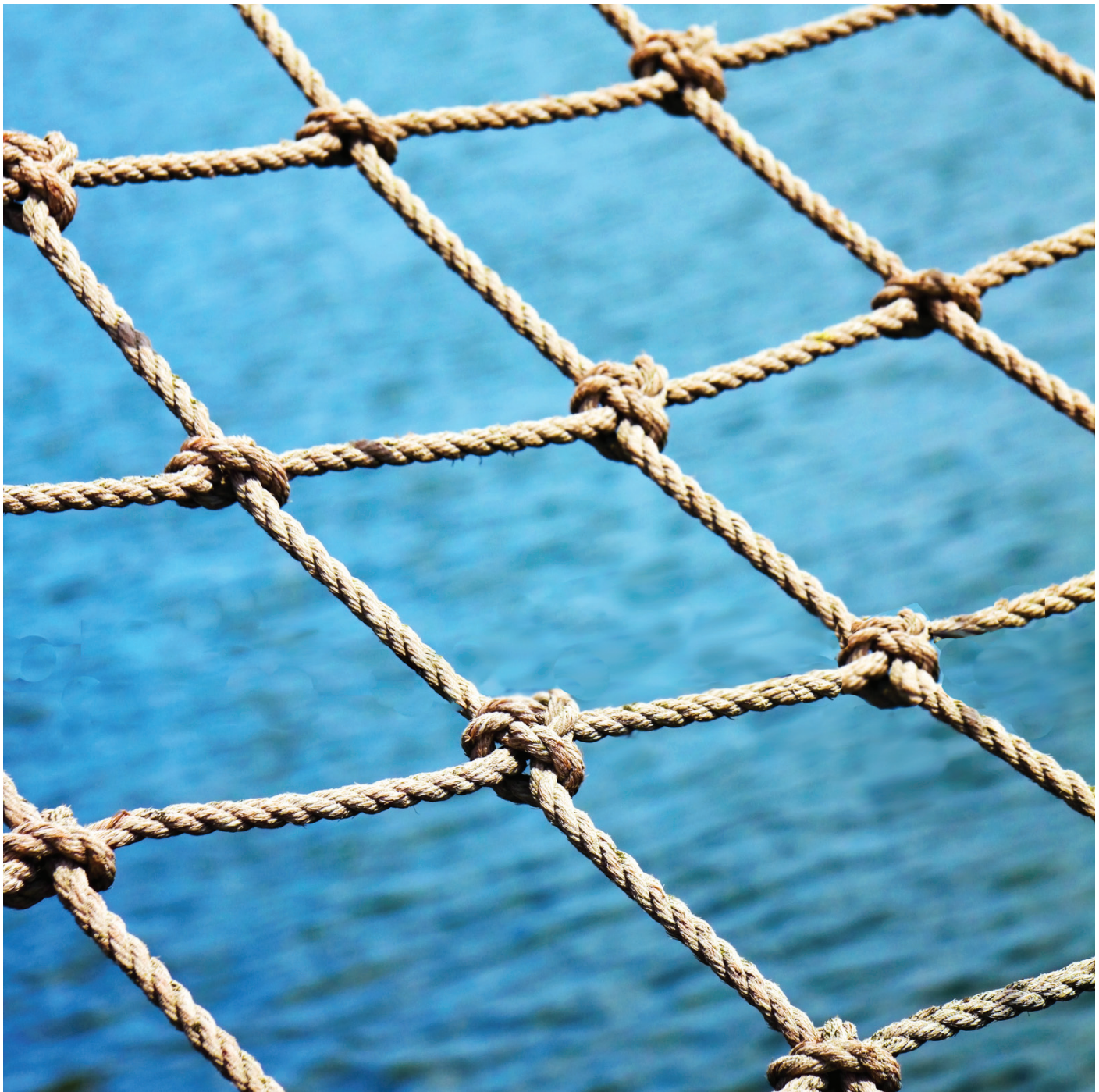


SINK OR SWIM?

LIZ LOXTON ASKS WHETHER THE TOP 25 GLOBAL NETWORKS AND ASSOCIATIONS HAVE KEPT THEIR HEADS ABOVE WATER



Internationally-minded accountancy and professional services firms may be used to recording robust year-on-year growth in income and activity. *Accountancy's* survey of the Top 25 networks and associations in 2010, however, sees many of them recording a drop in fees as the impact of the recession and the currency fluctuations of the past 18 months finally make themselves felt.

This year's survey is all about the missing billions. Combined fee income for the top 25 is down \$7.6bn (£5.1bn) on last year, a fall of 5%, with the groups turning over aggregate fee income of \$140.7bn compared with \$148.3bn for the previous year.

The networks, associations and multidisciplinary practices, whose latest year ends range from May 2009 to March 2010, have up until now enjoyed enviable growth trajectories. This year, only 11 respondents reported growth – none of them members of the Big Four and only five of them in the top half of the league table.

A slowdown in corporate finance work and discretionary spends in consulting and other non-essential advisory work has changed the landscape for networks and associations, although most agree that the results are not as bad as might have been expected.

DOLLAR BOUNCES BACK

Undoubtedly, the international currency roller coaster has played its part in this year's results. Ed Nusbaum, CEO of Grant Thornton International, confirmed that the dollar fluctuation has dramatically altered results. Grant Thornton International derives roughly one third of its global income from the US, he explains. After many years of the dollar getting weaker and weaker, it suddenly rebounded and, while the network enjoyed strong performances across different territories – with most European countries reporting an upsurge of around 5% to 6% – organic growth was offset by the rapid increase in dollar value.

While many commentators have been showing cautious optimism about recovery over the past quarter, the 2008/09 results from international firms, networks and associations clearly articulate the turbulence of the past year.

Even calculations that smooth out the effects of currency changes demonstrate hard times. PricewaterhouseCoopers' results, released in October, showed a decline in revenues of 7.1% when adjusted for foreign exchange moves. At constant exchange rates for the year ending June 2009, however, the firm's revenues rose, but only marginally (0.2%).

Ernst & Young also reported a fall in income, a 6.8% decline – or 0.2% when adjusted for local currencies. Chairman and CEO James Turley said on the release of the firm's annual review that the business conditions of the past year were the toughest most people will have ever experienced.

Whether reporting a rise or decline, most of the organisations have been pragmatic about the last reporting period and optimistic about the one to come. Their diversity, both in terms of service lines and geographic spread, protects them from deep-seated trouble as well as providing opportunities as economic activity ramps up.

Grant Thornton International's Ed Nusbaum is optimistic. 'We are clearly seeing some rebound this spring,' he says. 'Firms are always hit by economic factors, but there is a time lag. Fortunately for us, Grant Thornton has a large recovery and turnaround practice. We've benefited from that, but it has been offset by declines in M&A work.'

INTERNATIONAL ASPIRATIONS

As things improve, many networks and associations should be well placed to take advantage of the upturn. Asia Pacific and the BRIC [Brazil, Russia, India and China] economies continue to be a focus.

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For Deloitte, for example, Asia Pacific fee income strengthened over the financial year 2008/09, growing by 4.7% compared with a 9% contraction across Europe, the Middle East and Africa, and a 3.7% drop in the Americas.

KPMG Asia Pacific reported an upsurge in M&A work. The firm expects that to continue as China's industrial players begin to consolidate while local and international companies continue to invest in China. KPMG's own human capital investment in the region has increased, with 6% more partners in the region for the 2009 financial year than the previous year, and a 9% increase in professional staff.

MID-TIER WINNERS

This year, Geneva Group International – which reported a rise in fee income of some \$345m – and RSM International overtook Grant Thornton International in the mid tier.

As well as adding member firms in Japan, Ireland, Poland, Tanzania and Kenya, RSM International benefited from the addition of a strong UK player, as Tenon moved into the network from multidisciplinary alliance Morison International, by way of its merger with RSM Bentley Jennison in December last year. The merger created a UK firm with

a £250m fee income, and RSM International saw its revenues rise from \$3.6bn to \$3.8bn.

Baker Tilly International's fee income rose from \$2.96bn to \$3.13bn, and the network reported a 6% year-on-year growth.

Praxity, the alliance of independent firms that includes UK accountancy practices such as mid-tier heavyweight Mazars, along with Hazlewoods, Lovewell Blake and Hawsons, also saw its fee income head upwards, by \$100m.

TOP 25 INTERNATIONAL NETWORKS & ASSOCIATIONS

Pos	International network/ association/alliance	UK affiliate	Fee income \$m	Previous year \$m	Member firms	Offices	Countries	Partners	Prof'l staff	Year end	Web address	Notes (see panel)
1 (1)	PricewaterhouseCoopers	PricewaterhouseCoopers	26,171	28,185		757	151	8,552	123,548	Jun-09	www.pwc.com	N
2 (2)	Deloitte	Deloitte	26,100	27,400	55	670+	147	9,555	130,208	May-09	www.deloitte.com	N
3 (3)	Ernst & Young	Ernst & Young	21,400	23,001		690	144	8,715	144,441	Jun-09	www.ey.com	N
4 (4)	KPMG International	KPMG	20,110	22,690		c.700	145	7,953	106,973	Sep-09	www.kpmg.com	N
5 (5)	BDO International	BDO	5,026	5,145	95	1,138	110	4,098	34,156	Sep-09	www.bdointernational.com	N
6 (7)	Geneva Group International	Citroen Wells, Lawrence Grant and others	4,052	3,707	281	452	79	1,795	14,612	Dec-09	www.ggi.com	M
7 (8)	RSM International	RSM Tenon	3,800	3,620	85	736	77	3,150	23,262	Dec-09	www.rsmi.com	N
8 (6)	Grant Thornton International	Grant Thornton	3,592	3,956	99	500+	100+	2,500 +	30,000	Dec-09	www.gti.org	N
9 (9)	Praxity	Mazars, Lovewell Blake, Menzies, Hazlewoods, Hawsons and others	3,300	3,200	109	515	84	2,401	24,738	See note	www.praxity.com	*
10 (11)	Baker Tilly International	Baker Tilly	3,129	2,956	147	572	114	2,813	17,728	Jun-09	www.bakertillyinternational.com	N
11 (10)	Crowe Horwath International	Horwath Clark Whitehill	2,779	3,063	141	588	103	3,271	16,995	Dec-09	www.crowehorwathinternational.com	N
12 (14)	Leading Edge Alliance	HW Fisher, Streets and others	2,419	2,171	160	455	96	1,615	15,185	Dec-09	www.leadingedgealliance.com	A
13 (13)	Nexia International	Smith & Williamson, Saffery Champness, Scrutton Bland	2,110	2,200	205	590	105	2,272	14,353	Oct-09	www.nexia.com	N
14 (12)	Moore Stephens International	Moore Stephens	2,078	2,237	351	630	98	2,236	14,557	Dec-09	www.moorestephens.com	A
15 (16)	PKF International	PKF	1,905	2,020	240	408	125	1,827	12,493	Jun-09	www.pkf.com	N
16 (15)	Kreston International	Reeves + Neylan, James Cowper, Bishop Fleming and others	1,872	2,087	231	703	94	1,205	15,662	Oct-09	www.kreston.com	N
17 (17)	HLB International	Vantis plc	1,771	1,906	186	450	100+	1,719	10,819	Nov-09	www.hlibi.com	N
18 (18)	AGN International	Shipley, Wright Vigar	1,536	1,480	202	481	89	1,089	7,992	Oct-09	www.agn.org	A
19 (19)	IGAF Worldwide	Buzzacott, Cooper Parry and others	1,384	1,333	130	277	60	1,354	8,538	May-09	www.igafworldwide.org	A
20 (20)	BKR International	Cassons, Blick Rothenberg	1,300	1,330	143	262	75	941	7,589	Jun-09	www.bkr.com	A
21 (21)	MSI Global Alliance	Armstrong Watson, Haysmacintyre	1,290	1,150	250	290	104	1,719	6,689	Dec-09	www.msiglobal.org	MA
22 (22)	DFK International	Chantrey Vellacott DFK	1,047	951	210	382	86	1,222	6,620	Sep-09	www.dfk.com	A
23 (23)	IAPA	UK200 Group, Wilkins Kennedy	949	942	219	312	56	1,245	5,098	Mar-10	www.iapa.net	A **
24 (24)	CPA Associates International	None	910	903	145	287	69	840	5,850	Dec-09	www.cpaai.com	A
25 (-)	UHY International	UHY Hacker Young	630	667	100+	242	76	636	7,000	Dec-09	www.uhy.com	N
Totals			140,660	148,300				72,223	805,106			

Ernst & Young's revenues for the Far East, Oceania and Japan fell slightly from \$3,182m to \$3,157m, although Japan alone represented a 7.5% increase for the year ending June 2009. It is fair to say, however, that this performance follows on from a very much stronger year, when the international firm reported a 34.3% revenue growth for Asia Pacific with a 42.6% increase in Japan.

For PwC's global operations, Asia at 5.4% increase (1% at constant exchange rates), the Middle East and Africa at 9.1% (-1.5%) plus South and Central America at 13.3% (1.3%) represented positive growth.

Although the Big Four's established global infrastructures give them a flying start in emerging economies, mid-tier and smaller networks and associations are also positive about future prospects, citing the additional growth opportunities from SME clients. 'We see more and more global opportunities,' says Nusbaum. 'Companies are looking at themselves and viewing themselves as global players, asking: "Where do I go for the best talent and the best production?" We're relocating people throughout the world. We've made a major investment in the Middle East to look at opportunities there in corporate finance, expanding on our international framework.'

It is a viewpoint that smaller networks share. James Mendelssohn, CEO of MSI Global Alliance, argues that

HOW WE COMPILE THE TOP 25 TABLE

Figures are collected from annual reviews and reports, network websites and direct from the firms themselves. As in previous years, we have included a number of multidisciplinary practices in the survey, in the sense that they have member firms that exclusively practise law. Other networks that are not strictly multidisciplinary, however, also offer services such as stockbroking and financial advice, which are arguably outside the 'traditional' view of accountancy services.

international trade, once only relevant for larger clients, is now a viable aspiration for organisations of all sizes. 'They ignore it at their peril,' he says. There is also no doubt that international referrals between firms at MSI Global, whose fee income rose from \$1.15bn to \$1.29bn, are on the up. 'Our levels of activity and referrals via our intranet are increasing year-on-year,' he says. Changes on the technology front, including surges in the use of social media such as Facebook and Twitter, are likely to accelerate that trend.

See p28 for an interview with Praxity chairman Jos van Huut

NOTES TO TABLE

N = Network
A = Association
M = Multidisciplinary
* Alliance of independent firms.
Year ends for member firms occurred throughout 2009.
** Includes income from UK200 Group firms, who have affiliate status.
MA = Multidisciplinary Association
First column: 2009 position in brackets

