Globalization of professional accounting: the Big 8 entering New Zealand

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by

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Abstract

The Big 4 accounting firms (previously Big 8, Big 6 and Big 5) have spread around the world and dominate the market for auditing services in most countries. Until relatively recently, this was not the case, and each country's accounting profession was led by local firms. The spread of these partnerships throughout the world is a phenomenon worthy of research, and we examine the spread of these firms to New Zealand. Previous literature on this and related issues is consistent in suggesting that such changes are driven by globalization of business generally; technology; and deregulation. Our evidence finds some support for globalization, and strong support for technology as a factor, but little support for deregulation. We also find that affiliation came at some cost to Big 8 partners in loss of autonomy, but was unavoidable if an audit firm was to remain significant.

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Introduction:

> "A simple example [of the spread of an invention] is the spread of muskets among New Zealand's Maori tribes. One tribe, the Ngapuhi, adopted muskets from European traders around 1818. Over the course of the next 15 years, New Zealand was convulsed by the so-called Musket Wars, as musketless tribes either acquired muskets or were subjugated by tribes already armed with them. The outcome was that musket technology had spread throughout the whole of New Zealand by 1833. All surviving Maori tribes now had muskets".
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> Jared Diamond, "*Guns, Germs and Steel.*" 1997. Norton: New York.

Why did the Big 8 enter New Zealand? As previously observed (Morley, 2006) the New Zealand auditing profession went very quickly from a market of mainly small accounting firms, with a few single city larger firms and one or two national firms, to dominance by the Big 8 international firms. Some formerly important New firms fell by the wayside when they did not obtain an affiliation with a Big 8 firm. Why did the Big 8 enter New Zealand, why the local firms join with them and why was Big 8 affiliation so important? In this study, we test propositions about this issue based on interviews and published records.

Literature review

1. Previous papers on globalizing by Big 8 firms.

One body of previous research on this issue deals directly with the Big 8 firms. In general, this literature depicts the firms as simply searching for growth, in the belief that large size will lead to disproportionate further growth. In a *Fortune* report thirty years ago it was noted that

> "Intensified competition has set all the firms on an eager search for new markets, and one important trail has been abroad. Though the big 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).

Watts and Zimmerman (1986) argued that an accounting firm achieves several advantages by being larger, including economies of scale, development of a brand name and the bonding provided by a very large group of accounting firm partners all putting their professional capital at risk in forming a large firm. Greenwood, Cooper, Hinings and Brown (1993) discussed the motivation for Canadian firms to merge with each other. They described the perceived advantages of greater size resulting from merged firms. They perceive the firms as making an assumption that "big is good, but biggest is best." The advantages of size, as perceived by firms, were (1) reputation – bigger firms are more likely to be invited to tender for audit engagements; (2) spreading costs to price competitively (while investing in technology and training); (3) as the only means of differentiation that is readily available to accounting firms; and (4) the ability to service the overseas operations of clients.

Perera et al. (2003) describe globalization and its impact on accounting firms. They attribute globalization of the accounting firms to deregulation allowing growth of clients, which therefore need larger firms to provide audits and other services; deregulation creating opportunities for accounting firms in new countries and regions; and technology increasing efficiency and reducing control costs. The authors show that there has been increasing globalization since the 1970s, although their evidence about the reasons for globalization is generally more recent and includes events in the 1990s such as the collapse of the Iron Curtain and the growth of the internet. Overall, the previous accounting firm literature suggests that the spread overseas of the Big 8 firms was driven by economic incentives for growth including the benefits of larger size, the spread of multinational firms and developments in technology.

2. The wider literature on professional organizations

There is a wider literature that examines professional organizations including accounting firms as well similar entities such as law firms and medical practices. Within this broad category of entities there have also been observable changes in recent decades. Brock (2006) reviews the evolving professional archetype and forces for change.

Professional organizations include accounting firms as well as other bodies like law firms, hospitals and universities. Mintzberg (1979, 1983) identified this category as a distinctive configuration in which professional staff functioned autonomously without formal work processes or bureaucratic control. Later, Greenwood, Hinings and Brown (1990) describe strategic management of the professional firm as the P^2 model, for professionalism and partnership. These two depictions of professional organizations are described as a consistent picture, in which "power rests in the hands of professional experts, managers administer the facilities and support the professionals, decisions are made collegially, change is slow and strategy is formulated consensually" (Brock 2006, 160). Brock argues that there have been changes to this model in recent times. Cooper, Hinings, Greenwood and Brown (1996) propose that the P^2 model has now been supplanted by a form called the Managed Professional Business (MPB), in which an overlay of managerialism and business values is added. Brock (2006) argues that this model itself has been supplanted by an emerging archetype, the global professional network (GPN). The six characteristics of the GPN which represent developments from the earlier models, are (1) managerialism and becoming more business-like; (2) reliance on formal networks instead of informal networks of professionals; (3) more individualized reward schemes; (4) business-like governance structures replacing the partnership model; (5) increased global reach; and (6) a trend towards multidisciplinary practice. The reasons given for these changes are deregulation and competition (including increased litigation), technological developments and globalization (Brock and Powell, 2005; Brock 2006). Brock 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, page 163). This literature suggests that the accounting firms themselves have been changing over the period in which they became dominant around the world, and have become more managerial. The initial spread of the firms took place before recent changes, but some managerial influences were already evident.

3. Previous research about deregulation and changes in accounting firms

A stream of recent papers seeks to explain recent auditing problems as following from changes to the profession in earlier decades, particularly with reference to deregulation in the late 1970s and 1980s. These papers are consistent in seeing a decline in professionalism by accounting firms. This is attributed to advertising (Imhoff 2003 and Wyatt 2003); or direct solicitation of the clients of other accountants Zeff (2003a and 2003b); or those factors plus changes to the legal liability of auditors (Palepu and Healy 2003). Empirical studies of deregulation find increased competition leading to reduced fees in the US (Maher, Tiessen, Colson and Broman (1992) and Australia (Craswell 1992), but not in Canada (Anderson and Zéghal 1994). Craswell (1992) comments that competition and price cutting could have adverse implications for audit quality. This accounting deregulation literature is consistent with the professional services firms' literature in documenting a change from professionalism to managerialism, but attributes it to specific regulatory changes.

4. Previous New Zealand studies

There are also previous studies of the New Zealand audit services market. 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 63% of listed company assets (Gilling 1975). 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 Big8 in 1968. These affiliations covered seven of the New Zealand audit firms with the largest share of the market in 1968.

Gilling (1970) also commented on a trend towards greater concentration and larger firms. He observed that:

> "Years ago the image that auditor presented to his clients and the public was that of the sole practitioner with his eyeshade and quill pen, ticking everything in sight. Today the image is that of an auditing 'factory' staffed and managed by competent quality control inspectors and operating in the financial canyons of Featherston Street and Queen Street."

Gilling (1975) noted that the same trend towards greater concentration is occurring in the UK, the US, Canada and Australia. He raised concerns about whether larger firms stifle creativity and reduce job satisfaction, and about monopoly tendencies. Subsequently, Johnson, Walker and Westergaard (1995) found that the New Zealand market was dominated by the Big 8 firms. Studies by Firth (1985; 1993) and Hay and Knechel (2006) found very mixed evidence of whether the Big 8 charged higher fees, however. Baskerville and Hay (2006) examined the effects in New Zealand of the global mergers in 1989 which reduced the Big 8 tot eh Big 6. They found that partner income maximization was of more importance than firm revenue maximization. An examination of partner numbers, and interviews with former partners, reveal the importance of partner leverage effects, where individual partners can be made better off while downsizing the firm. These results are consistent with an observation that partnerships have different objectives than corporations, and partners can seek to benefit from downsizing, so long as the number of partners is reduced proportionately more than the amount of net income.

Summary of literature review

The stated reasons for the spread of the Big 8 firms throughout the world in previous research have some reasonably consistent elements, being based on globalisation, deregulation, and technology. However, there are inconsistencies, and each set of literature appears to exclude points raised in other areas, particularly those matters that occur earlier than the changes that they are addressing. For example, the globalization of the accounting profession was under way well before the mid 1970s, and it is hard to explain it by reference to events occurring later than that. The spread of these firms also took place prior to deregulation of the accounting profession, and before their transformation into the Managed Professional Business /Global Professional Network form. We examine this issue by reference to evidence including interviews and published data.

Evidence

This study offers a historical perspective on globalisation from the viewpoint of partners who were involved in affiliating with the Big 8 firms. Why did they grasp such opportunities so readily? What do they tell us in their own words? This research answers part of a more general question: how do people within partnership organisations behave, and why? How did that process of international affiliations get started, and were the major consequences unanticipated and unintended?

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 survey was administered in 2002 to 488 members of the Institute of Chartered Accountants of New Zealand who were partners in Big 8 firms between 1982 and 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. The interviews were conducted using oral history protocols,

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.

Table 1 reviews the major New Zealand audit firms in 1968 and 1973, and their international affiliations. Gilling (1970) observed that the major New Zealand firms had been established in their present form since the early 1930s, or earlier. The development of international affiliations then led to considerable merger activity in New Zealand, as national firms were formed and some of the major firms combined with each other. New Zealand firms at that time were not permitted by their profession to use firm names other than those of existing or previous partners, and this prevented firms from changing to the names of their Big 8 affiliates until 1982. (Price Waterhouse was an exception, having been established in New Zealand before that rule was introduced).

Insert Table 1 about here

The interview data is summarised in Table 2. Benefits from obtaining overseas affiliation were seen by most interviewees. It is clear that the partners saw strong advantages in technology transfer (audit manuals and procedures) to the firms in New Zealand. Training of staff, both by training courses and by sending New Zealanders to get experience overseas were also frequently stated as advantages of these affiliations. (The only partner to state that these benefits did not apply was from a firm without a strong Big 8 link and which consequently broke up). The more conventional reasons of reputation by being able to use the Big 8 name were not supported. The benefits of work referred from overseas were supported by some partners but only a few, with the position to the contrary also being supported. Other factors included needing a national affiliation, and the substantial disadvantage of higher professional indemnity insurance premiums.

Insert Table 2 about here

As noted above, by the late 1960s, the Big 8 already had affiliations, and the major New Zealand firms were already establishing their destinies by choosing which international firms to affiliate with. It is interesting to observe that:

(a) These associations developed before the Big 8 could use their firm names in New Zealand, so the name / reputation issue is not the only reason

(b) But the firms changed to international names as soon as they could, so that there was some attraction in being able to use a Big 8 name.

By the time that firms were permitted to adopt their international names (1982) it was clear that the most of the major New Zealand firms were affiliated with a Big 8 firm. Major firms that could not establish or maintain a Big 8 affiliation generally broke up (Lawrence Anderson and Buddle) or became a series of smaller firms (Kendons). Subsequently the 'mega-mergers' of the late 1980s were imposed to some extent on the New Zealand firms, and there was some negative effect on the partners in the firms that did not take the dominant position in these mergers (Baskerville and Hay, 2006). In addition to the perceived benefits and disadvantages, the stories of major New Zealand firms that did not obtain or keep a major firm affiliation illustrate the costs of not doing so.

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 Klynveld 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 minds that they would not submit themselves to the direction of Peat Marwick Mitchell. The Hamilton and Dunedin offices, deciding that they wanted to join Peat Marwick Mitchell, entered individual talks with Peat Marwick Mitchell firms in these cities, and merged with them in 1985 and 1986 respectively. Partners in the remaining offices of KMG Kendons, 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. 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 Deloittes. From the other end of the country there was alarm at the loss of the Auckland office:

> *"There was something of a midnight coup, if you may say, because after three or four years of association in Lawrence Anderson Buddle – it might have been longer than that - the Auckland office suddenly took it upon themselves to shift camp, and did a deal with Deloittes without any of the other firms knowing. That*

> *really left us totally exposed, because the moment they shifted out of the Auckland office our association with Arthur Andersen was no longer tenable, because Arthur Andersen wanted the representation in Auckland and Wellington, [they were] not terribly interested in Christchurch and Dunedin. So we were left then with three firms who were asked to join Deloittes with the Auckland office. Of course the feeling was so strong that we'd been betrayed, you may say, by the Auckland office, that nobody was even interested in joining in with them."*

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. 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.

These trends are also supported by examination of the market share of audits of firms with and without Big 8 affiliations. In 1970, the majority of the market was held by firms with Big 8 affiliations. This rapidly changed in the early 1970s as the large firms increased their market share, and then increased again in the mid 1980s with the demise of KMG Kendons.

Insert Table 3 about here

The interview data showed that the transformation into MPBs/GPNs was well-recognized. The GPNs 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 Duthie*[1]*, 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)

We therefore find that the propositions in the previous literature of globalisation, technology and deregulation are supported in the case of globalisation, strongly supported in the case of technology and not supported in the case of deregulation. Further, globalization of the Big 8 preceded international accounting standards by many years – so any link with recent trends to globalization that have followed the collapse of the Soviet Union or the rise of Asian economies seems weak. The major impacts of Big 8 affiliation were first, technology and the way that affiliation was able to hold a national firm together, while without affiliation with a Big 8 fir, formerly important audit firms

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1 Later Ernst & Whinney

disintegrated. The second effect was the associated increase in the firms' moving from the professional partnership model to the MPB/GPN model.

Discussion

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.

If a partner in 1970 had been able to look into the future, would he have chosen to lead his New Zealand partners into an international affiliation? Some voted with their feet, some were not let in the door, but for most, the 1970s and early 1980s did deliver on the benefits of these affiliations as the world economy enjoyed the post-World War II growth. Without a doubt the advantages of international-standard auditing techniques and training were attractive. That the previous partnership model was to be replaced with a globally-based managed professional business may have appeared to him to be a loss of autonomy, but an unavoidable loss given the advantages of the international referrals and status, and the disadvantages of being left out of the international affiliations with a major firm.

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

NZ Firm	Notes	International affiliation	Top 8 Rankings (Gilling)	
			1968	1973
Wilberfoss & Co	Merged and became Wilkinson Wilberfoss	Arthur Young	**5**	**6**
Wilkinson Nankervis and Stewart		Pannell Kerr Foster	**6**	**7**
Hunt Duthie & Co		Whinney Murray & Co; Ernst & Whinney	**4**	**5**
Barr Burgess & Stewart		Coopers & Lybrand	**1**	**3**
Hutchison Hull & Co		Deloitte Haskin Sells	**3, 6** [2]	**1**
McCulloch Butler & Spence	Merged in 1979 to form McCulloch Menzies	Horwath & Horwath		
Clark Menzies		Touche Ross		
Gilfillan, Gentles, Pickles, Perkins & Co[3]	Merged in 1977 to become Gilfillan Morris & Co	Peat Marwick Mitchell	**7**	**4**
Morris Pattrick & Co[4]		Klynveld Main Goerdeler	**2**	**2**
Price Waterhouse	Unique in being permitted to use an international name in NZ before 1982	Price Waterhouse		
Cox Arcus	Merged with other firms to form Kendon Cox & Co in 1980; KMG Kendons (45 partners) split up in 1986/87	Thompson McClintock in UK, Main Lafrentz in USA		
Kendon Mills Muldoon & Browne	It was affiliated to KMG after the Morris–Gilfillan merger, but lost affiliation after KMG[5]-PMM transatlantic merger	KMG		
Cook & Co	split in 1979 between Hunt Duthie and Lawrence Anderson & Buddle	Alexander Grant Tansley Witt		
Lawrence Godfrey & Co	Lawrence Anderson Buddle (1980); 42 partners in 1986			

[2] Hutchison Elliffe and Davies was ranked 3rd, Watkins Hull Wheeler and Johnstone was ranked 6th
[3] Gilfillan Gentles, & Steen in 1968
[4] Morris Duncan Gyllies in 1968.
[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.

Buddle & Co	and disintegrated in 1986/87.	Mann Judd		
Anderson & Co	LAB was in a correspondent relationship with Arthur Andersen until the Auckland partners left to go to Deloitte	Hancock Woodward & Neil (Sydney)		

Table 2: Reasons for Big 8 affiliations given in open-ended interviews

Panel A: technology

Reason	Person	Quote
Technology transfer to New Zealand firms	Barry Watson, AY	"it wasn't so much the branding, I don't think. I think it was more the technical side because we couldn't use international names."
	Bill Cowan AY	'They were a year or two ahead of us. That you then got the development of such things as integrated working papers, and audit manuals, and that type of thing"
	Gerald Gibbard AY	"quite a lot of staff training and development, partner training and development, all came from the international firms."
	Roger Taylor AY	"all our auditing manuals came from the US."
	John Hagen D	"to keep up with the trends around the world, to keep at the cutting edge of the profession, you had to have access to international methodologies"
	Tom Davies D	"unless you've got a strong relationship with a major firm overseas, your audit area is going to fail, because you need a certain critical mass to maintain the recruiting and staffing and training and all that sort of thing."
	Tim Shaw TR	"very much the methodology we used here was that which was used internationally anyway."
	Jerry Rickman	"I remember going to North America and starting doing auditing work and realising how far behind New Zealand was."

Panel B: staff development

Reason	Person	Quote
Staff development	Bruce Richards AY	"You could see that the . . . senior people to me, who all left and went overseas, and then they came back and became partners. So you could see that

	the way for your career was to do the overseas bit, and we all wanted to do it anyway."
Gerald Gibbard AY	'Just the opportunities for staff to go and work overseas with their international affiliates."
Tom Davies D	"you need a certain critical mass to maintain the recruiting and staffing and training and all that sort of thing"
Owen Young K	"I don't know that did [apply to Kendons], not really, no ."
Tim Herrick LAB	"The international firms, particularly, were very very strong on their training, and we were with associations with international firms, whether it was in fact Arthur Andersen, the early days of Lawrence Anderson Buddle we were associated with Arthur Andersen. Their training was super."
Tony Anderson LAB	"We established a connection with Arthur Andersen & Co. The main reason for that was their training which was absolutely super."
Tim Shaw TR	"we linked in with Touche Ross Australia. I remember going to courses in Sydney and Melbourne and that was always a pretty exciting event for me, having been born in Whangarei."

Panel C: referrals

Reason	Person	Quote
Referral of work from overseas	Barry Watson, AY	"The international advantages of getting more audits. . . The multinationals are all being audited by the same firm."
	Bill Cowan AY	"Ah, we never got a tremendous amount of work from Arthur Young actually. . .No, I don't think that was a reason."
	Roger Taylor AY	"Internationally when Mobil Oil audit US went up for grabs . . . unless they had an office in New Zealand, they may have missed out; and unless we had an association with the parent company auditor, we wouldn't get the audit either."
	Tom Davies D	"if you look around the companies in New Zealand, most of them have overseas owners. Consequently, the audits, the audit appointments are dictated from overseas."
	Tony Anderson LAB	"Yes, in some ways, referrals, but they were small. The international referrals were small."
	Tim Shaw TR	"Because of foreign direct investment and the flows of audit that follow the capital, that would have been why we had a number of approaches, I think, from the other firms, other international firms."

Panel D: reputation

Reason	Person	Quote
Branding and reputation	Barry Watson, AY	"it wasn't so much the branding, I don't think. I think it was more the technical side because we couldn't use international names."
	Robin Brockie, Ernst & Young	"the thing we were scared about was we suddenly let go the Ernst & Young name and we thought we'd lose our clients disappearing out the door. We lost one client. . . The thought we'd lose heaps of clients, and so it showed in the end, that, to me, the clients respected the work we did, regardless of the name."
	Tony Andersen, LAB/PW	"our clients . . .were small business clients. They couldn't give a damn whether they were with Anderson & Co, Price Waterhouse or Deloittes. We tried to tell them it was a big advantage to them. But really it wasn't.

Panel E: other

Reason	Person	Quote

Needing to get a national affiliation	Tony Frankham, LAB/D	"we formed a loose association of firms. . . we had difficulty finding a firm in Wellington because most of the competent auditing firms had been snaffled up by the common trend that was happening in the profession."
No benefits	Peter George LAB	"Well, as I say, from my personal view, there wasn't [any benefit], and even, back now as a sole practitioner, because of my style, my clientele, there was just no need for it"
Disadvantages: insurance premiums	Tony Andersen, LAB/PW	"Yes, well that was the big thing. Professional indemnity. Yes. I think in the end we were paying about $50 to $60 thousand a partner. That's a lot for what was really a provincial practice." [Q: But you pay professional indemnity [insurance] even when you were Anderson & Co?] "oh, yes. But at a lower rate. We'd probably been paying about $10,000 a year instead of $50,000."

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

	Non-Big 8			Big 8		
Year	Total audit fees	Number of clients	Percentage of audit fees	Total audit fees	Number of clients	Percentage of audit fees
1970	510,447	96	62.18%	310,512	53	37.82%
1971	655,380	104	53.77%	563,417	67	46.23%
1972	873,754	118	45.06%	1,065,516	93	54.94%
1973	1,013,693	122	41.14%	1,450,215	109	58.86%
1974	1,294,851	118	41.30%	1,840,052	112	58.70%
1975	1,499,062	119	36.36%	2,623,315	125	63.64%
1976	1,602,672	107	29.96%	3,746,234	145	70.04%
1977	1,681,727	95	27.89%	4,347,546	153	72.11%
1978	1,937,108	91	26.38%	5,405,245	158	73.62%
1979	2,240,234	91	27.29%	5,966,367	143	72.68%
1980	1,564,048	65	18.11%	7,073,548	162	81.89%
1981	1,567,394	52	12.94%	10,549,748	171	87.06%
1982	2,056,214	45	14.61%	12,022,392	156	85.39%
1983	2,751,193	43	17.55%	12,920,791	166	82.45%
1984	1,748,329	42	9.78%	16,126,908	160	90.22%
1985	2,116,942	47	9.06%	21,256,822	201	90.94%
1986	2,546,128	37	9.36%	24,655,282	204	90.64%
1987	2,126,730	30	5.79%	34,630,450	239	94.21%
1988	1,811,377	22	4.44%	38,967,998	186	95.56%
1989	2,250,517	18	5.28%	40,334,224	148	94.72%
1990	2,823,010	17	7.71%	33,796,767	116	92.29%
1991	663,521	18	2.32%	27,924,640	90	97.68%
1992	1,283,569	18	4.84%	25,214,336	84	95.16%
1993	983,808	17	4.34%	21,675,096	85	95.66%
1994	444,821	15	1.80%	24,224,654	94	98.20%
1995	714,977	18	2.91%	23,885,005	113	97.09%
1996	796,755	18	3.48%	22,106,844	97	96.52%
1997	693,413	16	2.95%	22,805,743	98	97.05%
1998	678,926	16	2.61%	25,284,786	100	97.39%
1999	810,589	17	3.08%	25,475,327	96	96.92%
2000	780,648	14	3.68%	20,441,893	94	96.32%
2001	957,962	20	5.12%	17,737,164	96	94.88%
Grand Total	45,479,799	1666	7.81%	536,428,837	4115	92.18%