

NEW DAWN OR IMPENDING DOOM?

A CHANGE AT THE TOP, A MERGER IN THE MIDDLE, BUT RECOVERY HAS BEEN MIXED FOR THE INTERNATIONAL NETWORKS, ASSOCIATIONS AND ALLIANCES, WRITES PHILIP SMITH

TOP 35 NETWORKS

It has been a year of mixed fortunes for the international accountancy groups. Whether they are organised as networks, associations or alliances, some have reported strong growth, others have gone south. This perhaps reflects the uneven global economic recovery – while some economies continue to struggle, others have barely noticed a slowdown, let alone a recession. Some of the groups are bullish about future prospects for growth, others remain concerned. And many complain that regulatory change can still pose a threat to accountancy's world.

NETWORKS

The headline change is right at the top. Having been the largest international network since its inception back in 1998, PwC has been knocked off its perch by Deloitte, which has been snapping at its heels for sometime now.

But it is a very close run affair. Deloitte tops the league of international networks, recording \$26,578m (£16,333m) in fees, up from last year's £26.1bn. PwC reported fee income of \$26,569m, a mere \$9m behind the front-runners. It will be interesting to see what happens in the next round of reporting later this year – both networks reported similar growth rates (1.8% for Deloitte compared to PwC's 1.5%).

Deloitte is looking to acquisitions and the east for growth. It says: "Deloitte is introducing new service offerings, making ongoing strategic acquisitions and other similar transactions, and continuing to invest in emerging markets, with India and China as high priorities."

PwC can see growth coming from its business advisory services (remember, the network ditched its management consultancy services in the early 2000s, unlike Deloitte). It says: "Of all our lines of service, PwC's advisory practice saw the strongest growth in 2010, accounting for \$6.2bn of PwC's aggregate revenue. We expect its growth to continue in the years ahead, both organically and through strategic acquisitions in markets where we choose to compete."

Like Deloitte, and indeed many of the other groups, PwC can see strong future growth opportunities in markets such as India, China and the Middle East, where it says it has been making significant investments in its people. "Our ambition is to grow revenues from emerging markets from 20% to nearly 40% over the next few years."

Ernst & Young was the only Big Four network to see a fall in fees, albeit by less than 1%, and don't forget exchange rates can play a part in reported income. As a result, KPMG, with reported income of \$20,630m, has been able to narrow the gap between itself and the third-placed network.

Of the other networks, growth was either flat, up a few

percentage points or down by a similar amount. The notable exception is PKF International, which posted a 29% increase as it saw income rise from \$1,905m to \$2,449m. This growth has come particularly in the North American, Asia Pacific and Latin American regions and was further bolstered by the recruitment in November 2010 of Daxin CPA, a Beijing-based Chinese firm that is ranked in the top six in the country.

Despite seeing a fall of 7.5% in income, UHY International has added a number of firms to its network: Belarus, Belgium, Canada, Chile, China, Dominican Republic, El Salvador, Finland, Germany, India, Peru and the Philippines. It also expects to expand into Azerbaijan, Bolivia, Paraguay, Serbia, Thailand and Tunisia in the near future.

Never one to miss an opportunity to knock the Big Four, BDO says that, as well as expecting to see growth in the emerging markets "there will also be opportunities in more mature markets arising from concerns about the undue concentration by four dominant firms in these markets". The fifth largest network adds: "We face threats from the failure to address the undue concentration in the marketplace and the unfettered ability of the dominant firms to acquire firms from other networks."

ASSOCIATIONS AND ALLIANCES

Regulatory and liability issues figure large among the concerns of the groups, and this has had a direct affect on how they organise themselves. This is why this year *Accountancy Age* has split its survey between 'networks' and 'associations and alliances'.

Geneva Group International, an alliance, tops this second group, with a combined fee income of \$4,215m. Michael Reiss von Fliskr, the group's chief executive officer, says: "More than ever, uncertainty regarding the regulatory environment can represent potential threats for networks and alliances regarding liability issues. Some alliances simply calling themselves 'alliance' but being de facto a network, according the 8th EU directive, will most probably face serious difficulties. Just a change of a word from 'network' to 'alliance' does not wipe off liability."

He adds that several firms have left other networks and associations to join GGI, including Haines Watts in the UK. The group has also been pursuing a growth strategy in North America – in 2009 it only had three member firms in the US, now it has 18.

Praxity, the second largest of the alliances and associations with fee income of \$3,298m to the year end 31 December 2010, up 3.5% on last year's figures, sees there is an opportunity for growth as a result of regulators "concentrating on concentration of listed audit providers". The alliance is continuing to grow, and reports that fee income now stands \$3,384m (year ending 30 April 2011) – the alliance model is working for them, and it has been bolstered by the arrival of ShineWing, one of the largest independent accountancy firms in China.

Leading Edge Alliance, which, despite its name, calls itself an

association, saw no growth, but remains the third largest non-network group with a fee income of \$2,400m.

And next comes a new group, formed through the merger of three existing groups. IGAF Polaris came into existence in March by combining IGAF Worldwide, Polaris International and Fidunion International. Raymond Buehler, IGAF Polaris chairman, says: "We agreed from the beginning that relationships between firms must be forged stronger than ever, but without the strictures imposed by operating as a network. The merger gives us this opportunity and so much more." The association is now looking to grow in Asia and Latin America.

There have been some astonishing rates of growth reported this year. Alliot Group posted a 68% rise in income, reaching \$440m. The group comments: "Due to the slowdown in the economies of a number of markets, more and more professional service firms are seeing the business sense of being members of groups like Alliot Group."

It adds that businesses now recognise mid-tier firms that are members of a worldwide alliance have the same technical abilities as the big firms but can, due to their size, provide a much more tailored client-facing solution. "They also have the ability to provide better value for money," he says.

However, the group argues the key limiting factor is the expo-

sure any group has in terms of accessing potential new members. "There are a significant number of mid-tier professional service firms out there that have, for whatever reason, not yet seen the benefits of being a member of an association. The challenge, but also the key opportunity, is how to connect with these firms," it says.

MSI Global Alliance saw its income grow by only 0.8% to \$1,300m. But it is bullish about its future prospects, saying it expects to add two to three additional countries to its group by the end of 2011, and is looking at the Far East, Central and Eastern Europe and Latin America. "Regulatory changes have caused some realignment in the market, with some member firms moving up the 'food chain' to join one of the larger networks. However, membership changes have been very few and far between and, in reality, the opposite has been true with MSI benefiting from some 'downward shift' as a result of firms in certain countries deciding to leave networks to join our association," it says.

This is an issue picked up by IAPA (\$1,077m, up 13%), which says that, even though there is a possibility that increasing regulation could lead to restrictions on the operations of loose associations, there were still opportunities. "As some associations move towards 'network' status, some of their members wishing to remain with a looser association structure may seek allegiances elsewhere."

THE FUTURE

Overall, when looking at the collective income of networks, alliances and associations, there has been a reasonable rate of growth in the face of the global economic slowdown. A number of the groups, however, pointed to the political instability in the Middle East and North Africa as a possible threat to future growth, as this would have a knock-on effect throughout the global economy.

For many of the groups, one of the keys to future success lies in the emerging economies, particularly those in the east, though one should not disregard Latin America. China in particular figures large in their future plans. A look at the geographical breakdown of the groups shows that they are underweight in these areas, with most of their business coming from Europe and America. Those that can crack these markets and bring on board the large domestic accountancy firms will be the ones best placed to seize new opportunities in the future.

INTERNATIONAL ORGANISATION	LATEST COMBINED ANNUAL TOTAL INCOME (\$M)	PREVIOUS YEAR'S INCOME (\$M)	% CHANGE	NO OF FIRMS	NO OF COUNTRIES	NO OF PARTNERS	NO OF PROFESSIONAL STAFF	YEAR END	BREAKDOWN OF FEE INCOME								GEOGRAPHICAL BREAKDOWN (%)			HEADQUARTERS	CHAIRMAN/CHIEF EXECUTIVE	NETWORK/ASSOCIATION DESCRIPTION
									ASSURANCE & ACCOUNTING (\$M)	%	TAX & LEGAL (\$M)	%	BUSINESS ADVISORY (\$M)	%	OTHER (\$M)	%	THE AMERICAS	EUROPE, AFRICA & MIDDLE EAST	ASIA & PACIFIC RIM			
Alliott Group	440	302	68%	171	71	645	2,588	31/12/10	237	54	144	33	58	13	-	0	36	49	15	Hampshire	James Hickey	Alliance
Baker Tilly International	3,070	3,130	-2%	150	120	2,600	25,000	-	1,233	40	853	28	460	15	520	17	52	37	11	London	Geoff Barnes	Network
BDO	5,284	5,027	5%	96	119	4,111	34,811	30/09/10	3,207	61	1,004	19	835	16	238	4	44	45	12	Brussels	Jeremy Newman	Network
BKR International	1,400	1,300	7.7%	144	74	1,327	8,926	30/06/10	812	58	392	28	-	0	196	14	29	6	65	New York	Don Timmins	Association
CPA Associates International*	628	910	-31%	143	59	764	4,546	31/12/10	-	-	-	-	-	-	-	-	-	-	-	New Jersey	James Flynn	Association
Crowe Horwath International	2,779	2,778	0%	150	108	3,519	19,537	31/12/10	1,473	53	723	26	222	8	361	13	53	25	22	New York	Frank Arford	Network
Deloitte	26,578	26,100	1.8%	53	150	9,538	129,219	31/05/10	11,700	44	5,400	20	7,500	28	2,000	8	49	37	14	New York	Jim Quigley	Network
DFK International	1,093	1,047	4.5%	170	88	1,210	9,355	30/04/10	536	49	339	31	109	10	109	10	57	35	8	London	Martin Sharp	Association
ECOVIS International	259	255	1%	58	40	445	2,314	31/12/10	104	40	96	37	60	23	-	-	38	51	11	Berlin	Kay Friedrich Thomsen	Network
Ernst & Young	21,255	21,440	-0.9%	-	142	8,603	103,393	30/06/10	10,061	47	5,671	27	3,662	17	1,861	9	39	45	16	London	James Turley	Network
Geneva Group International	4,215	4,052	4%	318	89	2,044	17,620	31/12/10	1,222	29	1,475	35	1,307	31	253	6	31	44	25	Zurich/Geneva	Michael Reiss von Filski	Alliance
GMN International	156	234	-33%	59	40	254	1,788	31/12/10	84	54	44	28	17	11	7	17	68	15	Cape Town	Cameron Johnstone	Association	
Grant Thornton International	3,673	3,592	2%	96	100	2,511	30,000	30/09/10	1,700	46	816	22	890	25	278	8	46	11	43	London	Ed Nusbaum	Network
HLB International	1,692	1,771	-4%	202	100	1,879	11,223	31/12/10	761	45	525	31	237	14	169	10	-	-	-	London	Mogens Andersen	Network
IAPA	1,077	949	13%	218	58	1,130	6,821	31/03/11	-	-	-	-	-	-	-	-	28	63	9	Surrey	Susan Humphry	Association
IGAF Polaris	2,090	-	-	384	89	2,400	16,300	31/05/10	878	42	711	34	376	18	125	6	45	49	6	Florida	Kevin Mead	Association
INAA	555	565	-2%	60	46	616	6,260	30/06/10	331	60	112	20	108	19	4	1	6	92	2	Edinburgh	Luca Aniasi	Association
INPACT Group	324	284	14%	149	65	610	2,935	01/12/09	168	52	94	29	52	16	10	3	41	47	12	London	Antonio Bragaglia	Association
Integra International	266	268	0%	111	59	366	2,322	31/12/10	133	50	67	25	67	25	-	-	42	43	15	Canada/Germany	Mark Saunders	Association
JHI Association	572	552	3.5%	120	49	930	-	31/12/10	-	-	-	-	-	-	-	-	-	-	-	New Jersey	Ken Kirkland	Association
KPMG	20,630	20,110	2.6%	-	150	7,921	105,147	30/09/10	9,910	48	4,150	20	6,570	32	-	-	31	52	17	Netherlands	Timothy P Flynn	Network
Kreston International	1,881	1,872	0%	214	96	1,289	14,621	31/10/10	978	52	339	18	564	30	-	-	51	38	11	Chelmsford	Jon Lisby	Network
KS International	282	267	5.7%	60	59	392	3,101	-	86	30	82	29	114	40	-	-	34	48	18	London	Sir Michael Snyder	Association
Leading Edge Alliance	2,400	2,400	0%	170	100	1,610	14,650	31/12/10	1,032	43	744	31	600	25	24	1	-	-	-	Illinois	Karen Kehl-Rose	Association
MGI	487	455	7%	163	82	766	5,244	30/06/10	-	-	-	-	-	-	-	-	35	52	13	Brussels	Thierry Delvaux	Alliance
Moore Stephens International	2,151	2,078	3.5%	314	97	2,191	14,504	31/12/10	1,152	54	603	28	218	10	199	9	46	44	10	London	Richard Moore	Network
Morison International	574	425	26%	94	22	639	5,419	31/12/10	330	57	124	22	61	11	59	10	8	75	17	London	Jean-Pierre Larroze	Association
MSI Global Alliance	1,300	1,290	0.8%	251	105	1,722	6,997	31/12/10	507	39	741	57	52	4	-	-	49	41	10	London	James Mendelssohn	Association
Nexia International	2,070	2,110	-2%	245	105	2,280	1,077	30/06/10	1,180	57	455	22	290	14	145	7	40	50	10	London	Dr Norbert Neu	Network
PKF International	2,449	1,905	29%	188	125	2,198	15,292	30/06/10	1,053	43	465	19	710	29	220	9	-	-	-	London	Wolfgang Hofmann	Network
Praxity AISBL	3,298	3,272	3.5%	69	82	2,425	23,403	31/12/10	2,043	62	741	22	366	11	148	4	53	44	4	Croydon	Jos Van Huut	Alliance
PwC	26,569	26,171	1.5%	-	154	8,625	122,967	30/06/10	13,273	50	7,090	27	6,206	23	-	-	37	47	16	London	Dennis Nally	Network
RSM International	3,878	3,876	0%	92	83	3,113	23,490	31/12/10	-	-	-	-	-	-	-	-	66	24	10	London	Jean Stephens	Network
Russell Bedford International	376	374	0%	120	96	535	4,455	30/06/10	-	-	-	-	-	-	-	-	-	-	-	London	Geoffrey Goodyear	Network
UHY International	583	630	-7.5%	-	78	680	4,546	31/12/10	536	62	99	17	70	12	52	9	40	49	11	London	John Wolfgang	Network
TOTAL (EXCLUDING IGAF POLARIS)	144,244	141,791	2%																			

IGAF Polaris was formed in March 2011 following the merger of IGAF, Polaris and Fidunion International. Moore Stephens International is a network though in the US its member firms operate as an association in accordance with national regulations. PKF has 245 firms including correspondent firms. Praxity reports fee income of \$3,384m for year ending 30 April 2011. PwC does not include legal services. Russell Bedford has 83 members, which equates to more than 120 firms. Data is collected primarily from the individual groups, websites and from publicly available documents. AGN declined to participate. *Figures are collated from CPA's website, press reports and other publicly available material.

NETWORKS BY FEE INCOME

	INTERNATIONAL ORGANISATION	LATEST COMBINED ANNUAL TOTAL INCOME (\$M)	PREVIOUS YEAR'S INCOME (\$M)	% CHANGE
1	Deloitte	26,578	26,100	1.8%
2	PwC	26,569	26,171	1.5%
3	Ernst & Young	21,255	21,440	-0.9%
4	KPMG	20,630	20,110	2.6%
5	BDO	5,284	5,027	5%
6	RSM International	3,878	3,876	0%
7	Grant Thornton International	3,673	3,592	2%
8	Baker Tilly International	3,070	3,130	-2%
9	Crowe Horwath International	2,779	2,778	0%
10	PKF International	2,449	1,905	29%
11	Moore Stephens International	2,151	2,078	3.5%
12	Nexia International	2,070	2,110	-2%
13	Kreston International	1,881	1,872	0%
14	HLB International	1,692	1,771	-4.0%
15	UHY International	583	630	-7.5%
16	Russell Bedford International	376	374	0%
17	ECOVIS International	259	255	1%

ASSOCIATIONS AND ALLIANCES BY FEE INCOME

	INTERNATIONAL ORGANISATION	LATEST COMBINED ANNUAL TOTAL INCOME (\$M)	PREVIOUS YEAR'S INCOME (\$M)	% CHANGE
1	Geneva Group International	4,215	4,052	4%
2	Praxity AISBL	3,298	3,272	3.5%
3	Leading Edge Alliance	2,400	2,400	0%
4	IGAF Polaris	2,090	-	-
5	BKR International	1,400	1,300	7.7%
6	MSI Global Alliance	1,300	1,290	0.8%
7	DFK International	1,093	1,047	4.5%
8	IAPA	1,077	949	13%
9	CPA Associates International	628	910	-31%
10	Morison International	574	425	26%
11	JHI Association	572	552	3.5%
12	INAA	555	565	-2%
13	MGI	487	455	7%
14	Alliott Group	440	302	68%
15	INPACT Group	324	284	14%
16	KS International	282	267	5.7%
17	Integra International	266	268	0%
18	GMN International	156	234	-33%