

SO FAR, SO GOOD ♦♦♦

GLOBAL FIRMS SHOW STRONG GROWTH ACROSS ALLIANCES, NETWORKS AND ASSOCIATIONS, DESPITE THE RECESSION, WRITES **LIZ FISHER**

Accountancy firms around the globe are yet to feel the worst of the economic conditions, according to the latest survey of the international accountancy networks, associations and alliances. All of the networks and associations in the Top 25 reported continued growth, although since the figures generally cover the accounting period until the end of 2008, the bad news is perhaps still to come. The only association that reported a fall in revenue is Morison International, which has taken the decision this year to exclude revenue from its affiliated firms in North America, which were included in previous years.

'All of the firms have reported increased revenue for the year to the end of 2008,' said Paul Hancock, secretary general of Praxity. 'There has been some reallocation of revenue between service areas, but overall the pattern is an increase.'

The Asia-Pacific region continues to be a strong area of growth for many firms of the networks and associations, as do the BRIC countries (Brazil, Russia, India and China) and eastern Europe. As for service areas, predictably, firms report that corporate finance is taking a hammering, but most firms are so far being compensated by the rise in corporate recovery and insolvency work.

COMPLICATED BY EXCHANGE RATES

A complication for this year's survey is the fluctuating exchange rates and particularly the stronger dollar, which has masked some of the true growth figures. The larger firms provide statistics in local currency as a comparison, but lower down the table the effect of exchange rates is less apparent.

Once again the survey raises the issue of the distinction between networks and associations. The EU Statutory Audit Directive, which came into effect last year, has prompted some international groups to style themselves as an association, since they no longer meet the definition of a network as laid down by the directive.

The directive has, in effect, accelerated the evolution process in terms of the organisation of international accountancy firms. The Big Four operate as what we have traditionally considered to be 'networks', and some are

THE BIG FOUR

PricewaterhouseCoopers reported a 25% increase in its revenues in Asia (or 21% at constant exchange rates), a 26% increase (12% at constant rates) in Australasia and the Pacific Islands and 31% (20% at constant rates) in central and eastern Europe. Advisory work was the fastest-growing service area, with revenues up by 20% during the year (14% at constant rates).

James Quigley, CEO of Deloitte, said the 2008 fiscal year was an 'outstanding' one for its member firms, 'particularly in light of the economic turbulence that defined the marketplace'. Aggregate revenue for

Deloitte's member firms increased by 18.6% (or 13% in local currencies).

Ernst & Young reported an increase of just over 16% in worldwide revenues (9.5% at local currency rates). Strongest growth was reported in Asia-Pacific, where revenue grew by 34.3% to \$3.3bn, and revenue growth was particularly strong in Japan, which increased by 42% to more than \$1bn.

The KPMG network reported revenue growth of 14.5%, or 8.4% in local currency. Again, the strongest growth was reported in the Asia-Pacific region and in Russia, where revenues rose by more than 60%.

MID-TIER

BDO International reported a 22% increase in revenue in the Latin America region and a 16% increase in the Middle East, compared with a 10% increase in Europe.

'The current financial and economic difficulties will be a challenge for all businesses,' said Jeremy Newman, CEO of BDO International. 'But I'm confident that BDO International will continue to develop.'

In March, Grant Thornton International appointed a new member firm in China. Grant Thornton Zhonghua, based in Shanghai, has 22 partners and 250 staff and was previously part of the BDO

International network. The firm has merged its operations with the current Grant Thornton representative firm in China, Grant Thornton China CPA Ltd, bringing GTI's presence in China and Hong Kong to 72 partners and over 1,500 staff.

'This is a major step forward in our plans to build a significant and robust independent national Chinese member firm with strong international capabilities,' said David McDonnell, chief executive of Grant Thornton International. 'We anticipate further integration with additional high-quality Chinese accounting firms during the next 12 months.'

TOP 25 INTERNATIONAL NETWORKS

	association/alliance		\$m	year \$m	firms				staff	end		(see panel)
1	PwC	PwC	28,185	24,729		749	153	8,603	116,935	Jun-08	www.pwcglobal.com	N
2	Deloitte	Deloitte	27,400	23,100	68	670+	140	9,100	124,000	May-08	www.deloitte.com	N
3	Ernst & Young	Ernst & Young	24,523	21,104	140	700+	140	8,244	99,203	Jun-08	www.ey.com	N
4	KPMG International	KPMG	22,690	19,810	145	696	145	7,677	93,000	Sep-08	www.kpmg.com	N
5	BDO International	BDO Stoy Hayward LLP	5,145	4,704	100	1,095	110	3,424	33,436	Sep-08	www.bdointernational.com	A
6	Grant Thornton International	Grant Thornton	4,000	3,461	93	490	108	2,500	29,000	Sep-08	www.gti.org	*
7	Geneva Group International	Citroen Wells, Lawrence Grant	3,707	3,146	263	412	72	1,642	14,005	Dec-08	www.ggi.com	M
8	RSM International	RSM Robson Rhodes LLP, RSM Bentley Jennison	3,620	3,060		732	64	2,912	21,401	Sep-08	www.rsmi.com	N
9	Praxity	Hazelwoods, Lovewell Blake, Mazars, Menzies, Hawsons and others	3,200	2,840	109	511	72	2,211	24,862	See note	www.praxity.com	**
10	Crowe Horwath International	Horwath Clark Whitehill	3,063	2,527	142	558	102	3,325	26,249	Dec-08	www.crowehorwathinternational.com	N
11	Baker Tilly International	Baker Tilly	2,950	2,500	145	509	110	2,600	25,000	Jun-08	www.bakertillyinternational.com	N
12	Moore Stephens International	Moore Stephens	2,237	1,880	366	647	98	2,231	15,320	Dec-08	www.moorestephens.com	A
13	Nexia International	Smith & Williamson, Saffery Champness, Scrutton Bland	2,200	1,700	205	620	99	2,195	17,872	Oct-08	www.nexia.com	N
14	Leading Edge Alliance	Johnston Carmichael, HW Fisher	2,171	1,713	145	430	94	1,460	10,200	Dec-08	www.leadingedgealliance.com	A
15	Kreston International Ltd	Reeves & Neylan, James Cowper, Bishop Fleming and others	2,087	1,700	245	740	95	1,329	15,682	Oct-08	www.kreston.com	A
16	PKF International	PKF	2,020	1,723	230	400	120	6,081	21,541	Jun-08	www.pkf.com	A
17	HLB International	Vantis plc, HLB Vantis Audit	1,906	1,729	182	451	100+	1,721	10,355	Nov-08	www.hlb.com	N
18	AGN International Ltd	AGN Shipleys, Dixon Wilson	1,480	1,317	198	466	90	1,057	7,787	Oct-08	www.agn.org	A
19	IGAF Worldwide	Buzzacott, Cooper Parry and others	1,333	1,029	136	238	59	1,250	8,325	Dec-07	www.igafworldwide.org	A
20	BKR International	Cassons, Blick Rothenberg	1,330	894	139	376	76	1,016	7,667	Jun-08	www.bkr.com	A
21	MSI Global Alliance	Armstrong Watson, Haysmacintyre	1,150	1,085	249	275	98	1,970	5,575	Apr-09	www.msiglobal.org	M
22	DFK International	Chantrey Vellacott DFK	951	878	205	345	83	1,126	5,885	Sep-08	www.dfk.com	A
23	IAPA	UK200 Group, FW Stephens, Wilkins Kennedy and others	942	841	229	286	56	1,422	4,442	Mar-09	www.iapa.net	A
24	CPA Associates International	None	903	n/a	150	292	73	857	5,140	Dec-08	www.cpaai.com	A
25	Morison International	Tenon Group	685	806	75	221	55	580	4,583	Dec-08	www.morisoninternational.com	†

choosing even closer relationships between countries and regions. During the year, Ernst & Young brought together 87 national practices across Europe, the Middle East, India and Africa to create an operationally integrated EMEA Area, and 15 practices across Asia to form a Far East Area. 'I believe these moves further confirm our status as the most globally integrated professional services organisation,' said E&Y global chairman and CEO James Turley.

A 2008 study by the European accounting federation, Fédération des Experts Comptables Européens (FEE), identified the emergence of three distinct structural models adopted by international accountancy organisations: international associations of independent firms coordinated by a separate legal entity; integrated international partnerships; and national practices with subsidiaries in other jurisdictions.

Patrick de Cambourg, president of Mazars – a member of the Praxity alliance of independent firms – developed this thought further at a FEE conference at the end of last year, when he put forward the theory that in the future, firms would follow one of four trends: a fully internationally-integrated firm; recognisable networks such as those operated by the Big Four; less loosely defined networks, which now tend to be called associations; and a new category of an alliance – in which firms cooperate with each other across boundaries but do not identify or market themselves as a network.

HOW WE COMPILE THE TABLE

Figures are collected from annual reviews and reports, network websites and direct from the firms themselves. As in previous years, we have included a number of multidisciplinary practices in the survey, in the sense that they have member firms that exclusively practise law. Other networks that are not strictly multidisciplinary, however, also offer services such as stockbroking and financial advice, which are arguably outside the 'traditional' view of accountancy services.

NOTES TO TABLE

N = Network
A = Association
M = Multidisciplinary
 *Income from 15 correspondent firms excluded
 **Alliance of independent firms.
 Latest year end for firms is 2008
 † Multidisciplinary association.
 Excludes revenue from North American associate firms that was included in 2007

THE CHALLENGERS

Some of the smaller and newer associations say that they are increasingly seen as a valid alternative to the larger firms. 'We are optimistic about the growth of our association in the future,' said James Mendelsohn, chief executive of MSI Global Alliance. 'We are seeing clear evidence of our member firms benefiting from the fact

that clients are becoming more critical buyers during a downturn. We believe that the recession is so severe that it will change buying patterns for good, not just for the duration of the recession, and this has to be good news for firms that are well-positioned to capitalise on the opportunities available by being part of an association.'