allow it for growth and to better serve clients.’

## LEHMAN’S FALLOUT

If regulatory and structural changes are failing to make waves, does the ongoing legislative fallout after the banking crisis, in the form of Lehman’s pending action against Ernst & Young in New York, cause greater concern? Those firms ready to be interviewed see the court case as one more indicator of the risk of operating at this level rather than having particular significance for the profession.

For Barnes the case demonstrates the degree of risk and complexity of the environment in which firms operate. ‘The advent of regulation globally is to be welcomed,’ says Barnes. ‘The PCAOB [US Public Company Accounting Oversight Board] and measures that came out of the Enron collapse have been good for transparency and have played a role in bringing back confidence in audit. The banking crisis has reminded us of the risks, but great steps have been taken.’

Overall, the impression the figures and responses to global issues give is one of resilience. And that is a characteristic the global firms have demonstrated before.



## HOW WE COMPILE THE TOP 25 TABLE

Figures are collected from annual reviews and reports, network websites and directly from firms. As in previous years, a number of multidisciplinary practices with member firms that exclusively practise law, have been included. Other networks that are not strictly multidisciplinary also offer services such as stockbroking and financial advice, arguably outside the ‘traditional’ view of accountancy services.

## TOP 25

## INTERNATIONAL NETWORKS AND ASSOCIATIONS 2011 (2010)

RANK	NETWORK OR ASSOCIATION	2011 (2010)	Fee income \$m	Member firms	Offices	Countries	Partners	Female partners	Professional staff	Year end <sup>3</sup>	Status
1 (2)	<b>PwC</b> PwC UK	29,223 (26,569)	158	771	158	8,697	1,392	129,720	Jun-11	N	
2 (1)	<b>Deloitte</b> Deloitte LLP	28,800 (26,600)	47		153	9,673	n/a	138,790	May-11	N	
3 (3)	<b>Ernst &amp; Young</b> Ernst & Young LLP	22,880 (21,255)	n/a	718	140	8,671	n/a	151,841	Jun-11	N	
4 (4)	<b>KPMG International</b> KPMG UK LLP	22,710 (20,630)	153		153	8,150	1,255	110,730	Sep-11	N	
5 (5)	<b>BDO</b> BDO LLP	5,677 (5,283)	101	1,118	135	4,723	n/a	36,022	Sep-11	N	
6 (6)	<b>Geneva Group International</b> Citroen Wells, Haines Watts, Lawrence Grant	4,287 (4,215)	345	551	94	2,537	n/a	19,513	Dec-11	AIF	
7 (7)	<b>RSM International</b> RSM Tenon	3,951 (3,878)	92	698	87	3,132	n/a	23,522	Dec-11	N	
8 (8)	<b>Grant Thornton International</b> Grant Thornton UK LLP	3,788 (3,674)	108	527	107	2,619	n/a	23,260	Sep-11	N	
9 (9)	<b>Praxity</b> Mazars, Rouse Partners LLP, Albert Goodman, Forrester Boyd, Garbutt & Elliott LLP, Jackson Andrews, PM&M Solutions for Business, Ritson Smith, Springfords LLP	3,687 (3,384)	69	553	84	2,513	378	24,972	Dec-11	AIF	
10 (10)	<b>Baker Tilly International</b> Baker Tilly (UK), Baker Tilly CI	3,222 (3,065)	149	642	125	2,577	408	17,965	Jun-11	N	
11 (11)	<b>Crowe Horwath International<sup>2</sup></b> Crowe Clark Whitehill LLP	2,930 (2,779)	167	650	109	3,379	n/a	20,186	Dec-11	N	
12 (12)	<b>PKF International</b> PKF (UK) LLP	2,621 (2,449)	300	440	117	2,234	n/a	16,351	Jun-11	N	
13 (13)	<b>LEA Global<sup>1</sup></b> CLB Coopers Manchester, Francis Clark LLP, HW Fisher, Johnston Carmichael, Streets LLP	2,600 (2,400)	180	460	100	1,600	n/a	18,323	Dec-11	AIF	
14 (16)	<b>Nexia International</b> Smith & Williamson	2,330 (2,080)	250	571	105	2,211	n/a	13,507	Jun-11	N	
15 (15)	<b>Moore Stephens International</b> Moore Stephens LLP	2,298 (2,151)	301	636	100	2,328	n/a	15,153	Dec-11	N	
16 (18)	<b>IGAF Polaris</b> Buzzacott LLP, CK Chartered Accountants, Clement Keys, Cooper Parry LLP, Creaseys LLP, FPM Accountants LLP, French Duncan LLP, Hall Morrice LLP, HURST, Littlejohn, Simmons Gainsford LLP, Thomas Westcott, Woolford & Co LLP	2,021 (1,820)	351	815	86	2,193	n/a	13,440	May-11	A	
17 (19)	<b>HLB International</b> Menzies LLP, Hazlewoods LLP, Hawsons, Lovewell Blake LLP, Evolution LLP	1,795 (1,692)	203	477	102	1,860	n/a	11,726	Dec-11	N	
18 (17)	<b>Kreston International</b> Bishop Fleming, Clive Owen & Co LLP, EQ Accountants LLP, Horsfield & Smith, James Cowper LLP, Reeves & Co LLP, BW Oakfield Group, Peters Elworthy & Moore, Barber Harrison & Platt, Duncan & Toplis	1,758 (1,668)	219	621	98	1,392	n/a	15,721	Oct-11	N	
19 (23)	<b>IAPA</b> Bird Luckin, Cowgill Holloway LLP, CW Fellowes, Hart Shaw LLP, Price Bailey, The Clark Howes Group, Wilkins Kennedy, UK200Group	1,008 (1,003)	215	300	64	1,124	99	4,602	Mar-12	A	
20 (-)	<b>Fiducial International</b> Westbury Accountants	1,511 (1,495)	n/a	1,194	78	n/a	n/a	12,650	Sep-11	MDA	
21 (14)	<b>AGN International</b> Dixon Wilson, Hazlems Fenton, Shipleys LLP, Wright Vigar, Noble & Co	1,491 (1,462)	194	458	88	1,268	n/a	7,384	Oct-11	A	
22 (20)	<b>BKR International</b> Blick Rothenberg, Cassons, Harbinson, Mulholland	1,470 (1,390)	149	594	79	1,395	n/a	8,943	Dec-11	A	
23 (21)	<b>MSI Global Alliance</b> Haysmacintyre, Armstrong Watson, ReSolve	1,390 (1,300)	247	291	105	1,800	n/a	8,500	Dec-11	A	
24 (22)	<b>DFK International</b> n/a	1,088 (1,074)	210	331	81	1,198	145	6,350	Apr-11	A	
25 (24)	<b>CPA Associates International</b> Ensors	657 (628)	153	310	63	825	94	5,283	Mar-12	A	
	<b>Total revenue</b>	<b>155,193 140,044</b>	<b>4,361</b>	<b>13,726</b>		<b>78,099</b>	<b>3,771</b>	<b>854,454</b>			

KEY: A Association N Network AIF Alliance of Independent Firms MDA Multidisciplinary association. UK offices listed under each entry where supplied.

Footnotes: <sup>1</sup> Formerly Leading Edge Alliance, <sup>2</sup> 137 firms, 30 business associates. <sup>3</sup> 2010 figures year end adjusted.