

WHEN THE GOING GETS TOUGH

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Some networks are bucking the trend with strong growth but most face tough global trading, says Rachel Fielding

As an uncertain outlook for economic recovery prevails, accountancy firms remain cautious, despite pockets of strong growth and glimpses of optimism over the next 12 months.

Accountancy's latest survey of the top 25 global networks and associations shows a mixed bag of fortunes, as a combination of tough trading conditions, intense competition across bread and butter audit and tax business lines and the prospect of yet further regulatory reform puts the brakes on any hope of a significant upturn in revenues in the near future.

Total fee income of \$166.14bn (£110bn) across the top 25 was up 5% from \$157.42bn in 2011, a modest but perhaps fair hike in the context of ongoing global economic uncertainty. However, the headline figures mask real disparity between results. While the vast majority showed growth in fee income on the previous year, two networks and three associations – all at the lower end of the rankings – did experience a decline in revenues in contrast to 2011 when all 25 have managed to keep their heads above water.

Nonetheless, year-on-year improvements in fee income were in many cases modest with average growth across the top 10 struggling to hit 5%. This despite some stellar performances,

most notably a 10.3% hike in fee income at Grant Thornton International, 8.7% revenue growth at Deloitte and 7.8% at PwC.

Overall, fee income across the Big Four accounted for \$110.26bn, representing two thirds of total receipts across the top 25. Although PwC's \$2.29bn increase in fee income reaffirmed the firm's pole position in the rankings, given that the gap between Deloitte has halved in the last 12 months to \$210m (compared with \$420m in the previous year), there is little scope for the firm to feel too bullish. 2012 saw the addition of 662 partners at PwC and 10,000 more professional staff, compared with 275 new partners and 10,157 professional staff at Deloitte.

Perhaps, more interestingly, the gap between third ranked Ernst & Young and fourth placed KPMG has increased more than eightfold to \$1.4bn, compared with only \$170m in 2011. KPMG's \$23.03bn income was up only 1.4% on the previous year, with the firm attributing the poorer performance in 2012 to highly competitive markets in audit and tax as well as one-off costs associated with redundancies.

FEE PRESSURE

KPMG is not alone in bemoaning difficult trading conditions during the year for both individual



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operating firms and clients, a side effect of which has been downward fee pressure on audit and accounting services being felt across the board. The Financial Reporting Council’s (FRC) Audit Quality Inspection annual report for 2012/13 warned: ‘Fee pressures are a commercial reality that cannot be ignored and firms face significant and increasing pressures in the current economic environment as evidenced by substantial reductions in audit fees as a consequence of audit tenders, particularly in respect of large listed entities.’

Alan Buckle, deputy chairman at KPMG International, accepts that fee pressure on audit is a feature of the marketplace, however he maintains that audit quality trumps price ‘more than ever before’ when it comes to the crunch. ‘Buyers at the top end are getting more sophisticated and audit committees are thinking much more about the risk to the business and themselves.’ As a result Buckle believes audit fees will be ‘pretty firm’ over the next few years. ‘Some people say audit is a commodity, but at our level of the market it’s just not true.’

Kevin Arnold, executive director of Nexia International, ranked 13 with fee income up 2.2% on the previous year to £2.83bn, vehemently disagrees, believing that the gap

between the service expectation of clients and the price they expect to pay is putting a huge strain on the market. ‘What concerns me the most is the increased commoditisation of audit and tax. It’s having a severe impact on all firms. Firms are being squeezed between fee pressure and the costs of increased regulation. It’s forcing some to completely review their modus operandi.’

AUDIT ROTATION

The accountancy profession has been under increasing scrutiny over the last year. Firstly, there is the UK Competition Commission enquiry into the statutory audit market due to publish its final recommendations in July and ongoing EU audit reform discussions; and secondly, the US Public Company Accounting Oversight Board (PCAOB) is also debating mandatory rotation. Meantime, there is the prospect of growing regulatory pressure, which is ever present at both European and global levels.

Buckle believes audit reform and the prospect of mandatory auditor rotation (already in place in geographies including Italy, Brazil and



TOP 10 INTERNATIONAL NETWORKS AND ASSOCIATIONS 2013

FINANCIALS

TOP TEN: FEE INCOME (\$BN)

Rank	Firm	2012 \$bn	Variance \$bn	+/- %	2011 \$bn	2010 \$bn	2009 \$bn	2008 \$bn
1	PwC	31.51	2.29	7.8	29.22	26.56	26.17	28.18
2	Deloitte	31.30	2.50	8.7	28.80	26.65	26.10	27.40
3	Ernst & Young	24.42	1.54	6.8	22.80	21.25	21.40	24.52
4	KPMG	23.03	0.32	1.4	22.71	20.63	20.11	22.69
5	BDO	6.02	0.35	6.2	5.67	5.28	5.02	5.14
6	GGI	4.39	0.10	2.3	4.29	4.22	4.05	3.70
7	Grant Thornton International	4.19	0.39	10.3	3.79	3.87	3.87	3.62
8	RSM International	3.99	0.04	1.0	3.95	3.67	3.59	4.00
9	Praxity	3.72	0.03	0.9	3.69	3.38	3.27	3.20
10	Baker Tilly International	3.31	0.09	3.0	3.22	3.07	3.13	2.95
Total fee income		135.88	-	5.7	128.14	118.58	116.71	125.40

1 PwC

**\$31.51bn (\$29.22bn)
+2.29 (7.8%)**

After being overtaken by Deloitte in 2010, a hike in fee income of \$2.29bn has affirmed PwC's position in the top spot. But with the gap between the two front-runners halving in the last 12 months to \$210m (compared with \$420m in the previous year), there's little scope for the firm to feel too bullish. 2012 saw the addition of 662 partners in the firm and 10,000 more professional staff.

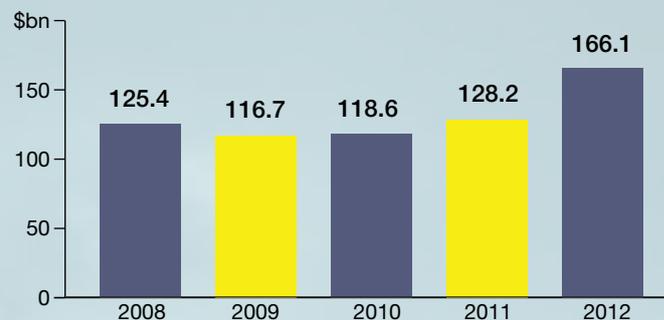
6 GGI

**\$4.39bn (\$4.29bn)
+0.1 (2.3%)**

The multidisciplinary organisation says the breadth of services it offers (legal practices represent around 40% of GGI's membership) is helping it weather the storm, resulting in a 2.3% growth in fee income since 2011. With 43 more member firms than in 2011 and 250 additional partners, it believes the combination of an entrepreneurial approach and a global reach is striking a chord with clients.

FINANCIALS

TOP 25: TOTAL REVENUE (\$bn)



The collective economic and regulatory pummeling the firms have received is prompting calls for greater cooperation and a united front on key issues

China) is having some impact on client behaviour as some companies preempt its possible introduction in the UK and US.

However, the Big Four networks are resolute about the impact on revenues. 'There's definitely more rotation happening in the UK marketplace than there was, but it's too early to say what the impact on fees will be,' Buckle says.

The barrage of regulation affecting client companies continues and, for advisers, keeping up to speed with regulatory developments is a challenging and costly exercise. 'It's really not possible any more for a firm to be on its own and not take notice of regulatory requirements in other parts of the world,' says Jean Stephens, CEO of RSM International.

Amid calls for financial transparency and global efforts to clamp down on the aggressive use of

intra-group transactions by multinationals, the impact on firms' revenues, certainly at the high end, has been overstated, Buckle says.

'The sort of complex tax planning in the media eye tends to be driven much more by M&A activity, which is pretty tough at the moment.'

In contrast RSM International, down one place in this year's rankings to eight after a disappointing 1% increase in fee income, says global tax and transfer pricing, in particular, has been one of its biggest growth areas despite or perhaps due to the scrutiny it faces.

Likewise at Crowe Horwath International, CEO Kevin McGrath says: 'International tax is by its nature very complex. It's an area where businesses feel ill at ease to make sure they understand it completely. Clients want to take full advantage of the law.'

2 Deloitte**\$31.30bn (\$28.8bn)**
+2.5 (8.7%)

Deloitte continues to play second fiddle to arch-rival PwC despite an 8.7% increase in fee income – the second highest percentage growth across the top 10 firms. The year saw partner numbers increase by 2757 while in May the firm appointed ex-HMRC tax supremo Dave Hartnett as a consultant for the firm 'advising foreign government and tax administrations, primarily in the developing world'.

3 Ernst & Young**\$24.42bn (\$22.8bn)**
+1.54 (6.8%)

The firm has enjoyed a very respectable 6.8% hike in fee income. Partner numbers have continued their upward trajectory to 9,129, an increase of 458 on the previous year. Similarly its tally of professional staff was boosted by more than 15,000 to 167,225 around the world, the largest number of any of the firms surveyed. All of the firm's service lines showed growth, with notable performance across transactions (9.4%) and advisory (16.2%).

4 KPMG**\$23.03bn (\$22.71bn)**
+0.32 (1.4%)

Last year KPMG claimed its 10% increase in fee income made it the fastest growing of the Big Four. This year's numbers make for altogether different reading. At 1.4%, fee growth has been disappointingly low, way below its top tier counterparts. KPMG said this was 'a creditable performance in tough market conditions' but warned of job cuts and plans to reduce both administrative costs and complexity by slimming down its management structure.

5 BDO**\$6.02bn (\$5.67bn)**
+0.35 (6.2%)

As 2013 marks the 50th anniversary of the founding of the international BDO network, growth has continued its upward trajectory. The total fee income for the year ended 30 September 2012 has now passed \$6bn, with Asia Pacific the fastest growing region at 48.5%, driven by activity in China and Japan. Despite continuing difficulties in the eurozone, BDO in Europe showed improved growth compared to 2011.

7 Grant Thornton**\$4.19bn (\$3.79bn)**
+0.39 (10.3%)

The only firm in this year's top 25 to boast double digit fee income growth over 2012, Grant Thornton International is riding a wave that has propelled the network up one place to number seven in the rankings. The number of member firms has increased by 16 in the last year to 124, now giving the network a presence in 118 countries. Partner numbers are also up by 220 to 2,839.

8 RSM Intl**\$3.99bn (\$3.95bn)**
+0.04 (1%)

International network RSM has dropped one place in the rankings after reporting a second consecutive 1% year-on-year increase in fee income bringing its total for 2012 to \$3.99bn. In 2012, RSM added new member and correspondent firms in 16 countries. Partner numbers have remained virtually static, although the professional staff headcount has increased by 425 over the course of 2012. Global tax has been one of its biggest growth areas.

9 Praxity**\$3.72bn (\$3.69bn)**
+0.03 (barely 1%)

With fee income growth struggling to hit 1% and with consolidation reducing the number of member firms by nine to 60, it has been a challenging year for Praxity, which has nonetheless retained its ninth place ranking. Geographic expansion has extended global reach of the alliance to 95 countries, up from 84 in the previous year. Partner numbers Rick Anderson, chairman of the management board, stepped into the hot seat in April this year.

10 Baker Tilly Intl**\$3.31bn (\$3.22bn)**
+0.095 (3%)

An 8% hike in audit income helped boost annual revenues at Baker Tilly International by 3% to \$3.3bn for the financial year ending 30 June 2012. In 2012 – as in 2011 – emerging markets were the story. Although Asia Pacific enjoyed a 30% rise in revenues, compared with 7% across Europe, Middle East and Africa (EMEA), US fee income slumped 10%. Consultancy fees were down 4% to \$0.68bn.

GEOGRAPHIC OPPORTUNITY

Meanwhile, a focus on geographic expansion into high growth markets is perceived as a good opportunity for the sector, with Asia Pacific, India and Africa identified as ripe for exploitation. In stark contrast to 4% growth in the US, a double digit boost to income in Asia Pacific helped boost revenues at Crowe Horwath International by 5% to \$3.07bn. At BDO International, meanwhile, revenues in Asia Pacific exceeded \$1bn for the first time in 2012.

Both Baker Tilly International and BDO International say increased investment in Africa is very much on the agenda as multinational businesses look to capitalise on its enormous potential especially in sectors including the extractive industries, telecommunications and consumer products. BDO International CEO

Martin van Roekel, said: 'Africa has offered more opportunities in the last year and in the coming years I'd expect serious growth because of economic development in that part of the world driven by growing purchasing power.'

KPMG, meanwhile, shelved expansion plans in a number of normally key growth markets including a shared services centre in Prague, but has earmarked developing markets such as Turkey, China and the Gulf as a channel to growth. And optimism – albeit muted – about recovery in Europe will, many believe, offer a further boost to income.

'In Europe it's much more difficult to find and exploit opportunities so there's an increased appetite for international work – but if you link that to global regulation and the risk of litigation, there's a balance to be struck,' says Arnold. » 24

DIVERSITY

FEMALE PARTNER NUMBERS REMAIN DISAPPOINTINGLY LOW

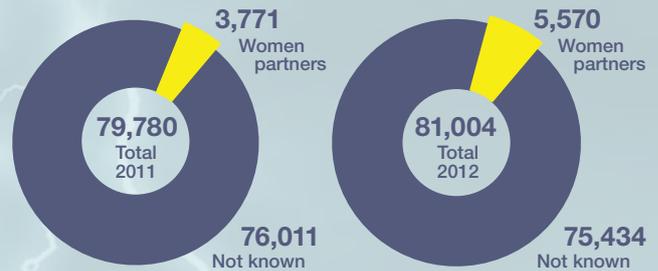
When the second annual progress report into Women on Boards in the UK was published in April, Lord Davies highlighted growing recognition of the benefits gained by business, the economy and wider society of greater female representation in the boardroom. 'We are now moving to a place where it is unacceptable for the voice of women to be absent from the boardroom,' he said.

However, despite a gradual increase in numbers of women at board level, the worldwide accountancy profession seems to be living in denial. The proportion of women at senior levels across global networks and associations remains woefully low. Only six of the top 25 networks and associations revealed details of partners by gender. Of those that did respond, the share of female partners ranged from 9% at IAPA to 19% at Deloitte.

Further up the corporate ladder the share is even worse. The percentage of women on the boards of European accountancy firms is 12% and the number of female heads of global networks and associations across the top 25 in our survey can be counted on one hand.

Jean Stephens, CEO of RSM International, the only female head of a top 10 accountancy network, isn't often at a loss for words. But when it comes to understanding why progress isn't being made on the issue of senior female representation across the accountancy sector, she admits to being stumped. 'The numbers play out that diversity makes for better decisions, better discussions and ultimately higher results,' Stephens says.

'I worry that we're at a stage where people are becoming fatigued of the issue,' Stephens says. And while most women shun the idea of positive discrimination to redress the balance,



she supports quotas as a means to address widespread complacency on the issue and 'kick-start something'.

Buckle is nonetheless confident that Lord Davies' efforts are having an impact. 'Having our clients push us on diversity on terms and the introduction of quotas will challenge the sector to work even harder,' he says.

For the second year, as the league table shows, we asked for data about the number of women partners in their organisations. The results were disappointing; beyond the major networks few respondents were able to provide the information on a global basis. Outside of the EU and north America, there is a failure to take diversity seriously and the data is not even collected.

Despite the small increase in numbers of women partners in 2012, from 3,771 to 5,570, an increase from 4.73% to 6.88%, there is little sign that the position of women and opportunities to move to partner status, are improving significantly on a global scale across networks and associations. When compared with the comparable UK figures, where 16.49% of partners are women, the global figure is disappointingly low.



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.

Nonetheless, the international aspirations of businesses of all sizes are also driving a market that is ripe for the picking, McGrath says. 'You don't need to be very large to have operations globally but it's a market that isn't suitable for the Big Four.' He too warns that the lack of agreement on international accounting standards remains a challenge and source of considerable frustration among firms.

GROWTH IN ADVISORY

Advisory service lines are, for many, driving growth, and have been identified as areas of investment over the next 12 months. For BDO International, 12% growth in advisory services has translated to a focus on global outsourcing and forensic services. Meanwhile, RSM International is expanding the IT consulting arm and expanding into IT systems auditing to advise clients on cyber risk. 'We see it as an opportunity going forward because the risk is always there, particularly as IT becomes even more entwined with the business,' Stephens explains.

Across the mid-tier, 'entrepreneurialism' crops up regularly in conversations with the heads of networks and associations, who maintain that the combination of global reach, entrepreneurial flair and competitive pricing is paying dividends. 'The challenge is to maintain the close relationship with

all our 388 member firms – we don't want to lose our personal touch,' says Michael Reiss von Filski, chief executive officer at sixth ranked GGI Global Alliance, whose members collectively reported a 2.3% increase in fee income.

Nonetheless, consolidation among mid-tier firms and also global networks is inevitable, predicts van Roekel. 'Smaller networks are struggling to make the right investments in tools and people development,' he says.

Competition between the firms, networks and associations is never going to disappear, but the collective economic and regulatory pummeling they have received of late is prompting calls for greater cooperation and the presentation of a united front on key issues.

'We recognise there would be more to be gained by accountancy networks being able to talk with one voice,' Arnold says. 'But different priorities – between the Big Four and mid-tier firms, and different regulatory standards – make it little more than a pipe dream,' he concedes.

'It is crucial to have a profession with high ethical and professional standards,' says von Filski, 'and there is still the potential for better interaction between the regulators and the profession to better develop and secure economic prosperity and avoid the Lehmans and Parmalats of the future.'

TOP 25

INTERNATIONAL NETWORKS AND ASSOCIATIONS 2012 (2011)

Rank	Network or association /UK affiliates	Fee income	Member firms	Offices	Countries	Female partners	Professional staff	Year end	Status		
		(\$m)	2012	2011							
1 (1)	PwC International PwC UK LLP	31,510	29,223	158	776	158	9,359	1,591	139,723	Jun-12	N
2 (2)	Deloitte Deloitte LLP	31,300	28,800	48	641	153	9,948	1,890	148,947	May-12	N
3 (3)	Ernst & Young¹ Ernst & Young LLP	24,420	22,880	n/a	700	151	9,129	n/a	167,225	Jun-12	N
4 (4)	KPMG KPMG UK LLP	23,030	22,710	156		156	8,624	1,466	117,190	Sep-12	N
5 (5)	BDO BDO LLP	6,015	5,669	102	1,204	138	4,778	n/a	46,757	Sep-12	N
6 (6)	Geneva Group International (GGI)² Citroen Wells, Haines Watts, Lawrence Grant	4,386	4,287	388	592	101	2,787		20,491	Dec-12	AIF, M
7 (8)	Grant Thornton International Grant Thornton UK	4,182	3,788	124	638	118	2,839	n/a	26,987	Sep-12	N
8 (7)	RSM RSM Tenon	3,987	3,951	108	702	102	3,126	n/a	23,947	Dec-12	N
9 (9)	Praxity – Global Alliance	3,721	3,688	60	559	95	2,768	402	21,702	Dec-12	A
10 (10)	Baker Tilly International Baker Tilly (UK)	3,317	3,222	156	672	131	2,650	n/a	18,986	Jun-12	N
11 (11)	Crowe Horwath International³ Crowe Clark Whitehill	3,077	2,930	171	671	114	3,335	n/a	21,335	Dec-12	N
12 (-)	TAG Alliances² Anderson Anderson & Brown, Blake Laphorn, Boodle Hatfield, Burgis & Bullock, Clarkslegal, DTE Grp, Elliott Duffy Garrett, Fitch, HSOC, Kerruish Law & Trust, Kuit Steinart Levy, LK Shields Solicitors, Mercer & Hole, Old Mill, Voisin	3,025	2,900	259	503	94	n/a	n/a	12,500	May-12	AIF, M
13 (14)	Nexia International Smith & Williamson	2,827	2,300	250	580	103	2,600	n/a	15,261	Jun-12	N
14 (13)	LEA Global/Leading Edge Alliance CLB Coopers Manchester, Francis Clark, HW Fisher & Co, Johnston Carmichael, Streets	2,768	2,590	190	467	102	2,175	n/a	18,854	Dec-12	A
15 (12)	PKF International PKF (UK) until March 2013, Littlejohn from July 2013	2,683	2,621	300	440	117	2,276	n/a	16,681	Jun-12	N
16 (15)	Moore Stephens International Moore Stephens LLP	2,283	2,298	299	624	101	2,312	n/a	15,273	Dec-12	N
17 (16)	PrimeGlobal⁴	2,029	2,036	350	764	90	2,189	n/a	13,738	May-12	A
18 (18)	Kreston International Barber Harrison Platt, Bishop Fleming, Clive Owen & Co, Duncan & Toplis, EQ, Horsfield & Smith, James Cowper, Peters Elworthy Moore, Reeves, Simpson Forsyth, BW Oakfield Grp	1,964	1,756	218	640	110	1,448	n/a	16,303	Oct-12	N
19 (21)	AGN International Shipleys, Hazlems Fenton, Dixon Wilson, Crowe Morgan	1,603	1,490	199	465	92	1,291	n/a	7,419	Oct-12	A
20 (17)	HLB International Beever and Struthers, Evolution Business and Tax Advisors, Hawsons, Hazlewoods, Lovewell Blake, Menzies	1,571	1,794	258	479	101	1,754	n/a	10,878	Dec-12	N
21 (20)	Fiducial International Westbury	1,550	1,511	n/a	1,194	78	n/a	n/a	16,850	Sep-12	MDA
22 (23)	MSI Global Alliance Haysmacintyre, Armstrong Watson	1,420	1,390	243	285	100	1,910	n/a	6,671	Dec-12	A
23 (22)	BKR International Blick Rothenberg, Cassons, Harbinson Mulholland, UNW	1,330	1,470	149	262	79	1,403	n/a	8,679	Jun-12	A
24 (24)	DFK International	1,082	1,108	208	386	81	1,188	124	7,601	Apr-12	A
25 (19)	IAPA	1,056	1,008	209	320	68	1,115	97	4,403	Mar-13	A
	Total	166,136	157,420	4,603	14,564	2,733	81,004	5,570	913,523		

Notes: 1 E&Y offices estimate 700 (718 in 2011); 2 Includes legal fee income; 3 Crowe Horwath International – 143 members, 28 business associates; 4 Formerly IGAF Polarix
Key: A: Association N: Network AIF: Alliance of independent firms M: Multidisciplinary MDA: Multidisciplinary associations, including legal firms