CHAPTER ELEVEN

From Local to Global: Auckland Accounting Partnerships

RACHEL F. MORLEY

The expansion of manufacturing, and retail activities in Auckland was accompanied by the development and growth of accounting partnerships in a manner distinctive from legal, medical or other professional service firms. Accounting partnerships mimicked characteristics of their clients more closely than did other professional service firms, growing from local offices to nationwide groupings, and then adopting international affiliations. In particular, the past forty years in the history of accounting partnerships in Auckland have shown a loss of local identifiers, the adoption of international firm names, and partners having to fight to survive in partnerships with dwindling partner numbers and rationalisation of branches. During this period, partnerships have also shifted from organisations based on principles of collectivism and collegiality to firms that have all the characteristics of corporations, usually described as managed professional bureaucracies.[1] The more recent study by Brock, Powell and Hinings further divides partnerships into three co-existing archetypes: the traditional professional partnership, the global corporate professional network (typified by the Big 8), and the intermediate form, the 'Star' form, with stable size and specialisation in particular types of accounting services.[2]

In this chapter, the focus is on accounting firms in Auckland which moved from the traditional professional partnership to a global corporate professional network. To illustrate this transformation, two particular case studies are provided. The first is the merger between the Auckland firms of Clark Menzies with McCulloch Butler and Spence; the second, when the Auckland partners in the firm of Lawrence Anderson Buddle joined Deloittes. These two cases illustrate the fierce competition between accounting partnerships to gain dominance and reputation in the Auckland business sphere while at the same time strengthening international affiliations with naming rights. However, an outcome from the adoption of international names was that firms in New Zealand were then subject to mergers dictated by their transatlantic offices. These mergers were a major cost to New Zealand partners, both in business clients and in the personal costs of partnership redundancies.[3]

It is not a claim of this study that accounting partnerships have demonstrated any fundamental characteristics unique to Auckland. However, Auckland business history has seen the rise of the service industries and retail sectors, relative to the manufacturing and primary industries, as an important contributor to its growth and development, and accounting firms are one of these service industries. Looking back to the early twentieth century, the business environment in Auckland was no different from elsewhere in New Zealand.

Early practising accountants in Auckland

One hundred years ago a businessman walking down Shortland Street and up Queen Street would have been provided with a choice of eighteen or so accountants or bookkeepers. Not as many as in Dunedin or the gold rush regions, but a good selection; include in this chartered accountants from England, members of the New Zealand Accountants and Auditors Association (Auckland-based)[4] or the Incorporated Institute of Accountants of New Zealand (Wellington-based).[5] A few 1904 names are recognisable, such as Henry Gilfillan; Cooke & Buddle at 76 Victoria Arcade; and Alexander Grierson in the Government Insurance Building on Queen Street. At the same time, Watkins and Hull, later to have offices at 47 Custom Street,[6] can be observed to have established their Wellington office.

Forty years later, the 1942 *Business Directory* showed A. & J. Grierson & Browne at 99 Queen Street, later to merge into McCulloch Menzies; and Hutchison Elliffe and Cameron at 2 Durham Street. Clark Menzies were now in Wellington[7], at 102 Featherston Street, shortly to expand to 18 High Street,

Auckland, and to play a key role in one firm on which this study focuses.

A very early issue of *The Accountants Journal*, the official organ of the New Zealand Society of Accountants, provided a discussion by J. O. McKinsey in 1925 concerning 'Modern Tendencies in Accounting Practice'.[8] He described the major growth in public accounting firms after 1896 in the United States, when large corporations were appealing for capital from lenders and shareholders. Their need for credible information provided an additional supply of work for the accountant; the other came with the income tax changes during the First World War. This situation was paralleled in New Zealand with the new company promotions, as documented for the period 1880–85 by Stone.[9]

One major change was the status of the financial controllers within companies, with administration, budgeting and statistical analysis becoming more important in company management. On the other hand, the accountant in public practice increasingly provided tax advice and assisted in preparing initial public offering statements. McKinsey noted the growth in small accounting partnerships as benefiting client relationships in a manner which was not possible for large firms. Personal contact between a partner and their client was resulting in more small partnerships, rather than the large firms getting bigger to service this market. The history of these four firms shows a steady pattern of partners repeatedly leaving large firms, especially to 'spin-off' firms, reflecting McKinsey's prediction of the benefits of providing client services in smaller firms. However, small firms do not often remain as small firms, as the next section illustrates.

Auckland firms in the 1970s

Mergers in the 1970s laid the foundations for affiliations to the Big 8 accounting firms. The mergers enabled otherwise small firms to gain a larger number of partners and a national spread of offices, while remaining under the maximum number of partners permitted by the New Zealand Society of Accountants. It was typical in the early 1970s that firm names continued to recognise founders of accounting firms. Some examples of this are when Buddle and Company merged with Anderson and Co. (Dunedin), Lawrence Godfrey and Co. (Christchurch), and Cook and Co. (Wellington), to form Lawrence Anderson Buddle. Another firm with local names was Kendon, Mills, Muldoon and Browne, which later merged with Cox Arcus to become Kendon Cox. It was then renamed K.M.G. Kendons, recognising its affiliation to Klynveld Main Goerdeler, a major European player.

The history of Peat Marwick can be seen, first, in the combining of: Burtt McGillivray & Mann; Morris Duncan Gyllies; and Pattrick Feil. These three firms merged in 1972 to form Morris Pattrick & Co. Secondly, in 1971 Gilfillan Gentles & Steen merged with Pickles, Perkins & Hadlee to form Gilfillan, Gentles, Pickles & Perkins[10]. This firm became Gilfillan & Co. after the merger with Bowden Bass & Cox (Wellington). A merger with Morris Pattrick & Co. resulted in Gilfillan Morris & Co., the firm affiliated to, and then adopting the name of, Peat Marwick Mitchell & Co.

Lastly, Wilkinson Christmas & Steen, Stewart Beckett & Co., Henry Kember & Son, Dymock MacShane & Co., and W. F. & R. J. Nankervis all merged to form Wilkinson Nankervis & Stewart in 1970; this merged with Wilberfoss & Co. in 1976 to become Wilkinson Wilberfoss, the firm affiliated to, and then adopting the name of, Arthur Young. Some of these firms already had an affiliation offshore by 1970. Others were slow off the block and did not get the opportunity to be the preferred providers for the biggest of the Big 8 names. Table 1 describes some of the early connections, and subsequent linkages, in the international affiliation events.

This study examines the history of Deloitte Touche Tohmatsu in particular. The history of that firm can be traced from the founding of the firm of Hutchison Elliffe Cameron & Co., by George W. Hutchison. He was Mayor of Auckland 1931–35, and President of the New Zealand Society of Accountants. Mr H. Y. Cameron joined Mr J. M. Elliffe and Geo. W. Hutchison in a partnership in 1923. J. M. Elliffe was Secretary of the Auckland Branch of the New Zealand Society of Accountants for twenty-eight years, and President 1931–32.[11] Hutchison Elliffe Cameron & Co. much later merged with Rowley Gill Davies & Co. (Wellington) and Jameson, Son & Anderson (Christchurch) to form the national firm of Hutchison Elliffe Davies Anderson & Co. in 1967. It was the link with Rowley Gill Davies & Co. that brought the international affiliation with Deloitte Plender Griffith & Co. in the United Kingdom to the merger table.

The 1971 merger to form Hutchison Hull was a merger between Watkins Hull Wheeler & Johnston, Hutchison Elliffe Davies, Anderson & Co.[12] and W. C. Reid & Sons (Dunedin).[13] Hutchison Hull then strengthened the affiliation to Deloitte Haskins & Sells, taking that name in 1983.

In addition to the use of local identifiers with long-established names in accounting partnership, a second characteristic of these firms up to the mid-1980s was that they were quintessential partnership organisations, not organisations based on corporate hierarchies. Income was most often shared within members of the partnership at the local level,[14] although Wilkinson

Wilberfoss, and Barr Burgess and Stewart, had nationally integrated systems of income allocation. However, all firms were based on democratic organisation, and partners adhered to the principle that they had a responsibility to future partners to leave the partnership in a better state than it was when they joined. They were also committed to staying in the partnership all their working lives; as one partner remembered, 'when you became partner your next dream was your retirement function, like there was nothing in between'.[15]

TABLE 1: EARLY CONNECTIONS

Overseas firm	New Zealand firm	Notes
Arthur Young & Co. Pannell Kerr Foster	Wilberfoss Harden Daniel & Co. Wilkinson Nankervis & Stewart	Merged and became Wilkinson Wilberfoss, and then Arthur Young in 1983
Whinney Murray & Co.; Ernst & Whinney	Hunt Duthie & Co.	
Coopers & Lybrand	Barr Burgess & Stewart	
Deloitte Haskins & Sells	Hutchison Hull & Co	
Horwath & Horwath Touche Ross & Co.	McCulloch Butler & Spence Clark Menzies	Merged in 1979 to form McCulloch Menzies; became Touche Ross & Co. in 1984; of the 85 partners only 21 went to the newly-formed DRT
Peat Marwick Mitchell Klynveld Main Goerdeler	Gilfillan & Co. Morris Pattrick & Co.	Merged in 1977 to become Gilfillan Morris & Co.; became Peat Marwick Mitchell & Co. in 1983
Price Waterhouse & Co.	Price Waterhouse & Co.	Unique in using an international name in New Zealand before 1982, because they had the name before a restriction on the use of international names was instituted
Thompson McClintock in United Kingdom, Main Lafrentz in United States	Cox Arcus Kendon Mills Muldoon & Browne	Merged with other firms to form Kendon Cox & Co. in 1980; K.M.G. Kendons (45 partners) split up in 1986/87 It was affiliated to K.M.G. after the Pattrick–Gilfillan merger, but lost affiliation after KMG*–Peat Marwick Mitchell transatlantic merger
Alexander Grant Tansley Witt	Cook & Co. Lawrence Godfrey & Co.	Split in 1979 between Hunt Duthie and Lawrence Anderson & Buddle
Mann Judd Hancock Woodward & Neil (Sydney)	Buddle & Co. Anderson & Co.	Lawrence Anderson Buddle (1980); 42 partners in 1986 and disintegrated in 1986/87. L.A.B. was in a correspondent relationship with Arthur Andersen until the Auckland partners left to go to Deloittes

* 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 K.M.G. which was Klynveld Main Goerdeler.

The third distinguishing characteristic of accounting firms in the 1970s was that they had small numbers of partners and thus tended to specialise in different areas of services offered to the public. In contrast, the conglomerations of large firms in the 1990s were not only characterised by being large enough to support specialists, but also offered largely the same range of services as all the other Big 8. One point of difference between firms, even early on, was the degree to which they offered services for businesses facing insolvency or receivership. This proved to be key to survival and growth in the aftermath of the 1987 sharemarket crash in New Zealand. Although many partnerships lost a large number of audit clients, those with a developed insolvency specialisation were able to gain more business from that activity which, in part, compensated for the loss of income from auditing activities in the immediate post-1987 crash years.

Evolution and internationalism: two case studies

Why was there a change in the accounting firms from this point? Apart from the effect of the 1987 crash, there were four other major influences on the evolution of the firm. One was the move to service multinational enterprises by offering international audit services by globalised firms. Second, increasing consulting activities and risk management advice being undertaken by the firms. Third, the need for increasing capital to invest in large IT systems within the firms; and, last, the effect of the granting of approval by the New Zealand Society of Accountants in 1983 to allow international firm names.

The impact of these influences on New Zealand firms was that the large firms sought to take international firms' names, to retain large audit clients with the associated opportunities for consulting activities, and to keep at the top of the 'league table'. Reputation as being the largest firm was valuable, combined with having a strong international reputation. This was a two-edged sword: not only did the firms in New Zealand collapse when their American firms collapsed, as in the case of Arthur Andersen, but also they were then subject to directives to mergers from transatlantic imperatives. In order to illustrate these changes in accounting firms after the 1970s, this study now looks in detail at two particular events that epitomise problems in the transition from such local firms to the current state of the 'Big 4'.[16]

The merger of Clark Menzies with McCulloch Butler & Spence in 1979

McCulloch Butler & Spence, on the East Coast of the North Island, had a major

audit client: Wattie Industries (producer of canned fruit and tomato sauce). Watties was shifting its head office from 'the fruit bowl of New Zealand' (Hawke's Bay) to Auckland. McCulloch Butler & Spence thus needed to provide a stronger Auckland base. Although they could have strengthened their Auckland office with transfers of staff from the East Coast region of New Zealand, they decided instead to merge with Clark Menzies, which had offices in Auckland, Wellington and Christchurch. Previously, the international link from McCulloch Butler & Spence had been to Horwath and Horwath; but they dropped this affiliation after the merger with Clark Menzies, as Clark Menzies already had a connection to Touche Ross & Co. The new firm was called McCulloch Menzies, dropping the Scottish pronunciation of 'Menzies'.

Parties from both sides do not remember it as being a successful merger. A former partner of the Clarke Menzies recalled differences largely due to the perception that partners from Auckland thought that they deserved more money than the others. There were also natural jealousies that emerged. Two former partners from the McCulloch Butler & Spence side recalled that they just 'got it wrong'; weakening the 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.' Another partner remembered a very clear feeling of 'an us and a them. There was McCullochs, and there was Clark Menzies; and there was definitely a friction between the two.' The East Coast group, the offices in Hastings, Gisborne, Napier, Waipawa and Wairoa, was very close and worked very well together. That didn't happen to the same extent after the Clark Menzies merger.

An indication of the failure of this merger to integrate sufficiently is provided in the debate within the firm concerning income allocation. McCulloch Menzies was attempting to develop a nationally acceptable method of profit allocation, with a distinction between regional and metropolitan offices. Although financial integration is considered to strengthen partnership cultures, the McCulloch Menzies system had not had the opportunity to mature to a point where it could unify the partners. Undoubtedly part of the delay in reaching agreement concerned the differences between the culture of Clarke Menzies and McCulloch Butler & Spence. Both had some weaknesses, there was no particularly strong leadership acceptable to both parties, and neither appeared to sufficiently respect its new merging partner, as noted in the above comments.

McCulloch Menzies then adopted the name of Touche Ross & Co. in 1984. Mergers with smaller firms continued. In 1985 five partners joined from the

Auckland firm of Grierson A. & J. Goodare Gibson & Co.,[17] and four of the five partners from Markham and Partners (Rotorua). But underlying problems remained. When they merged with Deloitte Haskins & Sells in 1989, they were not the stronger party to the merger. Many former Touche partners lost their jobs in the new large national organisation. In the Auckland office of McCulloch Menzies there were nine partners in 1981; ten years later none of these were in the firm of Deloitte Touche Tohmatsu. Table 2 provides data on partnership destinations nationwide three years after the merger.

TABLE 2: PARTNERSHIP DESTINATIONS THREE YEARS AFTER THE MERGER

	Touche Ross & Co.	Deloitte Haskins & Sells	Deloitte Touche Tohmatsu
Partners in 1989	83	66	149
Moving to other Big 8:			
K.P.M.G.*	-13		-13
C. & L.		-2	-2
E.Y.	-1		-1
To spin-off firms**	-24	-6	-30
To small firms	-10	-3	-13
To sole practice	-7		-7
Unable to trace after exit or retiring	-14	-10	-24
Moving to industry	-1	-1	-2
New partners admitted			10
No. of those leaving after merger			-1
Partners in 1993	13	44	66

* Nine of the thirteen who went to K.P.M.G. were in Gisborne.
** The spin-off firms from Touche Ross & Co. included Beattie Rickman in Hamilton, Silks in Wanganui, Tarrant Cotter in Wairoa, Iles Casey in Rotorua, Cottam Cave Evetts & Fah in New Plymouth, and Richardson Epplett & Pnrs in Hastings.

The merger of the Auckland office of Lawrence Anderson Buddle with Deloitte Haskins & Sells in 1987

The second event illustrating the importance of international affiliations can be observed in the movement of the Auckland office of Lawrence Anderson Buddle to Deloitte Haskins & Sells. The failure of Lawrence Anderson Buddle to gain a formal affiliation with name adoption of Arthur Andersen sowed the seeds of Lawrence Anderson Buddle's disintegration. The Auckland partners were unhappy that Arthur Andersen was not prepared to formalise the affiliation. In Auckland, Lawrence Anderson Buddle partners recalled that

they had concerns about the unwillingness of Arthur Andersen to 'embrace' the New Zealand firm nationally. They were uncomfortable about staying on this representative basis; knowing they either had to get closer or change their representation. Their options were to seek to become the Arthur Andersen representative alone or to withdraw and seek an alternative association. The latter course was preferred, and the Auckland partners unexpectedly announced to the other offices that they were leaving and joining Deloittes Haskins & Sells.

From the other end of the country there was alarm at the loss of the Auckland office. It was variously described as 'unforgivable the way it was done' and 'a midnight coup'. Without an Auckland office the association with Arthur Andersen was no longer tenable, because Arthur Andersen wanted the representation in Auckland and Wellington, and were not really interested in Christchurch and Dunedin. The three other major urban branches were invited to join Deloittes with the Auckland office, but 'the feeling was so strong that we'd been betrayed that nobody was even interested in joining in with them'. Eventually, seventeen Lawrence Anderson Buddle partners from outside of Auckland went to Price Waterhouse, and this merger fitted very well for many of the partners.

This was one of the few occasions that partnership movements drew media attention; the *New Zealand Herald* noted on 15 September 1987 that the combined staff of 275 in the Auckland office of Deloitte Touche Tohmatsu after this event included twenty-one partners.[18] This suggests a relatively 'lean' organisation in terms of partner/staff ratios. Arthur Andersen then affiliated to a small firm (McLeod Lodjkine & Assoc.) in Auckland of five partners, all ex-Peat Marwick, and this gradually grew in the 1990s to have offices in the main centres.

These two cameos have been used to illustrate changes in accounting firms in Auckland after the large national firms were formed in the 1970s.

Major developments and their implications

There were three major changes in professional accounting firms in Auckland. Each of these had important implications for the partners, their clients, and the accelerating processes of globalisation of business activities and audit requirements.

First, the processes of internationalisation of firms led to structural changes in the accounting firms, moving away from partnership systems to complex hierarchies. This change has been well documented in the study by Rose and

Hinings,[19] which examined how global client demands were driving changes in the large accounting firms. The processes of internationalisation were followed by the necessity to comply with merger decisions. These decisions were principally driven by the need to maximise synergies or efficiencies in transatlantic business, but had the result of rupturing firms in Australia and New Zealand, as already described.

A second development was the loss of local identifiers: the predecessor firms of Deloitte Haskins & Sells and Touche Ross & Co. in New Zealand had been keen to adopt international names. These names brought the audit business of multinational clients, status, and the expertise and training the international connections provided. It was recognised that young staff benefited from working in the firms' London or US offices, to gain experience and take advantage of networking opportunities. However, an international merger event dictated by the US head office brought about a forced merger, without some of the Touche Ross & Co. audit clients in Australia or the Deloitte Haskins & Sells UK audit clients providing additional business after the merger.[20] The firms were now locked into a mega-merger that resulted in the disintegration of Touche Ross & Co. and, with it, the old well-established partnerships of McCulloch Butler & Spence, and Clark Menzies.[21]

Thirdly, there was the loss of the partnership model, with the shift to the professional service firm. One partner remembered that before the late 1980s he would have regarded his peers in the other accounting firms as his professional colleagues, not really as competitors. However, more recently the position is entirely different: 'We are much more competitive. The marketplace is much, much tougher. We do go and try and pinch other people's clients off them, whereas we never used to do that. You know, it used to be unprofessional to do that, it's no longer unprofessional to do that.' The situation is now much more competitive *vis-à-vis* other firms, other professional firms. It is acknowledged that 'in most ways it's for the better, it's only those of us who have been around quite a while who quite liked the more collegial sort of atmosphere'.[22] Another also found that 'the challenge wasn't to beat the enemy out in the marketplace, it was almost to get ahead of one's fellow partner . . . The post-crash period meant that the stabilisation of the pecking order was aggravated by the reduction in business generally.'

This reinforces the principle that partnership events cannot be understood on the assumption that partners are unified in their aspirations and commitment. In a study by Morris and Empson,[23] the experiences in two (unnamed) accounting firms are described, and it is noted how incentives and cooperative behaviour were enshrined within the culture of the firms. The

authors also suggest that when firms are restructured through merger and international reorganisations, the later success of the firms partly depends on the management of knowledge transfers in the changing cultures of more hierarchical firms, and on the processes of knowledge transfer which may be aggravated by a lack of collegiality between partners.

The results of this study promote consideration of the extent to which the strength of an organisation relates to income allocation and financial integration of the partnership. A survey had been undertaken prior to the interviews for this project. In that survey, some responses to the question concerning 'the most significant factors in firm survival' identified financial integration as important to the firms' strength.[24] However, Deloittes did not have an integrated financial income allocation model, although Wellington and Auckland were one profit pool after 1990. Therefore, its strength during the Deloitte/Touche merger was not primarily derived from financial integration. In contrast, Touche Ross & Co. was attempting to develop a nationally acceptable system of profit allocation, with a distinction between regional and metropolitan offices in the allocation. While it was in the initial years of implementing a model, the Deloitte/Touche merger was proposed. Although financial integration may strengthen partnership cultures, for Touche Ross & Co. their system had not matured sufficiently. There are also hidden factors that can decimate a firm with little or no publicity, such as internal theft and out-of-court legal settlements in liability cases.[25] Touche Ross & Co. had problems with internal control, and/or defalcation of client funds, in at least four offices in the North Island in the 1980s.

Conclusion

It was acknowledged at the start of this study that, among professions, accounting firms in particular mimicked characteristics of their clients, moving from local firms to national firms to being part of multinational enterprises. Auckland accounting firms became part of national networks to audit their clients, and then international alliances were formed as Australian or other overseas enterprises absorbed their audit clients. The impact can be clearly observed from the analysis of partner numbers and partner movements in this study. Audit NZ also gained senior staff from the diaspora of Big 8 partners in the 1980s.

A more recent impact, not documented in this study, was the effect of the PriceWaterhouse/Coopers and Lybrand merger on partners in Auckland, and the effect of the collapse of Arthur Andersen in the United States on their

partners in New Zealand, most of whom transferred to Ernst & Young. The movement of partners is like the top tenth of an iceberg; many staff below partner level moved with the Arthur Andersen partners to Ernst & Young, resulting in a sudden dearth of immediate employment opportunities for young graduates while the firms adjusted their staff numbers. The moderate increase in business from this shift was not commensurate with staff numbers, while the audits of surviving clients previously undertaken by Arthur Andersen worldwide were spread over the remaining Big 4 accounting firms.

Is bigger better? Perhaps yes, for the multinational clients, who depend on the reputation of auditors to ascribe confidence to their financial reports. But for the partner, the answer must be no for all but a few of the survivors; partners may well make more money over their working life in smaller, more stable firms. One partner commented that he would rather retire early than have to face another merger in his career. Firms other than the Big 8 continue to undertake audits of listed companies.[26]

So what does this tell us about Auckland business history? Auckland is the magnet for constant population movements from the Pacific, from Asia, and from other parts of New Zealand, and as the labour and consumer markets expand, it attracts businesses which expand in, or shift to, Auckland. Thus, first, the regular movement of head offices of companies, such as Watties, to Auckland has had a significant impact on their auditors. To keep the audit, the accounting firms have had to follow suit. Secondly, once an international affiliation had been forged, it is undoubtedly clear that the international affiliation was made or lost on the strength of the Auckland office. One major shift in the power of different urban branches was the swing of the pendulum between 1970 and 2000. In 1970, the majority of revenues for national accounting firms was derived from the Wellington offices of the large firms servicing clients such as banks, insurance companies and other head offices of national firms; by 2000, this had shifted to Auckland.

Adaptive behaviour by firms can be best understood if firms are not treated as one entity, but as a cluster of individuals competing between each other as well as competing with other firms. The value of a proprietary view over an entity perspective is rarely documented in organisational histories, and this study makes a contribution to the development of such an approach. In particular, the firm histories themselves have often glossed over the costs and downsides of expansion and mergers. These histories and stories of the survival and disintegration of accounting firms can be seen as closely related to both the role of Auckland and the role of international globalisation in New Zealand business history.