

THE CONCEALED PROBLEMS FOR ACCOUNTING LABOUR IN GLOBAL PROFESSIONAL NETWORK INITIATIVES

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ABSTRACT

Purpose

There are adverse consequences from globalisation for accounting labour in peripheral jurisdictions. This study offers a historical perspective from the viewpoint of partners involved in 'buying into' the large firm names.

Methodology/Approach

This data comes from a jurisdiction at the periphery of the major business foci [New Zealand], using firm histories, membership lists of professional bodies, and interviews with partners from all of large firms.

Findings

This data is found to provide empirical evidence of three categories of adverse consequences for accounting labour for partners from globalisation. With hindsight, such partners acknowledged they had no inkling of the manner in which globalisation was to impact on them individually.

Research limitations / implications

One limitation is that this study provides evidence from one jurisdiction only. There are also limitations in the generalizability from oral history evidence.

Practical implications:

Partners in large accounting firms may find the experiences of past partners provide a valuable insight into problems in global networks which may not be appreciated when such franchise-types of arrangements are offered and promoted

Originality/Value

This study offers a different angle to the understanding of the processes of globalisation in accounting firms, moving away from the 'audit' or harmonisation angle and looking instead at the issues which arose for accounting labour and the personal costs paid for globalisation by senior partners in large firms.

“I wonder (if we survive this war) if there will be any niche, even of sufferance, left for reactionary back numbers like me (and you). The bigger things get the smaller and duller or flatter the globe gets. It is getting to be all one blasted little provincial suburb. When they have introduced American sanitation, morale-pep, feminism, and mass production throughout the Near East, Middle East, Far East, U.S.S.R., the Pampas, el Gran Chaco, the Danubian Basin, Equatorial Africa, Hither Further and Inner Mumboland, Gondhwanaland, Lhasa, and the villages of darkest Berkshire, how happy we shall be. At any rate it ought to cut down travel. There will be nowhere to go. So people will (I opine) go all the faster”

Letter from J.R.R. Tolkien to his son, Christopher, December 9th, 1943

An editorial in *Accounting Forum* titled: “Globalization and its discontents: a concern about growth and globalization” (Cooper, Neu, and Lehman, 2003) focussed on the globalisation of accounting; how harmonising the global erases the local, and how accounting regulations facilitate globalisation by multi-nationals. It is the objective of this research report to give voice to those affected by the globalisation of the accounting firms themselves, from commentaries by partners in the firms from a jurisdiction on the periphery of world commerce, reflecting on events and impacts on accounting labour after the last half century of globalisation.

Globalisation has been subject to a range of investigations, attempting to define what the term means, but it is most valuable to consider Graham and Neu’s (2003) suggestion, that globalisation can be best characterized as a compression or overcoming of both distance and time, and studies of globalisation in effect are examining the variety of effects this has on social and cultural relations. As noted obliquely by J.R.R. Tolkien, the bigger those entities grow the smaller and duller or flatter the globe becomes. Indeed, the size of global companies is such that of the 100 largest units (countries or companies) concerned with the production of goods and services, 51 are multi-national corporations (MNCs) and the other 49 are nations. Only 23 nations are bigger than General Motors (Anderson *et al*, 2000).

In a *Fortune* report thirty years ago describing increasing competition in the audit market it was noted that all of the largest CA firms agreed, even in the 1907s, that switching was increasing, and competition had become increasingly elaborate. Although specific to the US trend to industry specialisation, this meant the

“intensified competition has set all the firms on an eager search for new markets, and one important trail has been abroad. Though the big boon 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 organisation. Andersen has been notably weak overseas.” (Bernstein, 1978)¹

¹ With the drawings of the Big Eight firms advertising their wares with sandwich boards....

A historical perspective on globalisation has already been partially provided in the accounting literature in some research examining the “role of accounting and accountants in the enactment of imperialism, and in the construction and maintenance of empire” (Annisette & Neu, 2004: 1). However, much of this research has either been concerned with issues of gender, racism and ethnicity in the search for professional status (McNicholas *et al* 2004, Kim 2004, Hammond 2002, Macdonald 1984, Kirkham and Loft 1993) or in the activities and policies of the professional bodies (Steven Walker’s scholarship on the history of the Scottish profession in particular).

In contrast, this research is concerned with an examination of the chartered accounting firms themselves, and how ‘home-grown’ local partnerships expanded firstly into national groupings and then gaining international recognition. Was the evolution and sustainability of the largest firms was predicated on both structural transformation and economies of labour; that is, partner and other staff redundancies, which are the focus of this study? As so clearly described by Dicken (2003: *Global Shift: Reshaping the Global Economic Map in the 21st Century*), global changes are manifested most directly at the local level, and in order to most clearly identify how globalisation affects particular localities, this study offers a sharp identification of the impact of globalisation in terms of opportunities and threats for accounting labour, even for senior members of a well-established profession.

There is a lean body of critical research on accounting labour, such as the Robson, Willmott, Cooper and Puxty’s (1994) examination of the adaptive reactions of accountancy bodies in the UK to three regulatory impacts. Willmott, Puxty, Robson, Cooper and Lowe (1992) also extended this examination of the regulatory control of accounting bodies to three other jurisdictions (Germany, Sweden and the USA). Roslender (1996) promoted more critical evaluations of the conditions of accounting labour, and his call was to researchers to make direct contacts 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” (p. 479).

This research examines this issue. Our findings suggest that while professional accountants may well have seen themselves in the 1970s and 1980s as a profession as described in the first statement, they are currently very much within the second of these two framings, as even partners in middle or mature stages of their careers in large partnerships ended up with little or no control over their careers and employment choices.

It is interesting that the description of strategic failure by corporates described by Cowling and Tomlinson (2005) is a situation where the interests of the global corporate are in conflict with the wider public interest. Just as Cowling and Tomlinson conclude that in the corporate sector, the processes of globalisation and the concentration of power have contributed to a series of strategic failures in the world economy, so too we can observe that subsequent to the globalisation of the large firm franchises, decisions have been taken which conflict with the public interest that professional accountants are obliged to serve, and there have been a series of strategic

failures in accounting firms over and above total collapse of other firms. Specifically, the failures have been

1. the failure to serve the public interest by ensuring auditor independence in the audits of listed companies, and
2. Permitting concentration of expertise to the extent that audit costs are controlled by an oligopoly.

In particular, firms have claimed that their mechanisms to preserve auditor independence have been adequate to ensure that firms do not face any conflicts of interest in their audit and other functions. Events which have occurred have shown such a claim is an abuse of the power which has been entrusted to the group now identified as the 'Big 4'² firms. However, this study offers a different angle to the understanding of the processes of globalisation in accounting firms, turning away from the audit angle and looking instead at the issues which arose for accounting labour generally. There are tensions implicit in the globalisation of accounting firms and the adverse consequences for accounting labour in peripheral jurisdictions. This study offers a historical perspective on globalisation from the viewpoint of partners who were involved in buying into the large firm names. Why did they grasp such opportunities so readily? What do they tell us in their own words?

In order to undertake this objective, we will also review the organisational literature on structures of profession partnerships; as Rose and Hinings (1999) noted, organisational histories are necessary to appreciate how they will adjust structurally. Firms at either end of the continuum face more challenges in respect of the need to be flexible than the middle-tier generalist firms (1999, p. 64). This research answers part of more general questions of considerable interest: how do people within mutually supportive (partnership-type) organisations behave, and why? Is it that the search for power and size is endless, as is their desire for wealth? How did that process of international affiliations get started, and were the major consequences unanticipated and unintended? The data for this paper comes from a jurisdiction at the periphery of the major business foci: New Zealand, and from interviews with partners from all of the firms which were later to be called the Big Eight. With hindsight, such partners acknowledged they had no inkling of the power behind these franchises and the manner in which it was to impact on them individually.

Q: No one anticipated that they would then be subject to externally imposed mergers, did they?

Externally imposed mergers? No, no, they hadn't been any. I think the first one was initially an Arthur Young, and then probably the Deloitte and Haskins and Sells, and Coopers stayed aloof from all this until PW got in trouble. KPMG merged well, they had all sorts... They merged with a Dutch firm, that's where the name came from, Klynfeld (Main and Goedler) and I suppose that drove the same... it was an odd sort of merger, but from New Zealand point of view, it was to get those vital links with, for, referred work from overseas. The whole of the New Zealand economy was being purchased from overseas (former partner of Deloitte, speaking in 2002.)

If, as Bertrand Russell suggested, "of the infinite desires of man, the chief are the desires for power and glory" (1963) then it is to be expected that these partners

² Ernst and Young, PricewaterhouseCoopers, KPMG and Deloittes

willingly entered into the global world of accounting firm franchises believing it was for their own benefit and perhaps for the benefit of both their clients and their firms. However, within a decade these partners in New Zealand found they were subject to many mergers driven by directives from overseas, as each of the transatlantic branches of the global accounting firms sought to establish and/or strengthen their global size. This study documents the adverse consequences of such mergers for accounting labour for both partners and other firm staff as typified in this peripheral jurisdictions.

Q: Partnerships were not the stable formations they were possibly when you became a partner?

Oh, that's certainly what has unfolded. I think the other driving force for it all is that people have become more and more greedy in their demand for remuneration, which is a reflection of the connection in the international scene; where New Zealand people see the remuneration opportunities in overseas locations and think, well, they're as good as people overseas, therefore they should be paid accordingly. (Former Touche Ross partner in 1987, speaking in 2002)

Literature review:

1. Structural changes in accounting partnerships

As already noted, Rose and Hinings considered organisational histories are necessary to appreciate how they will adjust structurally to changing environments (1999). The major analyses of the structures of professional partnerships adopt some varieties of three letter acronyms with which to describe these organisations:

a.) MPB - Managerial Professional Business (Cooper *et al* 1996). In a manner reminiscent of corporations (Cowling and Tomlinson, 2005), the MPBs are controlled by an elite group of a few partners from one centre of strategic decision-making. This was well recognised by the cohort to whom we were talking; for example:

"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 Duthie³, around about the 1980s, or the 1970s, are there any words you'd describe that culture which might distinguish it from the other Big Eight?

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 centralised management, and the people who were in those management roles. (Partner in Ernst and Whinney, speaking in 2002)

b.) GDT – globally distributed teams (Baba et al 2004)

³ Later Ernst & Whinney

c.) GPN – global professional networks (Brock, 2006)

In contrast to the Cooper *et al's* MPBs, Perera *et al* predicted that the large firms might become relatively autonomous sub-entities, each with unique ownership and organisational structure, with the head office only to maintaining brand and co-ordinating activities. The most detailed examination of the large firm structures, and their structural change in the last two decades, have been David Brock's studies. He suggests that the globalisation of professional services has not only been a driver for structural change of those entities, but accounting firms have contributed to the impact of globalisation through their own internationalisation strategies (2006, p. 163).

In an earlier analysis, Brock and Powell (2005, p. 467) identified six key features in the emergence of global professional networks (GPNs):

1. Managerialism and becoming more business-like
2. More reliance of formal networks
3. More individualised reward systems
4. Increasing corporate governance
5. Increasing global reach
6. Multidisciplinary practices

Furthermore, they offered four contexts in which to explain the significance of global and local changes in GPN changes:

1. Market and Institutional contexts
The forces, players, concepts and resources surrounding the organisations
2. Changes to the institutional field
Such as deregulation, increased competition, attacks on the legitimacy of the accounting profession, the role of professional associations, globalisation, the role of information technology, and the trend towards interdisciplinary practices.
3. Precipitating dynamics usually found in two sets: one from increasing dissatisfaction with the status quo and the other in the value commitments of stakeholders.
4. Enabling dynamics for radical change – power relations can enable change and also power dependencies can suppress change

Brock and Powell had sought to explore and explain the organizational changes that took place over a relatively short time period in the five largest global professional networks, using neo-institutional theory to study the context, precipitating dynamics, and enabling dynamics of large-scale organizational change, including the part played by governmental and regulatory forces. It is one of the first studies to make use of the GPN concept. These GPNs were a group of organizations that were originally global accounting firms and traditionally accustomed to relatively gradual change. This study offered an explanation of the extent to which changes have occurred in some countries in which these they operate, noting that the firm effects seem to be stronger than the country effects in the consulting area, while country effects are more pronounced in the law area. In so doing, Brock and Powell documented the divestment/separation of consultation activities in three of the Big five and the affiliation of law practices, both being significant shifts in both strategy and structure

Furthermore, in Brock's (2006) review of competing archetypes within studies of changing professional organizations, he considered the processes by which an institutionalized archetype can change. Brock suggests that forces for change such as deregulation, competition, technology and globalisation can all challenge the

interpretive scheme and eventually delegitimize the existing archetype. At the same time, significant environmental changes can override isomorphic pressures and de-institutionalize the long-accepted structures. Thus a new professional archetype or perhaps several competing archetypes emerge.

Literature review

2. Four tensions in GPNs, and their strategic significance for firms on the periphery

Having reviewed the understanding of how organisations such as professional partnerships have moved into GPN structures, it remains to identify four tensions which are created in GPNs by globalisation processes, one of which pertains to our focus: that of accounting labour. A brief summary of the other three tensions will follow before a more detailed examination of the impact of globalisation on accounting labour.

The three tensions are driven from the forces for harmonisation, deregulation and technological advances. Cowling and Tomlinson showed how the processes of globalisation and the concentration of corporate power have not met the interests of the global community (2005, p. 50) and has contributed to a series of strategic failures throughout the world economy. Furthermore, the processes of globalisation have affected the nature of the demand for accounting information. Apart from the internationalisation of accounting standards and the increasing activity to promote the adoption of XBRL, the potential wealth creation by knowledge-based industries (and accurate reporting of their future earnings potential) and demand for real-time financial reporting also impact on the type of accounting information provided (Perera *et al*, 2003). Perera *et al* suggested that was, in fact, one of the attractions for CA firms in the 1970s to formalise affiliation with international firms i.e. in order to gain access to advances in technology. Their analysis of the mergers was in terms of deregulation and technology. Because deregulation permitted large MNE mergers, this created mega-entities which needed large multinational firms to audit them; large in both personnel in a number of different geographic areas, and expertise in a number of different areas (Perera, *et al* 2003). However, this analysis does not discuss the impact of the globalisation on partners; or on fees, or on professional standards except for independence. They do consider competition from other professions, ease of entrance into the profession, impact of IFRSs, managing the expectations of stakeholders, brand (reputation) management, (this article appears to be pre-Enron) but then (strangely?) go on to argue for niche specialties (Perera *et al*, 2003).

The four tensions which are described from this above literature as resulting from globalisation in the last half century, can be best summarised with respect to their impact on accounting firms at the periphery:

[Take in Table I]

Accounting labour and its discontents

As already noted, there are tensions implicit in the globalisation of accounting firms and the adverse consequences for accounting labour in peripheral jurisdictions. There has been little research in this area, and such studies are, by their nature, historically oriented. One of the few studies within the context of international migration of skilled labour in the accountancy industry was that of Beaverstock (1996), who reviewed the accounting labour market. The principal arguments he reported were that

the labour-market practices of large accountancy firms restructured the demand for professional labour on a global scale. Accounting staff were observed to be subcontracted to their firm's international office networks or multinational clients through secondment, transfer, or exchange procedures. Equally, those firms who are members of global accountancy networks subcontracted their staff to the international independent member firms.

This study now offers a more detailed review of how such processes impacted on personnel in each firm, and gives voice to those who suffered from globalisation. Perhaps the manner in which we have problematised their plight is not seen as comparable with those who labour under deprived conditions in third-world labour markets. However, it offers a balance to those who see only survivors at the head of these huge Big 4 firms with no record of those who had their futures pulled out from under them in what had previously been unimaginable events. As one interviewee said:

“I certainly don't think many of us would have anticipated the dropping in the numbers of the bigs, with all those international mergers, no. We certainly never would have picked that. That certainly wouldn't have come into, no, I don't think that was even considered” (Former partner in a firm affiliated to Andersens [Lawrence Anderson Buddle] speaking in 2002)

Sources of data

Some historical information concerning the establishment of globalised trans-Atlantic international affiliations can be found in firm histories. The only book specific to a historic merger is Cypert's *“Following the Money”*, an extended account of the KMG-Peat Marwick Mitchell merger. Other firm histories written for significant events also provide some material.

In addition to material concerning international affiliations in published firm histories, survey and interview data was also valuable in providing reflections by partners in all of the Big 8 firms concerning the origins and impact of globalised international affiliations. A 2002 survey was administered to 488 members of the Institute of Chartered Accountants of New Zealand who were partners in Big 8 firms between 1982 – 1992. 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. 36 retired respondents expressed willingness to receive more information on this stage. 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; resulting in 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 commonality of the experiences during the development of each firm, and the merger activities, provided remarkable consistencies between individual experiences.

The survey in the first stage of this project had shown there had been a widespread perception that globalised international affiliations were very important to both survival, and as a cause of disintegration. This perception appears to link to the

significance of globalised audit activity. However, responses did not provide a clear distinction between the need for audit activity to continue to provide the ‘backbone’ of cash inflows into the partnerships or whether audit was important to generate associated consulting and taxation activities. Nor did the interviewees provide any evidence that during the lead up to the internationalisation of the affiliations and the name adoption was there any discussion of the likely future impacts on partners should merger events ensue. These issues were further examined during interviews, as some of the following comments will illustrate.

The history of the development of national associations with international affiliations

As client firms became national, so did the accounting firms, in order to service audit business and to gain credibility with Big 8 names overseas

[Take in Table II].

“Once we’d got to what we were, Lawrence Anderson Buddle needed an international alliance. I think it definitely did. Whether we, in hindsight, actually needed it, or we just thought we needed it, would be a moot point. But I think probably we did, because we needed that training input and all of that sort of information that comes through from an international connection. [Q: So it wasn’t so much that you thought your clients would want a big eight name? It wasn’t a branding issue?] No, no, definitely not that. It was more from us, and the potential for business referrals because there was work coming into New Zealand, from overseas, and again, Auckland, mostly, and Wellington to a lesser extent, were the major beneficiaries of it. We got a bit in Christchurch but not nearly as much as those two other offices. But the firm, I think, did need the potential of business referral and it certainly needed the training facilities and that sort of thing”. [Lawrence Anderson Buddle partner]

These international affiliations demanded a national spread of firms throughout the main centres, but that had already taken place in order for firms to keep nationally based audit clients. However, the benefits of globalization in terms of improved audit practice were not without impact on accounting labour. Roslender (1996) suggested globalisation means individuals may lack control over their work conditions and this is illustrated by three categories of events as retold by these former accounting firm partners, as follows

Three major categories of impact on accounting labour subsequent to affiliations being established.

1. *When there was a merger overseas and there were two New Zealand firms that were affiliated to each one, one would lose an international connection if there were no New Zealand merger. On losing the affiliation the firm then disintegrated.*

When Klyfeld Main Goerdeler merged with Peat Marwick Mitchell, this affected two firms in New Zealand: Kendons was affiliated to KMG and Gilfillan Morris was affiliated to Peat Marwick Mitchell. Gilfillan Morris then gained the 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 and 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 U.K. 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 a 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 finalised, most KMG Kendons firms made up their mind 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, perceiving that merging with Peat Marwick was not a sensible choice for them, started to try to find an alternative strategy for their own offices.

Possible partners were:

- ◆ Price Waterhouse. Pursuing a specialization-orientated strategy, Price Waterhouse was not interested in merging with any offices of KMG Kendons except Auckland. A merger was proposed and accepted only by the younger Auckland partners (six out of twelve partners).
- ◆ Coopers & Lybrand: The remaining older partners in Auckland aimed to rebuild the firm through making new senior position promotions from both internal and external personnel which was hoped to spur business expansion and a fee base increase. However, the loss of KMG affiliation as well as the departure of the six partners to Price Waterhouse deteriorated the image of the firm significantly, and recruitment became extremely difficult. Soon the remaining Auckland partners recognized their ‘deal-lock’ situation: the firm was not able get as big as it used to be, while staying small was not sustainable either. Coopers & Lybrand wanted to open a business service branch in Auckland the remaining partners in Kendons were strong in insolvency and

compliance. All but one of the remaining partners from Auckland and Takapuna offices came to Coopers & Lybrand.

- ◆ Kirk Barclay: For the Wellington office, creating a national firm back in 1980 had always been for winning and benefiting from the international connection. The Wellington partners took a decisive move to join with Kirk Barclay (linked to Spicer and Oppenheim), largely a merger of equals in that office.

The other remnant offices of Kendons remained as small local firms without international affiliation; the firm effectively disintegrated when it lost its international affiliation.

2. A case of the power of a GPN to cherry-pick favourable offices at the expense of other member offices of the partnership

The case which clearly illustrates this occurrence was after Lawrence Anderson Buddle failed to gain a formal affiliation with Arthur Andersen; this sowed the seeds of its destruction. The Auckland partners were unhappy that Arthur Andersen was not prepared to formalize the affiliation:

“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”.

Then the Auckland partners went to 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 Deloitte 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 Deloitte 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.”

And a Christchurch partner:

“It was unforgivable the way it was done. Everybody in Wellington, Christchurch and Dunedin felt the same way...so then, what to do? Well, Jeff Todd [PW] realised what was happening, so he made contact with the firm. Price Waterhouse had very small office in Christchurch: Rex Anderson had a very, very small practice and he was doing all the branch audits for Price Waterhouse round the South Island. Price Waterhouse didn’t have an office in Dunedin. So David Gray [LAB] and Jeff Todd started speaking. I was at an international convention [the 1987 Congress] in Japan, in Tokyo; and so Rex and I were talking up there about the possibilities”.

Eventually 17 partners from LAB went to Price Waterhouse, and many stayed there a long time; it was a very well-fitting merger for many of the most important partners, disenfranchised from their Arthur Andersen connection by the loss of the Auckland office. Arthur Andersen then affiliated to a small firm in Auckland of five partners, all ex-Peat Marwick, and this gradually grew in the 1990s to have offices in the main centres in New Zealand. Lawrence Anderson Buddle ceased to exist.

3. A merger was imposed on the New Zealand firms from a UK/USA decision with subsequent partner redundancies and departures

The effect of this on partners in New Zealand is well documented with partner number changes after the Ernst and Whinney/ Arthur Young merger. Of 61 partners in Ernst & Whinney before the merger with Arthur Young in 1989, 38 had left by the end of 1992 (see Table III). The Touche Ross / Deloitte Haskins Sells merger had a similar effect on Touche Ross partners. Of the 92 partners in Touche Ross, only 21 went to Deloitte Touche Tohmatsu. This process led to much ‘leaner’ and more highly levered partnerships, but with the cost of many other jobs held by previous partners.

[Take in Table III]

The documentation of the extent of the shrinkage after merger was also alluded to in interviews with partners:

“If you merge two professional services firms, my experience is that within four years the merged firm will be about two-thirds the size of what they were when you added them together. So there is clearly going to be a big cleaning out of duplication, and you saw it with PWC recently, and you’ve seen it with every merger. . . Most of the people who get chopped out in a merger are either perceived as being past their use-by date, so there’s quite a lot of older partners who are seen to be slowing down. They tend to get chopped early, and then you do normally get some fallout from partners who just happen to be unlucky, to be in the wrong place at the wrong time. You know, you might have two young audit partners, and you only need one of them. So one of them will go, and it will normally be the person from the smaller party to the merger” [ex Managing partner, Deloitte speaking in 2002]

‘Deloitte and Touche ...were at different stages of their evolution. Touche had created a metropolitan partnership and a regional partnership, and they were different profit centres. They had different value drivers to a large extent; and my belief was that Touche metropolitan, and that was Auckland, Hamilton, Christchurch and Wellington, was the rising firm in New Zealand in terms of some very advanced management techniques that were coming in to it. But it was still in the blossoming stage. I think Deloitte, on the other hand,

were a more mature organisation, and because they were numerically larger in those metropolitan offices they had a disproportionate influence, in my view of the merger. Actually there's no such thing as a merger in my view. There's one stronger and one weaker party. That's the reality; and sooner or later the stronger party will impose its disciplines.... [Q: When Touche went to KPMG in Australia, the audit clients with the Australian head offices that should have come with the Touche partners into Deloitte Touche in New Zealand didn't follow?] That's right; that had a huge impact of course and no doubt that further weakened the Touche presentation given that a large amount of New Zealand work is referred in from Australia anyway. Let's be quite frank: the international firms in New Zealand benefit enormously by work they never have to win. It simply gets presented to them. New Zealand's the last bus stop on the route; and these guys with their fat tummies and their fancy cars, don't generally do a lot of work to generate the incomes they enjoy. They're not so much in the competitive model, because a large proportion of their revenue was presented to them on a plate". [McCulloch Menzies partner speaking in 2002]

Discussion and conclusion

It was the objective of this study to examine how the ever-increasing processes of globalisation of accounting practice within partnerships created significant and far reaching problems for accounting labour, particularly in peripheral jurisdictions where partners were not in a position to control decision making in the international partnerships of global professional networks.

The narratives and historic data provide three significant and distinctive perspectives concerning globalisation dynamics and the costs to accounting labour after affiliations with major transatlantic chartered accounting firms. From the examination of survey responses and interview narratives, there was an extensive range of experiences from mergers and affiliations being lost and gained. The Big 8 firms receive much attention in accounting history, but published histories fail to provide a sense of both the success and failures in such activities. There are a variety of costs to highly qualified partners from having made a particular choice of a global partnership firm, especially if they do not survive a subsequent merger.

It was clear that there had been very strong ties to the offices in Britain throughout the immediate post-World War II decades, strengthened by travelling scholarships given in New Zealand to young accountants before they gained partner status. There were also some earlier World War II links, and then the impact from visiting Managing Partners wanting the New Zealand firms to develop identical auditing methodologies. The audit of multi-national companies was to provide an increasingly significant source of income for accounting partnerships; it was only with the international affiliations, and eventual name adoption, they could be assured of certainty in such audit engagements. Globalisation thus resulted in the growth of worldwide accounting practices, the standardisation of which reduced the risk of audit failure. These global franchises were based on the need for a single firm of auditors to audit multi-national companies and this had the effect of closely linking these accounting partnerships in a manner that overcame the relative isolationism of some of the professional accounting bodies.

This study documented some of the diversity of the origins of the drivers to each specific international global affiliation, but there was at times some hesitancy by the New Zealand partners to strike up such linkages. The hesitation felt by such skilled accountant labour was, with hindsight, considerably justified. It was apparently based on concerns with the loss of their local branding, the costs of professional indemnity insurance, and costs of capitation or levies. But there was an absence of protection for individual partners in the documentation and partnership deeds with the onset of global franchises.

At the time, the benefits of GPNs to the New Zealand firms were generally deemed to outweigh these disadvantages, but no partners in New Zealand firms anticipated the singularly significant effect from mergers twenty years later with transatlantic mergers between Big 8 firms. The earliest merger of KMG (Europe) and Peat Marwick Mitchell (UK and USA) had few casualties for skilled accounting labour, but the later mergers of Touche Ross with Deloitte Haskins Sells and Ernst & Whinney with Arthur Young have been documented in this study to have been disastrous for partners in local branches in New Zealand.

This study has sought to give voice to those in business on the periphery of accounting activity in the English-speaking business community. It is unlikely that in the more regulated anti-monopolistic business environment of the current period that any more mergers of the biggest of these accounting partnerships will be permitted. The experiences of partners as documented in this study might not be so frequent this coming century, so the last word I leave to my first interviewee, an Arthur Young partner:

“I feel that to be a partner in the big four is something that I think you’d have to be very careful about aspiring to, really, rather than choosing a small one....You’re a long time dead and there’s no point in working yourself to death during your lifetime. I think there’s a balance to be had.”

Table I: The strengths, weaknesses, opportunities and threats presented by globalisation for accounting firms on the periphery of the major business communities

Strengths	Weaknesses
<p>Harmonisation: Harmonisation of</p> <ul style="list-style-type: none"> • accounting standards • auditing standards and • advocacy/apparent inevitability of XBRL <p>are all opportunities for the global growth of accounting practices. Tension in this opportunity arises because CA firms have to devote resources to influencing the development of such standards and processes.</p>	<p>Accounting Labour</p> <p>Labour at all levels in accounting firms are affected by the significance of the movements of accountants themselves in globalisation. For example, the accession of China to WTO agreements created a demand for accounting professionals in China. (Graham and Neu). Also the globalisation of the credentialism processes for accountants increases mobility and may result in a trend to equalisation of salaries between different jurisdictions. More generally, the low cost of international travel and increasing flexibility of CA firm staff to move to world-wide locations leads to an increasingly international work-force. The pressure on the labour market increased during merger activity as redundancies follow merger events.</p>
opportunities	Threats
<p>Technological change</p> <p>Accounting technologies not only structure the institutional field in which the global big firms operate, but “influence their goals and performance by shaping what is both thinkable and possible” (Graham and Neu, p. 451). Thus the firms not only reproduce and extend the applications of technology, but are simultaneously constituted by the technology. Examples:</p> <ul style="list-style-type: none"> • internationally common software packages • internet-based management processes • local differences in practices and products are reduced or eliminated • new commercial opportunities for IT consulting and internet-based services leading to further development of services away from core accounting activities 	<p>Deregulation:</p> <p>Deregulation of international capital markets reduces barriers to entry for companies and also for CA firms. Leads to more integrated markets for accounting services (Perera et al 2003 p. 29) Tensions include:</p> <ul style="list-style-type: none"> • an increase in potential of successful local competition • competition from the new professional global groups such as AmEx and Merrill Lynch competing for traditional areas of accounting practice, and InfoTech companies offering IT business advisory series (Perera et al 2003 p. 32)

Table II: AFFILIATIONS OF NEW ZEALAND FIRMS

NZ Firm	Notes	Big 8 link	Partner Numbers		Top 8 audit rankings (Gilling)	
			1976	1994	1968	1973
Wilberfoss & Co	Merged and became Wilkinson Wilberfoss, and then Arthur Young in 1983	Arthur Young	64	83	5	6
Wilkinson Nankervis and Stewart		Pannell Kerr Foster			6	7
Hunt Duthie & Co		Whinney Murray & Co; Ernst & Whinney	27		4	5
Barr Burgess & Stewart		Coopers & Lybrand	57	90	1	3
Hutchison Hull & Co		Deloitte Haskin Sells	44	66	3, 6 ⁴	1
McCulloch Butler & Spence	merged in 1979 to become McCulloch Menzies	Horwath & Horwath	40	(included 21 of the 91 partners in TR before the TR/DTT)		
Clark Menzies		Touche Ross	24			
Gilfillan & Co	merged in 1977 to become Gilfillan Morris & Co	Peat Marwick Mitchell	38	67	7	4
Morris Patrick & Co		Klynveld Main Goerdeler	19		2	2
PriceWaterhouse	Unique in being permitted to use an international name in NZ before 1982	PriceWaterhouse	13	37		
Cox Arcus	merged to form Kendon Cox & Co in 1980; it was affiliated to KMG after the Morris–Gilfillan merger, but lost affiliation after KMG ⁵ -PMM transatlantic merger	Thompson McClintock in UK, Main Lafrentz in USA	16	60 partners in 1984 before disintegration in 1986/87		
Kendon Mills Muldoon & Browne		KMG	7			
Cook & Co	split in 1979 between Hunt Duthie and Lawrence Anderson & Buddle	Alexander Grant Tansley Witt	16	-		
Lawrence Godfrey & Co	Lawrence Anderson Buddle (1980) was in a correspondent relationship with Arthur Andersen until the Auckland partners left to go to Deloitte		12	43 partners in 1985 before disintegration in		
Buddle & Co		Mann Judd	4			
Anderson & Co		Hancock Woodward & Neil (Sydney)	6			

⁴ Hutchison Elliffe and Davies was ranked 3rd, Watkins Hull Wheeler and Johnstone was ranked 6th

⁵ Klynveld Kraayenhof & Co in Holland, the biggest firm in the Netherlands, and Deutsche Treuhand-Gesellschaft in Germany joined up with Turquand Barton Mayhew - as it then was - in London. Main Lafrentz merged with Hurdman and Cranstoun, and became Main Hurdman in New York, and then merged to become KMG which was Klynveld Main Goerdeler.

Note to Table II:

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% of the listed company audits, covering 39% of listed company assets (Gilling 1970). By 1973, the share of the Big 8 had increased to 66% by number and 83% by size (Gilling 1975). 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.

Table III: Changes in partner numbers and leverage

	Ernst & Whinney 1987	Arthur Young 1987	Ernst & Young 1993	Change <i>Before retire- ments</i>	Touche Ross 1987	Deloitte Haskins Sells 1987	Deloitte Touche Tohmatsu 1993	Change <i>Before retire- ments</i>
Number of offices	10	13	10		16	10	6	
Number of partners	61	90	87	-42%	91	70	67	-58%
Number of Audit clients	17	44	25	-59%	12	42	20	-63%
Partners per audit client	3.5	2.1	3.5		7.5	1.7	3.35	

Note to Table III:

Any similar shedding of partners occurring post the PriceWaterhouse – Coopers & Lybrand merger has yet to be accurately documented. The benefit of partners in those firms observing the sacrifice of skilled partners in E & W, AY, Touche and Deloitte's ten years prior may have led to particular merger arrangements in this jurisdiction whereby no partners would be made redundant for three years after the merger. However, such terms may have varied in other jurisdictions.

In the merger of Arthur Andersen and Ernst Young in New Zealand, there was much publicity that none of the 200 Andersen's staff would lose their jobs, but within two months of the merger, 63 Ernst and Young staff had lost theirs (Anon, 2002).

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