

# **Dropping off in the rounding: the origins and significance of affiliations between British and New Zealand accounting partnerships.**

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## **Acknowledgments**

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## **Introduction and background**

Travellers to the outposts of the ‘old dominions’ see familiar accounting names in their business dealings: Coopers & Lybrand, Ernst & Young, Deloitte, PriceWaterhouse, such names reflecting informal long-held associations between business operations in Britain and its most distant colonies. However, each specific business franchise is recent in nature. Although this conference advertising stated that ‘from the colonial period into the twentieth century, the British imperial world was held together not merely by ties of trade and defence but by a shared sense of British identity’, this sense of identity did not earlier extend to the world-wide accounting firm franchise arrangements we see today. Indeed, chartered accountants in the old country appeared at times to hold themselves above those in newly constituted professional organisations in the colonies.

An example of this is in the affixation of the term ‘chartered’ to such associations. The earliest chartered group of accountants by far was the Institute of Chartered Accountants of Scotland, which received its Royal Charter in 1854. In comparison, the Institute of Chartered Accountants in England & Wales gained a Royal

Charter in 1880, the Institute of Chartered Accountants in Ireland gained a Royal Charter in 1888. It then took forty years for a Royal Charter to be granted to the Institute of Chartered Accountants in Australia in 1928. In contrast, the New Zealand Society of Accountants, established by a 1908 Act of Parliament, was successful in obstructing repeated attempts by the Incorporated Institute of Accountants of New Zealand to obtain a royal charter<sup>1</sup>. Other issues, such as those concerning reciprocity of recognition of membership between the professional bodies was a contested area for much of the twentieth century, and was only overcome recently by concerted efforts to ensure broadly similar requirements for tertiary qualifications, work experience, and professional examinations.

There has been some recent research in accounting literature examining the ‘role of accounting and accountants in the enactment of imperialism, and in the construction and maintenance of empire’<sup>2</sup>. However, much of this research has either been concerned with issues of gender, racism and ethnicity in the search for professional status<sup>3</sup>, or in the activities and policies of the professional bodies<sup>4</sup>.

In contrast, this research is not concerned with the history of the professional accounting bodies that established monopolies for the professional practice of accounting in the Dominions. Instead, it 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. The largest British partnerships of accountants were subject to transatlantic mergers post World-War II, but few young accountants traveling from New Zealand worked in North America. When the largest New Zealand professional partnerships wanted to formalize such alliances, it was undertaken on the basis of the complexity of informal networks with the British offices. Some of these were from Second World War networking, some from common audit client activities, often strengthened by overseas work experience by New Zealand accountants, but rarely on the basis of links from British immigrants to New Zealand. Unlike Canada, there were no large New Zealand firms without the affiliation and then adoption of Big Eight names in the 1980s. The Big Eight was the name given to the eight largest accounting firms in the USA: Arthur Andersen, Ernst & Whinney, Arthur Young, Coopers and Lybrand, PriceWaterhouse, Deloitte Haskins & Sells Peat Marwick Mitchell, and Touche Ross.

It is the objective of this study to document the rapid dynamics in the affiliations of these major transatlantic chartered accounting firms to firms in the British Commonwealth such as New Zealand, and the later impact

of this on peripheral firms, with mergers and then redundancies for top partners in their old firms. Four types of events subsequent to affiliations being established are then considered. In order to do this, this study will proceed as follows:

1. A description of the sources of data used in this review, including the results of survey of partners in chartered accounting firms;
2. A description of the development of national associations with international affiliations, and the resolution of the debate concerning use of 'Big Eight' names.
3. Four types of merger events subsequent to affiliations being established, and the subsequent impact, are then considered.

These four types of events resulted in a rapid dynamic on the international affiliations, and impacted in particular on partners and audit clients faced with changing personnel and different strategic directions in each chartered accounting firm.

### **Sources of data**

Some historical information concerning the establishment of trans-Atlantic international affiliations can be found in firm histories. The only book specific to a historic merger is 'Following the Money'<sup>5</sup> an extended account of the KMG-Peat Marwick Mitchell merger.

In addition to material in firm histories written for significant events<sup>6</sup>, survey and interview data was also valuable in providing reflections by partners in all of the Big Eight firms concerning the origins and impact of international affiliations. A survey was administered in May 2002 to 488 members of the Institute of Chartered Accountants of New Zealand who were partners in Big Eight firms in 1982–92. 108 responded to this 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 willingness to receive more information on this stage. All twenty-six 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 thirty-one 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 project. Fourteen of this second group agreed, resulting in a cohort of forty.

The interviews were largely unstructured, but questions were asked in a manner to ensure coverage 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 notable consistencies between the varieties in individual experiences.

### **The development of national associations with international affiliations**

The significance of parallel changes in characteristics of client companies and chartered accounting firms in New Zealand are summarized in table one. As client firms became national, so did the accounting firms, in order to service audit business and to gain credibility with Big Eight names overseas. 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.

<b>Table 1: CPA Firm characteristics, Client company characteristics</b>		Significance for audit activity	Merger 1 = of equals; 2 = takeovers 3 = externally imposed	Merger events	Overseas CA firms	NZ CA firms activity	Key events
1976 – 1983  <b>Profit driver: Expanding economy, growing firms, low leverage</b>	Local firms expanding to make a national network and operations	CA firms looked to establish a national network; usually in an umbrella form of organisation; this 'audit driver' was forcing national associations	Mergers of type 1  <b>Big 8 names not permitted in NZ</b>	Included Clarke Menzies and McCulloch Butler & Spence; KMG Kendons and Lawrence Andersen Buddle formed from a number of local firms	There was considerable cross-Atlantic merger activity that formed the basis of the Big 8, although some had light European presence.	Large firms gaining dominance in the UK and US; NZ CA firms affiliated with a variety of names overseas.  Many rural branches joined a national network. Low leverage	Period of increasing domestic expansion in NZ, tempered by UK joining the EEC. Exchange rates tightly controlled. Export expansion to more than meat and wool, and to Asian and Australian markets. NZSA Yearbooks started in 1976
1983 – 1987  <b>Profit driver: International affiliation for audit referrals, increasing leverage within firms 'Big is Better?'</b>	Increase in takeovers by multi-nationals drove a significant amount of auditing to the firm affiliated to the parent auditor	The adoption of the overseas names was concurrent with an increase in referral audit business from overseas. The drive to find an overseas affiliation for audit referrals was because audit activity was seen as the 'anchor' of a CA firms' activities	Mergers of type 1 & 2  <b>Big 8 brand ambivalence</b>	Lawrence Anderson Buddle with PW after the Auckland partners went to Deloitte Haskins Sells Kendons failed to merge with PW; only survived while there was the Philips audit; then disintegrated	Big 8 stable and attracted affiliations with worldwide network of branches.  Big 8 offered opportunity for overseas secondment for younger staff, and training programmes for world-wide staff	There was a shakeout of international affiliation; LAB lost the Andersen's affiliation; Kendons lost the KMG connections. The remaining larger firms all adopted overseas identifiers; no internal structural changes. All Big 8 here except Andersens Dearth of second-tier firms and large rural practices PI costs increase	1982 the Society permitted internationalisation of firm names.  Floating of the NZ dollar.  Very high inflation in NZ continued right up to 1987, long after it had fallen sharply in our major trading partners.
1987- 1994  <b>Profit driver: Rationalisation of partners and lowballing; highly levered partnerships</b>	After the crash here was a huge reduction in listed companies and unlisted companies	Companies looked to reduce audit costs; lowballing may have been adopted in order to gain audit business for BAS and Tax spin offs.	Mergers of type 2 & 3  <b>Big 8 brand consolidation</b>	Ernst & Whinney and Arthur Young;  Deloitte Haskin Sells and Touche Ross Both were in the nature of takeovers	The driver to large mergers within the Big 8 was tempered by SEC concerns of concentration of audit industry.	Big 8 became Big 6  Increasing leverage  Rise in rural and provincial partnerships	The Crash was October 1987 NZ went into a recession Many redundancies affected CA firms at all levels, particularly after mergers These overseas mergers had not been anticipated, nor were they always welcome
1994 – 2002  Profit drivers; Integrated one-stop shops for audit clients offering specialisation, IT consulting	Recovery of NZ economy saw increasing Trans-Tasman moves; Head Offices shifting north to Auckland left southern cities in NZ with weaker business bases.	The reducing importance of audit business compared with BAS and Tax continued SEC concerns about audit independence led to some firms setting up separate consulting arms, and/or becoming LLPs.	Mergers of type 1 & 3  <b>Big 8 brand confusion</b>	PriceWaterhouse and Coopers and Lybrand  Andersens in NZ merged into Ernst & Young	Big 6  Big 5  Big 4  High PI costs for partners in Big 4	Decrease in leverage as part of risk management  Some resurgence in affiliations between provincial partnerships	Yearbooks ended in 1994 – later records n/a.  The 2002 Sarbanes-Oxley Act endorsed a distinction between the CA firm that did audit/tax work and other consulting or compliance activity.

### **An example of a merger to meet the needs of an audit client**

An example of the drive to a national organisation can be observed in an old well-established firm McCulloch Butler & Spence in the East Coast of the North Island, when it experienced the need to form a nation-wide firm. Their major audit client, Wattie Industries (producer of canned fruit and tomato sauce) was shifting its head office from 'the fruit bowl of New Zealand' (Hawkes Bay) to Auckland.

Watties was one of our major clients. Watties was a client of Hastings office, and they had decided to shift their head office to Auckland; and the debate, which was quite a vigorous debate, was whether we should retain the Watties audit, which would mean that we would have to have an Auckland office. Or should we stay as we are, as a strong provincial practice, and there were all sorts of arguments for or against what we should be doing, and the decision was taken to follow to Auckland, to follow Watties, and to retain the audit, and as a result of that we got an Auckland office by merger, which was the first of our mergers. And then we got a Christchurch office as a result of a merger. And then we subsequently merged with Clarke Menzies, and became McCulloch Menzies, and then our international association, at that stage, was Touche Ross [Touche Ross partner].

Clarke Menzies already had a connection to Touche Ross, but interviewees from both sides do not remember it as being a successful merger. From the Clarke Menzies side:

Eventually the firms broke apart anyway. So that was one of what I call "grating points", because there were differences. Typically the partners from Auckland always thought, and I was one of them, that we deserved more money than them, because we worked harder and we didn't have our farms across the road or down the road, that these fellows, McCullochs, could have done. Anyway, there were probably natural jealousies that emerged. But there were differences... because it was much more expensive to live in Auckland than it would have been to live in Waipawa or Waipukurau. But these fellows we found who were partners in McCullochs, we found they had other sources of income, other than from the professional partnership. Because they had investments in apple orchards or deer farms or sheep farms or any other sort of farm, often with their clients, or in combination with other partners, whereas we didn't here. We worked fulltime in the firm, and that was often quite long hours. Whereas these fellows, we thought, didn't, because they didn't have to, because they had their sideline interests. So we were envious of that...

From the McCulloch Butler and Spence side:

At that stage I was on the management committee of McCulloch Butler and Spence, also then on McCulloch Menzies, and then I was definitely on the Touche Ross national management committee. We just got it wrong. We weakened our firm by developing a strategy that people would tell you was strengthening it. Because we strengthened the size, we strengthened the numbers, we strengthened the resource, but we weakened the culture and we weakened the expertise... we didn't know. Because it was just life... We just thought that this was normal, and it's only when you ruin it... We do lots of things just because that's the way we were taught, and we don't know why we do it that way: you only know why when you change it. But it's too late; you've wrecked it, for some things.

This case study clearly illustrates the driver to the need for a national organisation to undertake audits of nationally spread client companies, which occurred in all the small firms based in single cities around the country:

It was being recognised that audit opinions given on the accounts of holding companies carried some responsibility for the work of the audits of the subsidiaries. I think that was the start of the thinking

where the auditing firms were saying, “Well, if we’ve got a responsibility for something beneath, we need to control or have knowledge or at least be satisfied”, and I think that was probably more correct, be satisfied that the standards of the people on whom we are relying are somewhere near our own standards, and we need to have some knowledge about them... we established an international association with Mann Judd in the United Kingdom. The 1972 World Congress, held in Sydney, which I attended - and then went to Britain and spent time with the Mann Judd people - benchmarks the time for me when that was working [Partner ex Lawrence Anderson Buddle (Arthur Andersen affiliates) and Deloitte].

And from a KPMG managing partner:

The seventies is an interesting period, I think, in New Zealand CA firms, because it was around that time that firms like Fletchers were becoming national firms. It’s quite funny when you think about globalisation today. So if you were the auditors they expected you to be able to audit their business right around the country. So it started a period where there were a number of mergers of New Zealand firms into a New Zealand firm, albeit with an international link-up... In our history, in 1972, a number of firms came together as Morris Patrick [KPMG partner].

In the late 1960s the three firms: Burt McGillivray & Mann in Christchurch, Morris Duncan Gyllies (Auckland) and Patrick Feil in Wgtn decide to merge; there were problems with audit firms being let down by poor performances; there was a strong move to uniform standards in all aspect of profession work [Peat Marwick Mitchell partner].

Early groupings of New Zealand firms into nation-wide alliances often involved having one national name, but keeping the local identifier in each centre.

The national associations hadn’t started; they started during the 1960s and were born out of the Members of the Council of the then New Zealand Society of Accountants, when strong professional personalities like Graeme Callum, and Anderson from Christchurch, and the Watkins Hull people, saw opportunities. The first linking, nationally, that I became aware of, I think was the Gilfillan Gentles & Steen and Pickles Perkins & Hadlee association, which became “horses’ piss”, GGPP: Gilfillan Gentles Pickles Perkins; and that would have been in the 1960s... [partner ex Lawrence Anderson Buddle (Arthur Andersen affiliates) and Deloitte].

Some firms were tardy in making its affiliation: Kendon Cox was from a merger of Cox Arcus, and Kendon, Mills, Muldoon and Brown; compared with other firms, it was a looser grouping of New Zealand firms in the main centers but clearly identified the need for an international affiliation. McCulloch Butler & Spence were in a similar position, and linked to Horwath & Horwath (see details in table two) before their merger with Clark Menzies which provided the Touche Ross affiliation.

**Table 2: Origins of affiliations, from recollections.**

Broad Christie (Invercargill) to Hunt Duthie, alter to become Ernst & Whinney	I was just thinking about that the other day: we used to buy our petrol for the firm through Crosbies Garage Limited Ltd. and the owner of Crosbies Garage who was Ivan Carroll, a friend of his was a partner in Hunt Duthie & Co. and one day when I was buying petrol Ivan Carroll mentioned to me that Hunt Duthie & Co were interested in expanding in Invercargill. They were getting some branch offices elsewhere, and so that's where it started...
Hunt Duthie to Ernst & Ernst	I can remember having people come out from Ernst and Ernst, before we were even Ernst and Whinney, a long time before that, when we were Hunt Duthie and Company. People coming out from Ernst and Ernst, and Ernst and Whinney, and saying "Oh now, you guys, you should get in to management services. This is the thing to be in". We started to think about that. It was an influence that came from overseas, and as, I suppose, communication became better, with our overseas associates and that sort of thing... People established a long association. We got work from them, we got help from them and advice from them, that sort of thing. There was an [Australian] firm called Fell and Starkey, and eventually it became Ernst and Whinney. We'd had an association with them because of the worldwide association. We spent a lot of time with them, and they spent a lot of time with us. We'd have our annual partners meetings, and one of them would come over and see us, and we'd be invited over to their annual partners meeting [Hunt Duthie partner].
McCulloch Butler and Spence to Horwath and Horwath	The McCulloch Butler and Spence affiliation was with Horwath and Horwath. Now that was because, at that stage, everybody was scrambling; the major firms, Price Waterhouse, Deloitte and so forth and so forth, were, were scrambling for international connections. We were slow off the blocks and we ended up with Horwath and Horwath. That's how it was.
Arthur Young to Wilberfoss & Co	<p>The relationship with Arthur Young was done on a very friendly basis originally. The partner involved from New York was a chap by the name of Dearing, John Dearing, who was a New York Irishman if there ever was one, a real character. And he had New Zealand connections. Some relative of his owned land out here. He had quite a liking for New Zealanders and he used to come out about once a year, a most entertaining character. We'd always have a function for him in the office, and after everyone had had a few drinks there'd be John standing in the middle there and everybody around him, and he'd be telling these stories. You know he had great, he was a real New York Irishman. He looked it and he was, you know. He was able to tell all these yarns in a very interesting sort of way and so the relationship sort of developed more on a friendly basis for a start. Of course as more and more staff kept going overseas and working, with Arthur Young overseas, their techniques and so forth tended to come back here.</p> <p>Note: Wilberfoss Harden &amp; Co had undertaken the audits of subsidiaries of Socony-Mobil and Standard-Vacuum companies in NZ on behalf of Arthur Young since the early 1960s ((MacLean 1980) p. 54) and the links strengthened from that time with visits and training support.</p>
Kendons' link to KMG after the Gilfillan – Pattrick merger	It was interesting that, talking to Bill Arcus earlier in the day, saying well, 'How did these things happen?' The 1977 International Accountants Congress [in Munich] seems to have been a very significant event in terms of the Kendon Cox & Co organisation, and people from right across New Zealand attended that together, and I think there was some kind of interaction there with the international association at that time, which was probably Turquand Barton Mayhew [at] the U.K. end of Klynveld Main Goerdeler, which of course led to KPMG.
Whinney Smith & Whinney	Links from Whinney, Smith & Whinney were established with the NZ firm of George Ross & Co before World War 1 <sup>8</sup>
Touche Ross	The name Touche Ross Bailey and Smart, from the three founding firms, was used by associated firms in newly established affiliations; 'the three founding firms determined to find a strong local firm in each major investment country and to invite that firm to join the Touche Ross group' ((Touche-Ross, 1981), pp. 104 – 105). There are no specific details on the affiliation to the New Zealand firm of Clark Menzies.



## **Naming Rights**

The right to adopt international names by firms in New Zealand had been prohibited by the New Zealand Society of Accountants for many years. Table one refers to the rule change by the New Zealand Society of Accountants permitting firms to use overseas names from 1982. The only other place with a similar rule prohibiting the use of overseas firm names was the State of Florida. The reversal of this occurred when consent for use of international firm names in New Zealand was announced in 1982<sup>9</sup>. No reason why it had taken so long for the use to be authorized was given, and no interviewees remembered the particular reason for the change in that year.

PriceWaterhouse was always PriceWaterhouse... that was the only firm that had a strange right to use the international, the offshore name, when all the other firms were prevented from using, practicing in names other than partners or former partners of the firm. I was a member of the Council of the New Zealand Society of Accountants, and I think it was my first Council meeting, when the decision was made to allow firms to practise [with international names] about '82, yes [Partner ex Lawrence Anderson Buddle (Arthur Andersen affiliates) and Deloitte].

There was some resistance to the change to an overseas name outside of Auckland and Wellington:

The original name was Touche Ross Tohmatsu, wasn't it? Of course, they [partners] would say 'Well, who needs it?' You know, it's pretty difficult to practice in Waipawa with a tractor company name [McCulloch Butler & Spence partner].

When Hunt Duthie changed to Ernst and Whinney we became Ernst and Whinney as well. But we tried to have the best of both worlds, because we wanted to draw on their expertise but we still wanted to remain an independent partnership... It was only because Ernst Whinney finally put the pressure on us that we joined up [Invercargill partner].

## **Events subsequent to affiliations being established.**

There were four situations that caused a rapid dynamic in changes in firms 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.*

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 gained the combined KPMG Peat Marwick affiliation, and Kendons lost the affiliation. The impact of this on 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.

2. *When two New Zealand firms merged, one overseas firm was left without a New Zealand representative.*

The earlier merger of Morris Pattrick and Gilfillan & Co in New Zealand in 1977 had left KMG without a New Zealand affiliate.

We obtained the Klynveld Main Goerdeler; well to get that, we were competing with Lawrence Anderson Buddle... to get the KMG, and we merged with Kendons for that purpose... that was the reason for the merger [of Cox Arcus with Kendon Mills Muldoon and Browne] was to strengthen the international association which strengthened our auditing base [Partner in Cox Arcus].

Eventually the merger of KMG with Peat Marwick Mitchell meant that the old association between Morris Pattrick partners and KMG was rekindled, and Kendons affiliation with KMG lapsed after the end of the Philips audit. As a Kendons' partner remembered:

We were doing the Philips audit for KMG, and they'd only just secured the Philips work, we finished up retaining the KMG name when the whole merger took place... and continued to do the Philips audit for the next three years. That was because KMG, as part of the whole deal, didn't want another change of personnel and staff twelve months after they'd made the changes.

After the finish of this audit Kendons lost the international affiliation and the firm split up into number of local branches, with some members going to PriceWaterhouse and some to Kirk Barclay (later Spicer & Oppenheim).

3. *When New Zealand firms were permitted to take international names, some overseas firm were reticent to make the affiliation into a complete equivalence of partnership status.*

The case that clearly illustrates this occurrence is the failure of Lawrence Anderson Buddle to gain a formal affiliation with Arthur Andersen: this sowed the seeds of the complete disintegration of Lawrence Anderson Buddle. The Auckland partners were unhappy that Arthur Andersen were 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 [Lawrence Anderson Buddle] and Jeff Todd started speaking. I was at an international convention [the 1987 Congress] in Japan, in Tokyo; and so Rex [PW] and I were talking up there about the possibilities.

Eventually 17 partners from Lawrence Anderson Buddle 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.

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

The effect of a merger being imposed on the New Zealand firms from a UK/USA decision with subsequent partner redundancies and departures on partners is well documented with partner number changes. Of 61 partners in Ernst & Whinney before the 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 91

partners in Touche Ross, only 21 went to Deloitte Touche Tohmatsu. This process led to much ‘leaner’ and more highly levered partnerships, as illustrated in table three.

**Table 3: Changes in partner numbers and leverage<sup>10</sup>**

	Ernst & Whinney 1987	Arthur Young 1987	Ernst & Young 1993	Change Before retire- ments		Touche Ross 1987	Deloitte Haskins Sells 1987	Deloitte Touche Tohmatsu 1993	Change Before retire- ments
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	

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].

And another remembered:

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].

## **Discussion and conclusion**

These extensive narratives and historic data provide a series of individualistic perspectives concerning the dynamics in the affiliations of major transatlantic chartered accounting firms. From the examination of survey responses and interview narratives of New Zealand international affiliations, there was an extensive range of experiences from mergers and affiliations being lost and gained. The Big Eight 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, especially if they do not survive a subsequent merger.

It was clear that there were very strong ties to the offices in Britain throughout the immediate post-World War II decades, strengthened by traveling 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. The international affiliations thus resulted in the growth of worldwide accounting practices, the standardisation of which reduced the risk of audit failure. These 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.

It was also of note from these interviews that transmission of audit methodology was not a 'one-way street' from the United Kingdom to New Zealand. Some United Kingdom firms found that audit techniques in New Zealand in the post World-War II period were well developed and young accountants arriving in England found themselves being offered positions of considerable responsibility on the basis of their New Zealand-gained expertise. The good standing of young accountants from New Zealand in the United Kingdom continues to the present day.

This study documented diverse origins of the drivers to each specific international affiliation, but there was at times some hesitancy by the New Zealand partners to strike up such linkages. Their hesitation was largely

based on concerns with the loss of their local branding, the costs of professional indemnity insurance, and costs of capitation or levies. The benefits 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 such mergers twenty years later when there were even larger transatlantic mergers between the Big Eight firms. The earliest merger of KMG (Europe) and Peat Marwick Mitchell (UK and USA) had few casualties, but the later mergers of Touche Ross with Deloitte Haskins Sells and Ernst & Whinney with Arthur Young were, in some cases, disastrous for partners in local branches in New Zealand. Whether or not a similar shedding of partners occurred in the PriceWaterhouse – Coopers & Lybrand merger has yet to be accurately documented.

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 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.

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<sup>1</sup> Keenan, Michael G. 2000. Between anarchy and authority: the New Zealand Society of Accountants' management of crisis 1989 - 1993. *Accounting History* 5 (2): 93-118.

<sup>2</sup> Annisette, Marcia, and Dean Neu. 2004. Accounting and empire: an introduction. *Critical Perspectives on Accounting* 15: 1-4.

<sup>3</sup> McNicholas, Patty, Maria Humphries, and Sonja Gallhofer. 2004. Maintaining the empire: Maori women's experiences in the accountancy profession. *Critical Perspectives on Accounting* 15: 57-93; Hammond, Teresa. 2002. *A White-collar profession - African American Certified Public Accountants since 1921*. Chapel Hill, North Carolina: University of North Carolina Press; Kirkham, Linda M., and Anne Loft. 1993. Gender and the Construction of the Professional Accountant. *Accounting, Organizations and Society* 18 (6): 507-588; Kim, Soon Nam. 2004. Imperialism without empire: silence in contemporary accounting research on race/ethnicity. *Critical Perspectives on Accounting* 14: 95-133.

<sup>4</sup> Chua, Wai Fong, and Chris Poullaos. 2002. The Empire Strikes Back? An exploration of centre-periphery interaction between the ICAEW and accounting associations in the self-governing colonies of Australia, Canada and South Africa, 1880 - 1907. *Accounting Organizations and Society* 27: 409-445. Walker, Stephen P., and Ken Shackleton. 1998. Corporatism and structural change in the British accountancy profession, 1930 - 1957. *Accounting, Organizations and Society* 20: 467-503.

<sup>5</sup> Cypert, Samuel A. 1991. *Following the Money: the Inside story of Accounting's First Mega-merger*. New York: Anacom.

<sup>6</sup> Deloitte, and Co. 1958. *Deloitte & Co 1845 - 1956*. Privately printed in Oxford: OUP; Jones, Edgar. 1981. *Accountancy and the British economy 1840-1980: the evolution of Ernst and Whinney*. London: Ernst and Whinney; Touche-Ross. 1981. *Touche Ross & Co 1899 - 1981: the origins and growth of the United Kingdom firm*. London: Touche Ross & Co; MacLean, Francis J. 1980. *River of Experience: The story of a New Zealand Accounting Firm*. Dunedin: John McIndoe Ltd.

<sup>7</sup> A similar 'acronyminous' fate was dealt to the Australian firm of Hungerford Hancock and Offner: it was commonly known as H<sup>2</sup>O.

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<sup>8</sup> Jones, 174.

<sup>9</sup> Anon. 1982. Council 'Yes' to NZ use of international names. *Accountants Journal* (October): 264.

<sup>10</sup> This material is sourced from the author's analysis of data concerning partners in the Big eight firms from the yearbooks of the New Zealand Society of Accountants