Accounting History

The impact of globalization on professional accounting firms: Evidence from New Zealand

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Abstract
This study examines how the survivors survived the turbulence of affiliations and global mergers among accounting firms in the 1980s. The core data in this project are narratives from an oral history study of partners in large New Zealand accounting firms in the 1980s. The survival of accounting firms and the careers of their partners were substantially affected by their ability to form and maintain affiliations with global firms. The major benefit of Big 8 affiliation was improved auditing technology, and formerly important audit firms without an affiliation to a Big 8 firm disintegrated. Over the same period, accounting firms generally also became more managerial and bureaucratic. This was consistent with trends in other professional organizations.

Keywords: *Accounting; globalization; mergers; New Zealand; professional firms*

Introduction

The New Zealand auditing profession progressed rapidly from being practised mainly through small accounting firms, with a few single-city larger firms and one

(Los Angeles, London, New Delhi, Singapore and Washington DC) and AFAANZ
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or two national firms, to dominance by the "Big 8" international firms in the 1980s (Morley, 2006). Some formerly important New Zealand firm partnerships disintegrated when they were unable to obtain an affiliation with a Big 8 firm. That some partnerships and their partners weathered the turbulence of affiliations and mergers while others did not raises the question of how the survivors survived.

In this research study, survivorship was studied by examining the extent to which each firm survived as an entity or disintegrated; and the extent to which partners from a firm kept their jobs in the merged firm. Survivorship (and failure to survive) was also studied by examining some firms which disintegrated after failure to maintain a globalized affiliation. To answer the question of "How did the survivors survive?", interviews, audit-firm data, and published records were used. Interviews were undertaken with partners and ex-partners, reflecting on events in the 1980s. The gains and costs to human labour from globalization can be clearly identified in these events which are presented from the perspective of New Zealand, one of many jurisdictions affected by cross-national affiliations and business activities but not central to them.

Diamond's (1997) account of the adoption of muskets by New Zealand's Maori tribes provides a powerful analogy for the impact of the Big 8 on the nation's accounting firms in the 1980s, as follows:

> One tribe, the Ngapuhi, adopted muskets from European traders around 1818. Over the course of the next 15 years, New Zealand was convulsed by the so-called Musket Wars, as musketless tribes either acquired muskets or were subjugated by tribes already armed with them. The outcome was that musket technology had spread throughout the whole of New Zealand by 1833. All surviving Maori tribes now had muskets. (Diamond, 1997, p.255)

The rapidity of the impact of muskets in New Zealand was reflected in a twentieth century "invention": when the major accounting firms developed affiliations in New Zealand. Those local firms with affiliations had an advantage over those without, which provided an incentive for those without affiliations to develop them. Those which could not find and maintain affiliations with global firms found it difficult to survive as firms. This effect was described by Suddaby *et al*. (2007):

> At the transnational level, two groups of actors coalesced into a mutually reinforcing pattern of interactions and understandings that helped define the boundaries of the emerging field of professional business services. Foremost were the largest of the accounting firms, whose close relationship with their corporate clients has been described as a "key part of the world's financial structure" and a critical element in the trend toward global economic concentration. (Suddaby *et al*., 2007, p.345)

Globalization has been defined by Guillén (2001, p.236) as "a process leading to greater interdependence and mutual awareness (reflexivity) among economic, political, and social units in the world, and among actors in general". Guillén

(2001, p.255) analysed the literature pertaining to globalization and concluded that there was sufficient evidence to reject the extreme views of globalization as either an invariably civilising or destructive force. "Globalization is … contradictory, discontinuous, even haphazard. Therefore, one needs to be open-minded about its unexpected and unintended consequences". Our research provides an illustration of such unintended consequences, including the costs to local accounting firm partners: for some, a loss of their partnership; for others, a loss of control.

How did the survivors survive the impact of the globalization of accounting firms? In order to answer this research question this study is organized into four parts. Part 1 reviews the literature pertaining to studies of globalization and expansion by Big 8 firms, and the wider literature and organizational studies of professional firms. Part 2 is a summary of the profession in New Zealand, the large accounting firms and audit activities. In presenting the empirical data on globalization, Part 3 examines the effects of mergers by reviewing narratives from the oral history interviews of partners, and Part 4 offers a concluding discussion.

Part 1: Globalization and expansion by Big 8 firms

In this literature review we examine two related strands, being accounting firms and professional organizations. First, we examine studies concerned with large accounting firms. We note that there are several explanations for their size and conflicting views regarding the effect of size on service quality. Second, the literature concerned with professional organizations generally shows a trend to less autonomy and more managerial control. We then consider literature specifically on the New Zealand accounting profession and New Zealand accounting firms.

One body of previous research on this area deals directly with the Big 8 firms. In general, this literature depicts the firms as searching for growth, in the belief that increased size will lead to further disproportionate growth. In a *Fortune* report Bernstein (1978) noted that:

> Intensified competition has set all the firms on an eager search for new markets, and one important trail has been abroad. Though the big boom in international business for accountants came in the late 1950's and 1960's, when the U.S. multinationals were quickly expanding, there are still large reservoirs of opportunity … To grab shares of the overseas business, some of the firms such as Arthur Andersen and Peat, Marwick, have been shaping and strengthening their international organization. Andersen has been notably weak overseas. (Bernstein, 1978, p.94)

It has long been argued that accounting firms spread around the world as a necessary response to follow their clients (Moyer, 1951), or that globalization of the Big 8 firms was of benefit in attracting clients. Nevertheless, the globalization of accounting firms in each country appears to have had its own unique story. In

Canada, the local firms co-existed with the international firms for a considerable period (so that the six largest firms were referred to as the "Canadian Big 3" and "International Big 3"), although by 1979 the major local firms had eventually merged with members of the international Big 8 (Richardson, 2001). In Greece, the entry of the Big 8 firms was resisted by local firms who were able to get legislation passed to re-establish a state-controlled professional monopoly, for a time at least (Caramanis, 2002, p.380).

Perera *et al.* (2003) argued that the deregulation of economic systems around the world allowed corporate clients to expand; and that larger audit firms were then needed in order to service those multinational enterprises. In addition, this deregulation created opportunities for accounting firms in new countries and regions. Furthermore, technology increased business efficiency, reducing control costs. The authors showed that there has been increasing globalization by accounting firms since the 1970s. However, their evidence regarding the reasons for the globalization of accounting firms was drawn from more recent developments, and included events in the 1990s such as the collapse of the Iron Curtain and the growth of the Internet. It can be observed from sources such as Moyer (1951) and Bernstein (1978) that globalization of accounting firms occurred very early in comparison to many other disciplines. We suggest that other explanations in addition to those provided by Perera *et al.* (2003) are needed.

Watts and Zimmerman (1986) argued that an accounting firm achieves several advantages by being larger, including economies of scale, developing a brand name and the bonding provided by a very large group of partners all putting their professional capital at risk in forming a large firm. Greenwood *et al.* (1993) discussed the motivation for Canadian firms to merge with each other. They described the projected advantages of greater size resulting from merged firms, in that firms appeared to assume that "big is good, but biggest is best". The advantages of size, as perceived by firms, were:

1. reputation; bigger firms were more likely to be invited to tender for audit engagements;
2. spreading costs to charge more competitive prices (while investing in technology and training);
3. a means of brand differentiation that was readily available to accounting firms; and
4. the ability to service the overseas operations of clients.

Both of these studies thus expanded on the benefits of size in attracting clients. This benefit is also related to firms needing to reach a "minimum scale" to be able to audit large and multinational clients.

Several recent articles have sought to explain recent auditing problems as resulting from changes to the profession in earlier decades, particularly those changes related to deregulation in the late 1970s and 1980s. These articles consistently noted a decline in professionalism as accounting firms became more competitive and in response to economic deregulation. The decline was associated with growth in advertising by accounting firms (Imhoff, 2003; Wyatt, 2003), direct solicitation of the clients of other accountants (Zeff, 2003a,b), and changes to the legal liability of auditors (Palepu & Healy, 2003). Empirical studies of deregulation found that increased competition led to reduced fees in the USA (Maher et al., 1992) and Australia (Craswell, 1992), but not in Canada (Anderson & Zéghal, 1994). Craswell (1992) argued that the combination of competition and price cutting could have adverse implications for audit quality. While it has been argued that deregulation caused these changes, it may be observed that similar changes took place around the world throughout the global accounting firms, even though any deregulation was specific to each jurisdiction. Furthermore, other organizations that employ highly-qualified professionals, such as universities and hospitals, underwent similar changes without similar deregulation occurring.

Overall, the previous accounting-firm literature suggests that the spread overseas of the Big 8 firms was driven by economic incentives for growth, including the benefits of larger size, the spread of multinational enterprises and developments in technology. However, this literature cannot explain why globalization occurred even without economic deregulation, and therefore we also consider the wider literature related to professional organizations in general.

Some wider literature on professional organizations

The literature examining professional organizations includes studies of accounting firms and similar entities such as law firms, medical practices, hospitals and universities. Mintzberg (1979, 1983) identified the early professional firm as a distinctive configuration in which professional staff functioned autonomously without formal work processes or bureaucratic control. Later, Greenwood *et al.* (1990) described strategic management of the professional firm as the P2 model, standing for professionalism and partnership. In these models, a professional firm was depicted consistently as one in which "power rests in the hands of professional experts, managers administer the facilities and support the professionals, decisions are made collegially, change is slow, and strategy is formulated consensually" (Brock, 2006, p.160). Cooper *et al.* (1996) proposed that the P2 model was supplanted by a form called the Managed Professional Business (MPB), due to an overlay of managerialism and business values; whereas Brock (2006) argued that the MPB model had itself been supplanted by an emerging archetype, the global professional network (GPN).

Six characteristics of the GPN (as they evolved from earlier organizational models) are:

1. managerially-focused and with more business-like operations;
2. reliance on formal networks instead of informal networks of professionals;
3. more-individualized reward schemes;
4. business-like governance structures replacing the partnership model;
5. increased global reach; and,
6. a trend towards multidisciplinary practice.

These trends were attributed to deregulation and competition (including increased litigation), technological developments and globalization (Brock & Powell, 2005; Brock, 2006). Brock (2006) further suggested that the globalization of professional services was not only a driver for structural change of accounting firms, but that accounting firms contributed to the impact of globalization through their own internationalization strategies.

Alternatively, Gilson and Mnookin (1985) proposed a portfolio (risk-reduction) explanation for partnership dynamics in their study of legal firms. They argued that it adds value for lawyers to be in a partnership that offers a diversified range of services and shares profits based on seniority, as this provides each partner with a diversified portfolio of revenue streams. A line of enquiry suggested by their analysis is whether the Big 8 franchise led to diversification of the hitherto national NZ firms through, for example, the development of management consulting, which might not have otherwise happened in locally based practices. It was, indeed, often noted in the interviews in this study that the global firms brought in additional expertise. However, there is a danger of overstating the significance of size in itself, as diversity in consulting and advisory services is the hallmark of the small practice, particularly outside major urban centres. Furthermore, and contrary to the prediction in Gilson and Mnookin's (1985, p.386) analysis, accounting firms worldwide have moved to more performance-based reward systems (Burrows & Black, 1998; Baskerville & Beechey, 2007) in preference to allocation of profits based on seniority.

The shift by accounting firms towards becoming GPNs was consistent with the recent self-identification by the leaders of such firms as networks (rather than firms). The publication *Global Capital Markets and the Global Economy* (DiPiazza *et al.*, 2006) was subtitled: *A Vision from the CEOS of the International Audit Networks*. This publication addressed issues such as the increasingly globalized and complex economy, and the strengthening of financial reporting and the audit function, describing the measures the authors considered necessary to meet user needs for "reliable and relevant information that is the lifeblood of thriving capital markets and the global economy itself" (DiPiazza *et al.*, 2006, p.4).

Overall, this literature suggests that in common with other professional organizations, accounting firms were changing rapidly in the lead up to the period in which the Big 8 franchises became dominant around the world. Firms became more business-like and managerial, and lost some of the characteristics typical of earlier and smaller professional partnerships. In common with those studies cited, we do not place any positive or negative value on this trend; the initial spread of the firms took place before recent changes, but some managerial influences were already evident, as will be further documented.

Research in this area requires observation of firm adaptations and activities that are not amenable to analysis utilizing the distinctive theoretical frames used for studying professional bodies. Although research on the accounting profession and its history often utilises the frameworks of Abbott and others (Abbott, 1988; Macdonald, 1995), those frameworks are not adopted in this study. Abbott's framework is well suited for studying the accountancy professional bodies, but not as relevant for research on large firms.

Part 2: The profession in New Zealand, large accounting firms and audit activities

In New Zealand the accounting profession developed from two bodies formed in the late nineteenth century that merged to form one professional association in 1908. This body, the New Zealand Society of Accountants, is now known as the New Zealand Institute of Chartered Accountants, and offers professional support for corporate accountants and those in the public sector, as well as those in public practice. It has a membership of over 30,000 members, including Accounting Technicians, Associate Chartered Accountants and Chartered Accountants. As the total population of New Zealand is only slightly over 4m, this can be seen to be a well-represented occupational group.

Previous studies of the professional body noted that it underwent major changes in the late twentieth century. These included the loss of its monopoly over the term "accountant", loss of the sole right to set accounting standards, and the introduction of several levels of membership (Velayutham & Perera, 1996). These changes were consistent with deregulation of the New Zealand economy (Perera *et al.*, 2001); and with a trend to de-professionalization identified in the literature (Velayutham & Perera, 1996). In addition, these events represented a change from the profession seeking occupational closure and control over entry to establish a monopoly, to seeking recognition as a brand and aiming to achieve market differentiation (Velayutham & Rahman, 2000). These changes to the professional body were parallel to the developments within accounting firms that we are concerned with.

The New Zealand audit services market has also been studied from as far back as the 1960s. Gilling (1975) stated that by 1968, public company auditing in New Zealand was becoming the "exclusive property" of a relatively small number of professional accounting firms. In 1968, the largest eight firms had 39 per cent of the listed company audits, covering 63 per cent of listed company assets. By 1973, the share of the Big 8 had increased to 66 per cent by number and 83 per cent by size. Gilling observed that 12 New Zealand firms had some affiliation with the international Big 8 in 1968. These affiliations covered seven of the New Zealand audit firms with the largest share of the market in 1968. However, the New Zealand Society of Accountants was long opposed to the use of international firm names by the accounting firms and this was not permitted until 1982.

Gilling (1975) commented on a trend towards greater concentration, similar to that occurring in the UK, the USA, Canada and Australia. He raised concerns about whether larger firms stifle creativity and reduce job satisfaction, and about monopolistic tendencies. Subsequently, Johnson *et al.* (1995) found that the New Zealand market was dominated by the Big 8 firms. However, this did not necessarily lead to monopoly pricing. Studies by Firth (1985, 1993) and Hay and Knechel (2010) found very mixed evidence about whether the Big 8 charge higher fees. Baskerville and Hay (2006) examined the effects in New Zealand of the global mergers in 1989, which reduced the eight large firms to six. Examination of partner numbers and interviews with former partners revealed that partner income maximization was of more importance than firm revenue maximization. Leverage effects applied whereby individual partners could be made better off, even while downsizing a firm, so long as they were able to reduce the number of partners by a greater proportion than the reduction in total partnership income. These results were consistent with the observation that partnerships have different objectives to corporations, and partners could seek to benefit from downsizing, so long as the number of partners is reduced proportionately more than the amount of net income.

Summary of literature review

The existing research literature proposes that globalization of the Big 8 firms was associated with economic deregulation and technological changes; that it was of benefit in attracting clients; and that over the same period, accounting firms were becoming more business-like and less like the earlier form of professional partnership. However, there are inconsistencies in the explanations used in the research to date. For example, the globalization of the accounting profession was under way well before the mid-1970s, and it is not reasonable to explain it by reference to events occurring later than that. The spread of these firms also took place prior to deregulation of the accounting profession, and before their transformation into the MPB/GPN form, although this transformation has since taken place. We now examine the issue further by reference to evidence (including interviews and published data) from New Zealand, one of many countries which were affected by these changes, and which was not at the centre of them.

Part 3: The narratives and other evidence

Methodology

The data for this research comprised narratives from interviews with partners involved in the processes of globalization of the accounting firms, who documented the reasons why some in the largest firms survived, while others did not. In addition to material concerning international affiliations in published firm histories (such as Kettle, 1958; Gilkison, 1971; MacLean, 1980; Jones, 1981, 1995; Cypert, 1991), survey and interview data was also valuable in providing reflections by partners in all of the Big 8 firms concerning the origins, impact and aftermath of globalized international affiliations (see Appendix 1).

Topics that were important in understanding the processes of survival or disintegration were derived from an earlier survey (discussed in Appendix 1). The utility of such narratives as data is consistent with the arguments offered by Hanlon (1999), as such interviews provide a diverse range of insights or perspectives on affiliation procedures and the aftermath of merger activities.

As described earlier, assessing survivorship in this research involved examining the extent to which partners from one firm in a merger managed to dominate the merged firm, which is indicated when most of the partners from that firm kept their jobs at the expense of partners in the other merging firm. Survivorship (and failure to survive) was also studied by examining some firms that disintegrated after failure to maintain a globalized affiliation. Changes in the major New Zealand audit firms from 1968 and their international affiliations are summarized in Table 1.

Gilling (1970) observed that the major New Zealand firms had been established since the early 1930s, or earlier. The development of international affiliations was followed by considerable merger activity in the 1970s and 1980s, as national firms were formed and some of the major firms combined with each other. However, New Zealand firms were not permitted to change to the names of their Big 8 affiliates until 1982. Price Waterhouse was an exception, having been established in New Zealand before that rule was introduced. As Gilling (1970) observed, the spread of international accounting firms to New Zealand was already well established by the late 1960s. This does not support arguments that the spread of Big 8 firms was associated with deregulation. Deregulation of the New Zealand economy was concentrated in a relatively short period (1984–95) (Evans *et al.*, 1996) and occurred substantially later than the spread of the large firms.

It was clear from the representative extracts from the interviews in Table 2 (and other comments) that partners saw strong advantages in technology transfer.

Table 1: Major New Zealand audit firms and their Big 8 affiliations

NZ Firm	International affiliation	Ranking	Fees 1973	Market share (%)
Barr Burgess & Stewart	Coopers & Lybrand	1	287,009	11.65
Gilfillan, Gentles, Pickles, Perkins & Co[a]	Peat Marwick Mitchell	2	269,502	10.94
Morris Pattrick & Co[a]	Klynveld Main Goerdeler	6	146,880	5.96
Wilkinson Nankervis & Stewart[b]	Pannell Kerr Foster	3	249,324	10.12
Wilberfoss & Co[b]	Arthur Young	4	242,266	9.83
Hunt Duthie & Co	Whinney Murray & Co; Ernst & Whinney	7	129,926	5.27
Hutchison Hull & Co	Deloitte Haskins & Sells	5	203,376	8.25
Price Waterhouse[c]	Price Waterhouse	8	114,120	4.63
McCulloch Butler & Spence[d]	Horwath & Horwath	9	74,329	3.02
Clark Menzies[d]	Touche Ross	10	67,257	2.73
Lawrence Godfrey & Co[e]	Arthur Andersen	12	10,679	0.43
Cox Arcus (formerly JL Arcus & Co and Cox, Elliffe, Twomey & Highet)[f]	Thompson McClintock in UK, Main Lafrentz in USA	11	29,470	1.2%

Notes: [a] Merged in 1977 to become Gilfillan Morris & Co affiliated to Peat Marwick Mitchell; [b] After 1974 merger became 'Wilkinson Wilberfoss' affiliated to AY; [c] Unique in being permitted to use an international name in NZ before 1982; [d] Merged in 1979 to form McCulloch Menzies with affiliation to Touche Ross; [e] Merged with others to form Lawrence Anderson Buddle (1980); 42 partners in 1986 but disintegrated in 1986/87; [f] Merged with other firms to form Kendon Cox & Co in 1980; KMG Kendons (with 45 partners) was affiliated to KMG after the Morris–Gilfillan merger, but lost affiliation after KMG-PMM transatlantic merger; split up in 1986/87.

These benefits included both audit manuals and procedures adopted by firms in New Zealand, as auditing techniques in the USA (in particular) were far more advanced at that time. Training of staff, both by training courses and by sending New Zealanders overseas to get experience, were also frequently stated as advantages of these affiliations. The only partner out of the 40 interviewees to state that these benefits did not apply was from a firm without a strong Big 8 link and which consequently disintegrated. Interestingly, however, only a few partners recalled the anticipated additional flow of work to be referred from overseas being translated into real work and fees. The opposite view – that there was no such flow of overseas income – was also supported by some. The more conventional reasons found in the previous research for firms gaining the benefits of reputation by being able to use the Big 8 name were not supported. This was in part because in the early period, the Big 8 firm names were not permitted in New Zealand, but also because clients did not perceive benefits in the name itself. Other issues raised in the interviews included firms needing a national affiliation, and the substantial disadvantage of higher professional-indemnity insurance premiums.

Table 2: Issues related to Big 8 affiliations from interviews

Reason	Person	Quote
Panel A: Technology		
Technology transfer to New Zealand firms	Barry Watson, AY	"It wasn't so much the branding, I don't think. I think it was more the technical side because we couldn't use international names."
	Bill Cowan AY	"They were a year or two ahead of us. That you then got the development of such things as integrated working papers, and audit manuals, and that type of thing."
	Gerald Gibbard AY	" … quite a lot of staff training and development, partner training and development, all came from the international firms."
	Roger Taylor AY	" … all our auditing manuals came from the US."
	John Hagen D	" … to keep up with the trends around the world, to keep at the cutting edge of the profession, you had to have access to international methodologies."
	Tom Davies D	"Unless you've got a strong relationship with a major firm overseas, your audit area is going to fail, because you need a certain critical mass to maintain the recruiting and staffing and training and all that sort of thing."
	Tim Shaw TR	" … very much the methodology we used here was that which was used internationally anyway."
	Jerry Rickman TR	"I remember going to North America and starting doing auditing work and realising how far behind New Zealand was."
Panel B: Staff development		
Staff development	Bruce Richards AY	"You could see that the . . . senior people to me, who all left and went overseas, and then they came back and became partners. So you could see that the way for your career was to do the overseas bit, and we all wanted to do it anyway."
	Gerald Gibbard AY	"Just the opportunities for staff to go and work overseas with their international affiliates."

(Continued)

Table 2: ***(Continued)***

Reason	Person	Quote
	Tom Davies D	"You need a certain critical mass to maintain the recruiting and staffing and training and all that sort of thing."
	Tim Herrick LAB	"The international firms, particularly, were very very strong on their training, and we were with associations with international firms, whether it was in fact Arthur Andersen, the early days of Lawrence Anderson Buddle we were associated with Arthur Andersen. Their training was super."
	Tony Anderson LAB	"We established a connection with Arthur Andersen & Co. The main reason for that was their training which was absolutely super."
	Tim Shaw TR	"We linked in with Touche Ross Australia. I remember going to courses in Sydney and Melbourne and that was always a pretty exciting event for me, having been born in Whangarei."
Panel C: Referrals		
Referral of work from overseas	Barry Watson, AY	"The international advantages of getting more audits ... The multinationals are all being audited by the same firm."
	Bill Cowan AY	"Ah, we never got a tremendous amount of work from Arthur Young actually ... No, I don't think that was a reason."
	Roger Taylor AY	"Internationally when Mobil Oil audit US went up for grabs ... unless they had an office in New Zealand, they may have missed out; and unless we had an association with the parent company auditor, we wouldn't get the audit either."
	Tom Davies D	"If you look around the companies in New Zealand, most of them have overseas owners. Consequently, the audits, the audit appointments are dictated from overseas."
	Tony Anderson LAB	"Yes, in some ways, referrals, but they were small. The international referrals were small."

Table 2: *(Continued)*

Reason	Person	Quote
	Tim Shaw TR	"Because of foreign direct investment and the flows of audit that follow the capital, that would have been why we had a number of approaches, I think, from the other firms, other international firms."
Panel D: Reputation		
Branding and reputation	Barry Watson, AY	"It wasn't so much the branding, I don't think. I think it was more the technical side because we couldn't use international names."
	Robin Brockie, Ernst & Young	"The thing we were scared about was we suddenly let go the Ernst & Young name and we thought we'd lose our clients disappearing out the door. We lost one client ... The thought we'd lose heaps of clients, and so it showed in the end, that, to me, the clients respected the work we did, regardless of the name."
	Tony Anderson, LAB/PW	"Our clients ... were small business clients. They couldn't give a damn whether they were with Anderson & Co, Price Waterhouse or Deloittes. We tried to tell them it was a big advantage to them. But really it wasn't."
	Doug Watson, TR	"The original name was Touche Ross Tohmatsu, wasn't it. Of course, they would say, 'Well, who needs it?' You know, it's pretty difficult to practice in Waipawa with a tractor company name."
Panel E: Other		
Needing to get a national affiliation	Tony Frankham, LAB/D	"We formed a loose association of firms ... we had difficulty finding a firm in Wellington because most of the competent auditing firms had been snaffled up by the common trend that was happening in the profession."

(Continued)

Table 2: ***(Continued)***

Reason	Person	Quote
No benefits	Peter George LAB	"Well, as I say, from my personal view, there wasn't [any benefit], and even, back now as a sole practitioner, because of my style, my clientele, there was just no need for it."
Disadvantages: insurance premiums	Tony Anderson, LAB/PW	"Yes, well, that was the big thing: professional indemnity. Yes. I think in the end we were paying about $50 to $60 thousand a partner. That's a lot for what was really a provincial practice." [Q: But you pay professional indemnity [insurance] even when you were Anderson & Co?] "Oh, yes. But at a lower rate. We'd probably been paying about $10,000 a year instead of $50,000."

As noted earlier, by the late 1960s, the Big 8 already had New Zealand affiliations, and the major New Zealand firms were already establishing their destinies by choosing which international firms to affiliate with. The impact of each decision is further documented in this study, with three narrative sections illustrating the unforeseen consequences of the affiliations. It is interesting to observe that:

1. These associations developed before the Big 8 could use their international firm names in New Zealand, so the name/reputation issue cannot be the sole reason for the association;
2. The firms changed to international names as soon as they could, providing evidence that there was some attraction in being able to use a Big 8 name.

By the time that firms were permitted to adopt their international names (1982), most of the major New Zealand firms were affiliated with a Big 8 firm. Major firms that could not establish or maintain a Big 8 affiliation generally disintegrated and the separate parts joined other firms (Lawrence Anderson and Buddle) or became a series of smaller firms (Kendons). Thus, affiliation was the key answer to the question of drivers to the differential survival of firms. Subsequently the "mega-mergers" of the late 1980s were imposed on the New Zealand firms, resulting in a negative effect on the partners in the firms that did not take the dominant position in these mergers (see also Baskerville & Hay, 2006). In addition to the perceived benefits and disadvantages, the following stories of major New Zealand firms that did not obtain or keep a major firm affiliation illustrate the substantive costs to "partner human labour" of not doing so.

Narrative 1: When an overseas merger means a firm has to lose its affiliation

When Klynveld Main Goerdeler merged with Peat Marwick Mitchell internationally, this affected two firms in New Zealand: Kendons was affiliated to KMG and Gilfillan Morris was affiliated to Peat Marwick Mitchell. Gilfillan Morris gained affiliation to KPMG Peat Marwick, and Kendons lost any affiliation. The impact of this on what had been called "KMG Kendons" was enormous. Three previous partners recalled:

> I can remember we were desperately looking for an association [with] what was then the KMG group in Europe; and it was between us, we lobbied. It was us and Lawrence Anderson [who] were chasing it; and we got the nod. I think we had a bit of help from our Australian friends at that stage; I think they sort of gave us a bit of help, but again, when Peats in the UK got into bed with the KMG association over there, to become KPMG, and obviously gave Peats the association here, we were suddenly becoming bereft of an overseas association.
>
> Auckland had nineteen [partners] when it finally fell apart, when we lost the KPMG name. Because when Peat Marwick were looking at merging with us, they had 24 partners, and we had 19, and they said that's too big. Well, Kerry Stotter said that's too big. He was the managing partner at that stage in KPMG; they said we'll take two audit partners and your audits [laughs] ... We didn't agree with that. The merger was generated overseas because Klynveld Main Goerdeler were number two in size on the continent, in Europe; and Peat Marwick did not have a big base in Europe, and so that's why it appealed to them. It appealed to the Klynveld Main Goerdeler people because that brought them into the big four.
>
> [Kendons] didn't really have very strong leadership, because all the firms were completely independent and I think as a firm, it really disintegrated when the Peat Marwick merger [with] KMG came about.

From the point of view of one KMG Kendons partner, Peat Marwick was "elephantine". Peat Marwick Mitchell employed an aggressive and discriminating approach in talks with KMG Kendons. Thus even before negotiations were finalized, KMG Kendons firms in some cities made up their minds that they would not submit themselves to the direction of Peat Marwick Mitchell. The Hamilton and Dunedin offices, deciding that they wanted to join Peat Marwick Mitchell, entered individual talks with Peat Marwick Mitchell firms in these cities, and merged with them in 1985 and 1986 respectively. Partners in the remaining offices of KMG Kendons, choosing not to merge with Peat Marwick, sought an alternative strategy for their offices. The remnant offices of Kendons reverted to being small local firms as the former large firm effectively disintegrated. The cost of losing an affiliation with a Big 8 firm was extremely high.

Narrative 2: When a GPN can 'cherry-pick' favoured offices

A case illustrating "cherry-picking" by a GPN is the failure of Lawrence Anderson Buddle to gain a formal affiliation with Arthur Andersen; this sowed the seeds of Lawrence Anderson Buddle's destruction. The Auckland partners were unhappy that Arthur Andersen was not prepared to formalize affiliation after being their New Zealand representative:

> The national firm had concerns about the unwillingness of Arthur Andersen to embrace us as the New Zealand firm nationally; and that bothered us. We were uncomfortable about staying on this representative basis; and I think knew we either had to get closer or change our representation. I can say that, for the Auckland office of Lawrence Anderson Buddle, we perceived the size and culture of the Christchurch office as being an impediment because it didn't apparently meet the Arthur Andersen template; and it needed a lot of correction. We, with our relative size in Auckland, could not cause a correction to be made nationally in the manner we believed was appropriate; and we saw our options as being to seek to become the Arthur Andersen representative alone and thus doing the dirty on our colleagues with whom we'd been working to establish a national firm, or to withdraw and seek an alternative association; and it wasn't our style to seek to gain a march on our professional partners and colleagues through the Arthur Andersen connection.

Despite the concern expressed at "doing the dirty on our colleagues", the Auckland partners left the firm and affiliated with Deloitte. From the other end of the country there was alarm at the loss of the Auckland office:

> There was something of a midnight coup, if you may say, because after three or four years of association in Lawrence Anderson Buddle – it might have been longer than that – the Auckland office suddenly took it upon themselves to shift camp, and did a deal with Deloittes without any of the other firms knowing. That really left us totally exposed, because the moment they shifted out of the Auckland office our association with Arthur Andersen was no longer tenable, because Arthur Andersen wanted the representation in Auckland and Wellington, [they were] not terribly interested in Christchurch and Dunedin. So we were left then with three firms who were asked to join Deloittes with the Auckland office. Of course the feeling was so strong that we'd been betrayed, you may say, by the Auckland office, that nobody was even interested in joining in with them.

Accordingly, the remaining three offices and 17 partners from Lawrence Anderson Buddle joined Price Waterhouse. Many partners stayed there a long time; it was described in interviews as a very well-fitting merger for a number of the most important partners, disenfranchised from their Arthur Andersen connection by the loss of the Auckland office. After the break-up of Lawrence Anderson Buddle, Arthur Andersen then affiliated to a small firm in Auckland of five partners, all ex-Peat Marwick. This firm gradually grew in the 1990s to have offices in the main centres in New Zealand. The Big 8 firms were in an extremely strong position relative to the local offices. An important New Zealand firm such as Lawrence Anderson Buddle was not powerful enough to resist Deloitte or Arthur Andersen, and eventually ceased to exist.

Narrative 3: Partner redundancies and departures following a worldwide merger

The effect of affiliations and subsequent trans-Atlantic mergers on partners in New Zealand can be documented simply by noting partner departures after the 1989 "mega-mergers". Of 61 partners in Ernst and Whinney before its merger with Arthur Young in 1989, 38 had left by the end of 1992. The Touche Ross/ Deloitte Haskins Sells merger had a similar effect on Touche Ross partners. Of the 92 partners in Touche Ross, only 21 joined Deloitte Touche Tohmatsu. These mergers led to much "leaner" and more highly levered partnerships, but with the cost of many partnerships held by previous partners.

The relative dominance of one firm or another in the merger varied worldwide: one interviewee recalled that in Australia, Ernst and Whinney partners were said to have survived better than Arthur Young partners in the merged partnership. The Deloitte/Touche merger had even more worldwide variation, in whether or not Touche partners went with Deloittes, or went to other firms (as in the UK). In Australia Touche Ross linked with KPMG rather than Deloittes. The variations in the fortunes of partners further illustrates the costs to individual partners of a Big 8 affiliation.

The trend towards domination by the Big 8 is also supported by an examination of audit market share of firms with and without Big 8 affiliations. As Table 3 shows, in 1970 the majority of the market was held by firms without Big 8 affiliations. This rapidly changed in the early 1970s as the Big 8 firms increased their market share, and then increased it again in the mid 1980s with the demise of KMG Kendons. The Big 8 affiliates increased their market share from 38 per cent market share of listed company audit fees in 1970 to more than 80 per cent in 1980. It increased to more than 90 per cent by 1984, and remains above that level.

Part 4: Discussion and conclusion

The interview data showed that the transformation of P2 organizations into MPBs/GPNs (Greenwood *et al.*, 1990; Cooper *et al.*, 1996; Brock, 2006) was evident. The GPNs became controlled by a small elite group of partners using centralized strategic decision-making. This was well recognized by the cohort to whom we were talking:

Table 3: Market share of New Zealand listed company audits by firms with and without Big 8 affiliation, 1970 to 2001

Year	Non-Big 8			Big 8		
	Total audit fees	Number of clients	Percentage (%) of audit fees	Total audit fees	Number of clients	Percentage (%) of audit fees
1970	510,447	96	62.18	310,512	53	37.82
1971	655,380	104	53.77	563,417	67	46.23
1972	873,754	118	45.06	1,065,516	93	54.94
1973	1,013,693	122	41.14	1,450,215	109	58.86
1974	1,294,851	118	41.30	1,840,052	112	58.70
1975	1,499,062	119	36.36	2,623,315	125	63.64
1976	1,602,672	107	29.96	3,746,234	145	70.04
1977	1,681,727	95	27.89	4,347,546	153	72.11
1978	1,937,108	91	26.38	5,405,245	158	73.62
1979	2,240,234	91	27.29	5,966,367	143	72.68
1980	1,564,048	65	18.11	7,073,548	162	81.89
1981	1,567,394	52	12.94	10,549,748	171	87.06
1982	2,056,214	45	14.61	12,022,392	156	85.39
1983	2,751,193	43	17.55	12,920,791	166	82.45
1984	1,748,329	42	9.78	16,126,908	160	90.22
1985	2,116,942	47	9.06	21,256,822	201	90.94
1986	2,546,128	37	9.36	24,655,282	204	90.64
1987	2,126,730	30	5.79	34,630,450	239	94.21
1988	1,811,377	22	4.44	38,967,998	186	95.56
1989	2,250,517	18	5.28	40,334,224	148	94.72
1990	2,823,010	17	7.71	33,796,767	116	92.29
1991	663,521	18	2.32	27,924,640	90	97.68
1992	1,283,569	18	4.84	25,214,336	84	95.16
1993	983,808	17	4.34	21,675,096	85	95.66
1994	444,821	15	1.80	24,224,654	94	98.20
1995	714,977	18	2.91	23,885,005	113	97.09
1996	796,755	18	3.48	22,106,844	97	96.52
1997	693,413	16	2.95	22,805,743	98	97.05
1998	678,926	16	2.61	25,284,786	100	97.39
1999	810,589	17	3.08	25,475,327	96	96.92
2000	780,648	14	3.68	20,441,893	94	96.32
2001	957,962	20	5.12	17,737,164	96	94.88
Grand Total	45,479,799	1,666	7.81	536,428,837	4,115	92.18

> Whilst it's a partnership, they really are employees, that's how they work. They get a bit more information than they might as employees, but so whilst we are technically a partnership, we do run it in a much more corporate way than partnerships were historically run. (Partner in KPMG, speaking in 2002).
>
> Q: So when you look back at the culture of Hunt Duthie, around about the 1980s, or the 1970s, are there any words you'd describe that culture which might distinguish it from the other Big 8?
>
> A: There's no doubt in my mind that, and this is my experience, we were a much happier firm. We weren't the brightest, we weren't the best, you know, we didn't have the best brains. But we had good people, and we had a lot of fun, that seemed to me not to exist in the environment that we went into at the time of the merger with Arthur Young. I think a lot of us would attest to that. That something was lost, and what I put it down to is the centralized management, and the people who were in those management roles. (Partner in Ernst and Whinney, speaking in 2002)

The data has shown that the previous literature about globalization, technology and deregulation is supported in the case of globalization, and strongly supported in the case of technology. However, it is not supported in the case of deregulation. Further, globalization of the Big 8 through the 1960s and 1970s preceded recent developments in international accounting standards by many years, so any link with recent trends to globalization appears somewhat shaky. The major impacts of Big 8 affiliation were, first, technology and the manner in which affiliation held a national firm together; without affiliation with a Big 8 firm, formerly important audit firms disintegrated. The second effect was the simultaneous trend for firms to move from the professional partnership model to the MPB/GPN model.

Roslender (1996, p.479) promoted more critical evaluations of the conditions of accounting labour, and called for researchers to make direct contact with colleagues in public practice, in order to establish whether or not accounting is:

> [A] profession whose members commonly have access to opportunities to exercise a considerable degree of power and influence, or, as is possibly the case, a profession in which most individuals are simply doing a job under conditions over which they have little or no control.

This research study suggests that while professional accountants may well have seen themselves in the 1970s and 1980s as a profession as described in the first statement (having opportunities, power and influence), they subsequently fell within the second of Roslender's (1996) framings. Partners in middle or mature stages of their careers in large partnerships had little or no control over their careers and employment choices, and so the benefits of globalization came at considerable cost to some partners.

If a partner in 1970 had been able to look into the future, would he have chosen to lead his New Zealand partners into an international affiliation? For most, these affiliations delivered benefits through the 1970s and early 1980s. The narratives show that the advantages of international-standard auditing techniques and training were an attractive proposition. The previous partnership model was replaced with a globally-based managed professional business, leading to a loss of each small firm's autonomy, but this loss was unavoidable given the promised advantages of the international referrals and status, and the disadvantages of being left out of international affiliations with a major firm. However, within a short space of time it was clear to all involved that the cost of peripheral membership of these global "giants" was seeing colleagues and friends lose their careers.

Our research question explored how the survivors survived the turbulence of globalization of firm affiliations and mergers in the 1980s. Both obtaining and retaining a Big 8 affiliation was critical for success. Access to new technology, including both audit procedures and staff training, was a strong reason for the local firms to obtain these affiliations. Major audit firms also needed to have affiliations with a major international audit firm in order to obtain referred work. Firms that lost or did not obtain an affiliation suffered.

When global mergers occurred, some partners experienced gains and some experienced losses; globalization of the Big 8 firms had given these firms increased access to auditing technology, but led to costly redundancies of partners. Over the same period, accounting firms had become more managerial and bureaucratic, and this trend will continue to have a substantial effect on the survival of partners in accounting firms as they respond to global business activities in the future.

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Appendix 1: Sources of interview data

In addition to material in firm histories, survey and interview data were used. A survey was administered to 488 members of the Institute of Chartered Accountants of New Zealand who were partners in Big 8 firms between 1982 and 1992. The stated aim of this 2002 survey was to provide an understanding of the processes of successful development, expansion or adaptation by professional services firms by surveying and interviewing partners in the Big 8 chartered accounting firms in the 1980s. A total of 108 accountants responded to the initial survey, and members who were retired were asked in the survey if they would consider participation in an Oral History Project. Thirty-six retired respondents expressed a willingness to receive more information on this stage. All 26 retired members who eventually consented to Oral History participation were interviewed July – December 2002. However, there were gaps in the cohort, in that coverage of all firms was insufficient. A further 31 non-retired respondents who had answered positively to the question: "Are you willing to be contacted further for any clarification of points raised in your response, or for meeting in group discussion with a focus group, if appropriate?" were asked if they would participate in the Oral History cohort.

Three other interviewees were also approached from recommendations during the study. Fourteen of this second group agreed, resulting in a cohort of 40. One was subsequently too ill and one joined in an interview; thus there were 40 interviewees in 2002.

These were unstructured interviews, but all covered the same topics such as the individual work histories, audit practice, income allocation, international affiliations and particular firm histories. The typing-up resulted in approximately 415,000 words in the transcripts. The commonality of the experiences during the development of each firm, and the merger activities, provided considerable consistency between individual narratives.

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