1992 IMPLICATIONS of a SINGLE EUROPEAN MARKET

Professional and Consulting Services

— Law and Accounting

External Affairs and International Trade Canada

Canada

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FOREWORD

The European Community (EC), with a GDP similar to that of the United States, is Canada's second-largest trading partner and source of investment and technology. Canadian companies therefore have a particular interest in the completion of the European Community's internal market. The goal of the Single Market program, or Europe 1992 as it is often called, is the complete removal of barriers to the movement of goods, services, labour and capital within the 12 states of the Community to create a dynamic and rapidly growing market.

External Affairs and International Trade Canada (EAITC) is pleased to present this study as part of a series of reports on the implications of a Single European Market on Canada's trading, investment and technology interests. The areas to be covered by these reports include:

Agriculture and Food Products
Consumer Goods and Cultural Industries
Telecommunications and Computers
Automotive Industry
Minerals and Metals
Forest Products
Defence, Aerospace and Transportation
Specialty Chemical Products, New Materials, Pharmaceuticals and Biotechnology
Industrial Products and Services
Financial Services
Fisheries Products
Professional and Consulting Services -- Law and Accounting

These reports, prepared by Raymond Chabot International Inc., BIPE (Bureau d'Informations et de Prévisions Économiques) and Informetrica Ltd., analyse the trends, export impact, competition, investment implications and technological acquisitions arising from the EC Single Market of 1992.

This series of reports complements an earlier study published by EAITC, *1992: Effects on Europe*, which details the major economic and trade effects of the integration. Now in its third printing due to popular demand, the report provides a clear picture of the unification legislation and implementation measures and the general expectations and response of European industry.

Following the publication of these sectoral reports, EAITC will focus on subsectors of Canadian industry in which particular opportunities arise from the Single Market. These studies will go into much more detail on the trade ramifications specific to each subsector.

Together these reports, the overview presented in *Effects on Europe*, the sectoral analyses of this series of studies, and the subsector details of the next phase of Europe 1992 reporting, are not simply an information base for Canadian business people, but can be seen as a call to action. Europe 1992 is happening now. It will affect the way we do business. We have to know about it. And we have to plan to profit from it.

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LIST OF ACRONYMS AND ABBREVIATIONS

BDO	Binder Dijker Otte
BIPE	Bureau d'Information et de Prévisions Économiques
DRT	Deloitte Haskins & Sells, Touche Ross, Tohmatsu
EC	European Community
ECU	European Currency Unit (1 ECU = C$1.42 as of June 12, 1990)
FTA	Canada-U.S. Free Trade Agreement
F.R.G.	Federal Republic of Germany
GATT	General Agreement on Tariffs and Trade
GNP	Gross national product
KPMG	Peat Marwick, Klynveld Main Goerdeler, Fiduciaire de France
R&D	Research and development
U.K.	United Kingdom
U.S.	United States

EXECUTIVE SUMMARY

Europe 1992 is for law and accounting, more so than for other sectors, one factor of great impact in a trend toward the further globalization and internationalization of business.

In fact, Europe 1992 involves adopting a certain number of regulatory measures aimed at harmonizing accounting standards and providing for freedom of practice and establishment of lawyers and public accountants within the European Community. Most of all, however, it involves a widespread trend toward the deregulation of these professions within each of the countries, to strengthen their international positions in order to compete with other countries.

In all EC countries, national mergers are taking place at a fast pace, as are efforts to become directly established abroad and to create different types of transnational networks. In both professions, large British, American and, to a lesser extent, Dutch firms are on centre stage.

The "big eight," now the "big six" (after reorganization of international networks), public accounting firms are the clear winners. They are experiencing phenomenal success in Europe and have integrated the largest national firms there. The "big six" may also play an increasingly important role in the legal profession. The current state of deregulation appears to lower some of the barriers that previously separated the two professions. There is also the possibility that large multidisciplinary enterprises will be created.

These developments offer new opportunities to Canadian firms when auditing, legal and other consulting markets develop rapidly as a result of the move towards internationalization and the related reorganization. They also involve risks, since large international competitors (American and British firms, the "big six") become stronger and the current international trend of globalization will eventually reach Canada and open all or part of its domestic market to international competition.

Canadian firms have all the assets required to meet these new challenges: size, work methods and mastery of English as a language of business associate them more with British and American firms. Their colleagues in continental Europe appear to be more "small scale." However, Canadian firms do suffer from two handicaps: one being the low degree of internationalization of Canadian enterprises (particularly a current lack of response to Europe 1992) and the other, a certain reluctance, until recently, to venture into international territory. One handicap undoubtedly explains the other in part, since service enterprises generally follow their clientele.

Despite these handicaps, an international dimension is now strategic for the development of large Canadian law and public accounting firms.

For business lawyers, this means a reinforced position (via mergers, acquisitions, associations) at the national level to assist growth at the international level by establishing foreign offices, either alone or with Canadian and possibly American partners, and by developing specialized niches. The leaders in the profession appear to acknowledge that growing international competition raises the stakes.

The provincial leaders of the accounting profession essentially have two choices. They can either integrate into the networks of the "big six," where international developments seem to indicate, particularly in Europe, or opt for a more decentralized strategy, one

that profits from some of the advantages of having considerable regional representation and a specific position in certain niches. The latter strategy is better suited to a clientele comprising mainly small or medium-sized businesses. For these two professions, Europe 1992 is thus another facet of the trend towards globalization which is gaining momentum. Faced with such a trend, Canadian enterprises must acknowledge three facts:

- It will be increasingly damaging to ignore the trend. It would mean missing opportunities abroad, particularly in Europe, and being unprepared for the effects that it will undoubtedly have on the Canadian domestic market.

- There is a wide range of possible strategies, some that are already implemented by Canadian firms, to face the trend. They do not apply to large firms only, although these firms are indeed on the front line. These strategies may depend on the size of the firm, the type of clientele or their initial ranking on the provincial or national scenes. All firms need to strengthen their starting positions, expand geographically, extend their range of abilities and seek out new partners both in Canada and abroad. However, the type of ability and niche targeted, the type of partner or network sought and the form of international development implemented may vary considerably.

- The decisions involved are difficult ones to make. They are costly (investments in foreign operations and the development of new abilities), and they require consistency in choices. Some are irreversible in nature (mergers, acquisitions or, to a lesser degree, integration into a large international network). However, in the long term, it would certainly be more costly to avoid these decisions.

PART ONE

LAW

1. THE CANADIAN CONTEXT

1.1 Deregulation of the Profession

In Canada, regulation in the field of business law is under provincial jurisdiction and, until recently, this profession developed under considerable protection. At the national level, foreign firms were not allowed to open subsidiaries in Canada. At the provincial level, in most cases, interprovincial firms were prohibited.

Until 1987, Manitoba and Saskatchewan were the only provinces to authorize the establishment of firms from other provinces. Associations between large Quebec and Ontario firms (such as Fasken Martineau Walker; Stikeman, Elliott; Fraser & Beatty, Gottlieb) represent partnership situations where each of the parties operates separately in its province of origin and where collaboration is only for interprovincial or international affairs.

This situation is undergoing rapid change as a result of a decision rendered by the courts of British Columbia to reject the provincial legislation prohibiting interprovincial firms (September 1988), as well as a decision of the Supreme Court of Canada which rejected similar legislation in Alberta (1989). Due to these decisions, truly national Canadian firms with offices across the country may be created.

Similarly, the fact that the American firm of Shearman & Sterling was authorized to open an office in Toronto illustrates that progress has already been made with respect to the Canada-U.S. Free Trade Agreement (FTA) and the trend towards globalization, a trend that affects the profession at the international level. For the time being, this American firm is authorized to deal in American legal matters only and cannot represent its clients before the courts of Ontario. However, changes noted in other countries, particularly in the United States and in Europe, lead one to believe that this is only the beginning towards even more deregulation.

In a similar manner, the decision reached in March 1989 by the Law Society of Upper Canada to open its monthly meetings to the public is another sign of openness and deregulation currently taking place in the profession.

TABLE 1

Ten Largest Canadian Law Firms[a]

Rank	Firm (head office)	Number of lawyers
1	McCarthy & McCarthy (Toronto)[b]	325
2	Blake, Cassels & Graydon (Toronto)	262
3	Fasken Martineau Walker (Toronto/Montreal)[c]	261
4	Osler, Hoskin & Harcourt (Toronto)	242
5	Stikeman, Elliott (Montreal/Toronto)[d]	210
6	Borden & Elliot (Toronto)	174
7	Fraser & Beatty, Gottlieb (Toronto/Montreal)[e]	167
8	Gowling & Henderson (Ottawa)	164
9	Lang Michener Lash Johnson (Toronto)	160
10	Ogilvy, Renault (Montreal)	142

[a] This chart was drawn up in the summer of 1989 by the *Financial Post (FP500)*. Since then, the following changes have occurred:

- McCarthy & McCarthy (Toronto) has since formed a merger with Clarkson Tétrault (Montreal) to create McCarthy Tétrault (471 lawyers) (February 1990);
- Fasken & Calvin merged with Campbell, Godfrey & Lewtas (Toronto) to become Fasken Campbell Godfrey. The Fasken Martineau Walker partnership remained intact but later absorbed Davis & Co. (Vancouver) to become Fasken Martineau Davis (February 1990);
- Gowling & Henderson (Ottawa) merged with Strathy, Archibald & Seagram (Toronto) to become Gowling, Strathy & Henderson;
- Lang Michener Lash Johnson (Toronto) merged with Lawrence & Shaw (Vancouver) to become Lang Michener Lawrence & Shaw;
- Osler, Hoskin & Harcourt (Toronto) and Ogilvy, Renault (Montreal) formed joint partnership of Osler Renault (1990).

[b] Includes the 33 lawyers of Black & Co. (Calgary).

[c] Joint partnership between Fasken & Calvin (Toronto, 133 lawyers) and Martineau Walker (Montreal, 128 lawyers).

[d] Firm has one name but operates as two partnerships.

[e] Joint partnership between Fraser & Beatty (Toronto, 154 lawyers) and Gottlieb, Kaylor & Stocks (Montreal, 13 lawyers).

1.2 A Profession Shaken by a Widespread Wave of Mergers and Acquisitions

The wave of mergers and acquisitions rocking the profession of business law since 1987 undoubtedly has its origin in the changes in the economic environment at both the national and international levels. The upcoming Canada-U.S. Free Trade Agreement deadline, the trend towards the internationalization and globalization of the economy, and the mergers and acquisitions taking place within the Canadian economy have forced large firms in the various provinces wishing to follow their clients' needs to open offices across Canada, broaden their expertise and develop an international dimension.

The largest firms therefore had to move from the provincial to the national level, just as they had to merge in order to acquire new expertise or as a means of developing abroad. The wave of mergers and acquisitions therefore preceded deregulation measures. In fact, these mergers and acquisitions in part led to deregulation -- and later benefited from them -- through, for example, the 1989 Supreme Court ruling referred to above in response to Alberta's opposition to the Toronto firm of McCarthy & McCarthy seeking to open an office in Calgary.

The current trend towards concentration, like deregulation, is probably not over yet.

1.3 A Recent and Limited International Dimension

In the 1970s, Canadian firms rarely opened offices abroad. Offices situated in London, Paris and Hong Kong were essentially very small. One or two individuals most often worked out of local or large American international firms (e.g., Coudert Brothers). Their principal and almost sole objective was to bring business from foreign operators dealing with Canada (investments, opening of subsidiaries, joint ventures, etc.) to their parent firm. This strategy enabled some pioneer firms such as Phillips or Stikeman to notably increase their clientele by attracting foreign companies commencing operations in Canada. However, large Canadian enterprises generally did not turn to Canadian firms for their international affairs, but rather to large international American firms.

For the reason outlined above (e.g., globalization of the economy), the number of Canadian law firms expanding abroad has increased rapidly since the mid-1980s. However, their nature and related strategies have generally changed very little. Essentially, they continue to render services in Canadian law to clients interested in Canada or to deal with the "Canadian portion" of international transactions. In this manner, Canadian offices in Hong Kong have gained in importance to be in step with the growing interest of investors in this area of the world. Offices in London have been notably developed to deal with Canadian portions of British privatizations or Canadian investments in London-based financial operations: euroemissions for Canadian issuers (eurobonds, euronotes, etc.).

Most of the services provided are therefore related to Canadian law. The participation of Canadian firms in international business (involving one or several laws other than those of Canada) continues to be of little significance and, until recently, Canadian firms had scarcely increased their share in the international business of large Canadian enterprises (such as openings and acquisitions of Canadian firms abroad). Until now, they have been reluctant to become involved in this area and several examples exist of Canadian lawyers who preferred to go through foreign firms in order to do so.

This reluctance can be explained by several factors:

- There is a degree of caution, some would say conservatism, concerning risks related to working in foreign law.

- British and American law dominate international business, even when no American or British client is involved.[1]

- Becoming involved in international business requires a size and the means that, until recently, Canadian firms did not have.

- There is insufficient international business of Canadian origin. Such business is relatively limited and generally entrusted to American or, to a lesser extent, British firms (for Europe).

- There is a certain reluctance to compete with international American firms in their own territory when these firms send a certain amount of Canadian law-related business to Canadian firms.

This situation may be changing. It will be dealt with again in the final section.

TABLE 2

Canadian Firms Opening Offices Abroad, 1989*

BRUSSELS

Lafleur Brown de Grandpré

GENEVA

Chait Salomon
Goodman Phillips & Vineberg
Lette & Associés

HONG KONG

Bull, Housser & Tupper
Fasken Martineau
Fraser & Beatty
McMillan Binch
Stikeman, Elliott

LONDON

Aylesworth Thompson
Phelan O'Brien
Blake, Cassels & Graydon
Burnett Duckworth & Palmer
Davies Ward & Beck
Fasken Martineau Walker
McCarthy & McCarthy
Osler Renault
Stikeman, Elliott
Tory, Tory, Deslauriers & Binnington

NEW YORK

Stikeman, Elliott
Goodman Phillips & Vineberg

PARIS

Chait Salomon
Goodman Phillips & Vineberg
Lette & Associés
Osler Renault

SHANGHAI

Bull, Housser & Tupper
Phillips & Vineberg

TAIPEI

Bull, Housser & Tupper

WASHINGTON

Perley-Robertson Panet Hill
& McDougall

Source: *Canadian Lawyer*, June 1989.

* Since then, McMillan Binch (Toronto), Bull, Housser & Tupper (Vancouver) and Byers Casgrain (Montreal) announced the launching of an international partnership (McMillan Bull Casgrain), as did Tory, Tory (Toronto), Desjardins, Ducharme (Montreal) and Lawson Lundell (Vancouver). Phillips & Vineberg (Montreal), Goodman & Goodman (Toronto) and Freeman & Co. (Vancouver) will collaborate in an association and the new partnership, Goodman Freeman Phillips & Vineberg, will provide services to clients in major Canadian centres and in New York, Paris and Hong Kong.

2. THE EUROPEAN CONTEXT

2.1 Highly Contrasting Initial Regulatory Situations

Each of the 12 EC countries has its own division, organization and regulation of judicial and legal professions. However, if one considers only the non-judicial activities dealt with in this report, these countries may be divided into two categories:

- The first comprises the Federal Republic of Germany, Spain and Greece, where only lawyers may provide legal services (*Rechtsanwalt* in the Federal Republic of Germany, *abogado* in Spain, *Dikigoros* in Greece) and only foreigners who meet the requirements of the country's legal profession may open practices.

- The second category includes the other countries, where legal counselling may be freely practised. Foreigners may open offices and work as they wish and legal services may also be provided by professionals other than those specializing in law, i.e., public accountants, banks, insurance companies and so forth. However, certain nuances exist in the various countries. For instance, in Great Britain, foreign lawyers may practise unrestricted but without bearing the title of "solicitor." In France, foreigners may be recognized as members of the legal profession (*la profession de conseil juridique*) or they may choose not to be part of this profession. In Italy, foreigners who wish to open legal practices are subject to more restrictions.

2.2 The Pre-eminence of British and Dutch Firms

The top three European cities in international law, in order of importance, are London, Paris and Amsterdam. However, although British and, to a lesser extent, Dutch firms rank highest at the international level and have offices wherever possible in Europe, French firms tend to be less internationalized. Paris owes its place of importance on the international scene to American law firms, as well as to firms based in Britain, Holland and many other countries. There are approximately 30 in Paris, compared to 50 in London. Coudert Brothers was the first to arrive in Paris, in 1879.

Only British and, to a lesser extent, Dutch firms have the size, organizational quality and work methods to compare with North American firms. Throughout the rest of Europe, work methods remain individualistic and small scale. This is still the case in Germany, where constrictive regulation is slowing the trend towards mergers and concentration. Italy and France are still very conservative and protectionist. Of course, the largest French legal firm, La Fiduciaire juridique et fiscale de France, is as large as the largest British solicitors, such as Clifford Chance. However, this is the only one. In addition, tax consulting is one of the major activities of French law firms and they are far less involved in international law than their British counterparts. Where *avocats* are concerned, even though rapid concentration is taking place, the largest firm, Gide Loyrette Nouel, approximately 150 people, remains medium-sized. Above all, the international dimension and work methods of the largest French firms are hardly comparable to those of present large British firms.

TABLE 3

Ten Largest British Firms of Solicitors

Firm	No. of employees	Gross fee income (in millions of pounds)*
Clifford Chance	1 649	85-114
Linklaters & Paines	1 250	64-86
Lovell White Durrant	1 076	50-67
Slaughter and May	972	52-69
Denton Hall Burgin & Warrens	854	32-43
Allen & Overy	787	43-57
Freshfields	762	47-62
Simmons & Simmons	756	35-47
Herbert Smith	729	38-50
Norton Rose	660	39-51

Source: *The Economist*, September 9-15, 1989, (estimates).

* The British pound is worth approximately C$1.98 (June 8, 1990).

TABLE 4

Ten Largest French Law Firms, 1989

Firm	No. of employees
Fiduciaire juridique et fiscale de France	1 755
Regnard Étienne	345
Bureau Francis Lefèbvre	234
Société Nationale Rens. Commerce Recouvr.	181
Thibierge Daublon Pone Pecheteau	167
Cabinet Beau de Lomenie	144
Lacourte Bercy Aubron Jourdain	139
Gide Loyrette Nouel	120
Hommes Strategie Droit	107
Cabinet Lavoix	96

Source: BIPE.

3. CHANGES RELATED TO EUROPE 1992

The principal factors of the large European common market in 1992 that will affect business law professions are:

- changes in regulations and jurisprudence with respect to freedom of practice and establishment, and with regard to the recognition of diplomas;
- changes in the organization and deregulation of legal and judicial professions at the national level;
- the accelerated development of Community law and the growing position of Brussels in the legal community; and
- the "Europeanization" of business, a phenomenon which is part of a more general trend of globalization and internationalization of the economy.

3.1 Changes in Regulations and Jurisprudence

The move towards freedom of practice for the legal and judicial professions within the EC has been in effect since the promulgation of Directive 77/249 dated March 22, 1977, which states firms have the right to practise freely, and Member States are obligated to adapt the text of this directive to internal legislation without modifying its scope. However, the trend has gained considerable momentum in recent years due to two decrees issued by the Court of Justice of the European Communities:

- The "Klopp" decree dated July 12, 1984, condemns national regulations (in this case the *règle de l'unicité du domicile professionnel* in the Federal Republic of Germany (F.R.G.) and in France) since they impede freedom of practice and establishment. These regulations were not discriminatory, however, since they applied to both national and foreign firms.
- The decree dated February 25, 1988, condemns the F.R.G. for breach of treaty, since German legislation states that lawyers from another Member State may only practise in the F.R.G. in association with a German lawyer (this rule also applies between German *Länder*). This clause was deemed contrary to the principle of freedom of practice.

It is important to note that these two decrees have the paradoxical effect of creating a situation of "reverse discrimination." Foreign members of the EC are constrained less than national members. Therefore, the Court simplifies and modernizes national regulations.

A directive pertaining to a recognition of degrees for professional training periods of at least three years is being prepared. The current proposal provides for a large system of equivalencies. However, it also specifies that where professions are regulated, candidates may have to undergo an "aptitude test" or "training period," despite the fact that their diplomas are deemed equivalent to those required. This clause may be applied in a more or less liberal manner, depending on the country. Previous jurisprudence leads one to believe that the Court of Justice of the European Communities will not allow the clause to limit freedom of establishment. However, this does not exclude rearguard confrontations. Progress may be slow.

3.2 Reform and Deregulation regarding the Legal and Judicial Professions

As a result of Europe 1992, considerable changes are taking place in most EC countries to open, deregulate and reorganize the legal and judicial professions. This move, which was already perceptible prior to 1985, has increased considerably since then, with each country striving to acquire the best assets to prepare for inevitable future openness. The principal stakes involved are:

- the possibility for these professions to organize as business corporations;

- the possibility to form multidisciplinary firms, in other words, associating lawyers and public accountants; and

- the possibility of forming multinational firms.

The first point, which is imperative for the creation of large firms, is currently being implemented in most countries.

The two last points, which are contained in the green paper issued by the British government, have resulted in heated discussions in both the United Kingdom (U.K.) and France. It is frequently pointed out that they may only be adopted in one form or another if European regulations are somewhat harmonized. In effect, at this time there is no apparent compatibility among the professions in the various countries. Hence, as the situation stands at the moment, even if a French lawyer (*avocat*) is authorized under British law to become part of a British firm of solicitors, this would fail to be in accordance with French regulations for the legal profession (*la profession d'avocat*).

The second point will clearly have substantial consequences for the position of the "big eight" (now the "big six" accounting firms), not only in the European legal market, but also with respect to international legal consulting.

3.3 Developing Community Law

Community law has acquired increasing pre-eminence over national laws in the areas of competition, anti-dumping measures, the environment and the regulation of mergers and acquisitions, thus reinforcing the importance of places such as Brussels and Luxembourg for firms serving large enterprises, for whom these measures are important.

3.4 The "Europeanization" of Business

The "Europeanization" of business is a principal consequence of the Europe 1992 phenomenon as a whole. A constantly growing number of enterprises, which, until now, operated mainly in their domestic market, are seeking to acquire a European dimension and to become established on the European market. The considerable increase in mergers and acquisitions in Europe since 1985, dominated by intra-European transactions, serves as an example. This is but one factor in the more general trend toward globalization of the economy in which European enterprises also participate, and for which they are assisted by their growth at the European level.

This trend creates a new demand for European and international legal services and causes law firms to reorganize. If they are not able to meet the demand they will not only miss out on the new market, but also, in the long term, lose a portion of their traditional clientele, which will turn to where its new needs will be met.

4. CONSEQUENCES IN THE EC

The principal consequences of Europe 1992 for the European legal professions are accelerated national mergers, a more rapidly growing number of offices opening in Brussels, the development of network organizations, increased power for auditing firms and active preparation for further phases of "Europeanization" and internationalization.

4.1 Accelerated National Mergers

As is the case in Canada, accelerated national mergers are the result of changes in the economic environment. They are caused and encouraged by the current deregulation and the need to prepare for an inevitable European opening. Current imbalances between British firms and those of continental Europe prompt the latter to strive to attain the same level as their British counterparts. However, mergers and acquisitions are also taking place at a good pace in the U.K. There were more than 300 between May 1987 and September 1989.

4.2 A Rapidly Growing Number of Foreign Offices, Particularly in Brussels

The rapid increase in the number of foreign offices is the result of the growing importance of Community law as compared to national laws. Offices have been opened by firms of the European Community, but also by firms from Japan and the U.S.

After opening a number of offices in Brussels in the 1960s, American and Japanese firms reduced their presence in the 1970s. However, they have returned in full force since 1985, either alone or in association with local firms. A number of them plan to transfer to Brussels lobbying techniques similar to those practised in Washington, to protect American interests facing the possible creation of a "Fortress Europe."

Similar to the Brussels office openings, certain large firms, particularly British ones, are developing offices in Europe. The F.R.G., which until now was relatively free of foreign offices, is becoming one of the prime choices for firms wishing to expand.

4.3 Development of Network Organizations

The first response of the legal professions to the internationalization of business is the development of international networks to have correspondents and contacts in foreign countries.

In most cases, for the time being, these networks are informal since they are not based on any type of institutionalization and, *a fortiori*, on any exclusive relationship. The game in Europe today is knowing "who is with whom," and what the nature of their relationship is. The problem is to avoid being indirectly in a "network" with a direct competitor. There is the chance that this type of situation may only be transitional.

Another type of network is the international reference system, such as Eurolink for Lawyers, that implements correspondents' international networks but, generally speaking, involves no exclusive relationships. These networks are not limited to Europe. Furthermore, networks of American origin such as the World Law Group or the Lex Mundi network do exist in Europe.

Finally, more constraining bilateral or multipolar agreements are also being set up, such as the Anglo-Spanish agreement between Boodle Hatfield and Bufete Lupicinio Rodriguez or the Franco-British agreement between Gide Loyrette Nouel and Allen & Overy, that involve much closer and regular collaboration.

Lastly, it should be noted that, concurrently, associations also develop between American and British firms such

as Boodle Hatfield and Texan Bracewell and Patterson, between London's MacFarlanes and the Los Angeles firm of O'Melveny and Myers. This association is one of the most extensive in that it entails a partners exchange and the opening of a common office in Brussels.

4.4 Increased Power for Auditing Firms

As is discussed in the second section of this report, the "big eight" (after reorganization, now the "big six") are the principal beneficiaries of the changes related to Europe 1992 in the field of public accounting. They may also be among the principal beneficiaries of the changes taking place in the legal professions. In fact, if it actually becomes possible to create multidisciplinary firms (already partially set up in fact, if not in law, in France), the large public accounting firms (the "big six") will become the most powerful, most internationalized and best organized enterprises to provide a range of international professional services ranging from public accounting to legal consulting.

This issue is still subject to controversy. Regulation regarding multidisciplinary enterprises has not yet been adopted in most countries. Many people declare the legal profession to be unique. They cite cultural differences between the auditing and legal professions and possible conflicts of interest. However, the process seems well in progress, although the outcome cannot be predicted. Public accountants are currently lobbying extensively in all EC countries so that the regulations under study, far from excluding them from the game, enable them to play an active role in it.

4.5 Preparing for Future Globalization

All the preceding factors, such as national mergers, the creation of networks, the reinforcement of American foreign branch offices in Europe, and associations between British and American firms, serve to prepare for the future globalization of the legal professions and, more generally speaking, of professional services, which will undoubtedly lead to the establishment of several world leaders with offices in all the countries. Gearing up to this new stage depends on advances in the harmonization of regulations in Europe, on the one hand, and on the outcome of the General Agreement on Tariffs and Trade (GATT) negotiations, on the other. There is hardly a doubt that American and British firms and the "big six" are in the best position to be among these leaders.

5. IMPLICATIONS FOR CANADIAN ENTERPRISES

Changes related to Europe 1992 and, more generally speaking, the trend towards globalization, create new opportunities for Canadian firms. However, these opportunities hold certain risks. Nevertheless, Canadian firms have true assets, and strategies can be implemented to face these risks.

5.1 Opportunities

Opportunities arise from the increased importance of Community law and the trend towards internationalizing business, generating a new and rapidly growing market for legal services.

The increased number of Canadian branch offices abroad over the past few years is in large part an answer to a demand, generated by Community law in Brussels or by the internationalization of business elsewhere. However, Canadian firms are handicapped by relatively little effort on the part of Canadian enterprises towards the globalization of the economy and the lack of Canadian response to Europe 1992 in particular, which hampers them from fully benefiting from these opportunities.

The results of several sectorial studies carried out parallel to this one indicate that, with the exception of several large operators already considerably internationalized, Canadian enterprises seem hardly interested in Europe 1992, and that whereas the Japanese and Americans have considerably increased their investments and activities in Europe, Canadian investment in Europe is barely augmented. Canadian law firms have followed this lead and the increase in their European activities hardly compares to that of their American or Japanese counterparts. Moreover, this increase is due more to the interest shown in Canada by European enterprises than the reverse.

The current situation for Canadian enterprises is principally that of North American integration due to the FTA, rather than internationalization. This is naturally also the case for professional service enterprises. The drawback will undoubtedly be a waning involvement in the upcoming globalization for these enterprises.

5.2 Risks

The risks for Canadian firms are in many ways similar to those facing continental European firms suffering from severe handicaps of size, work methods and international representation, as compared to their British or American counterparts. However, Canadian firms have stronger assets than those of their continental European colleagues to confront these risks.

In fact, Canadian firms currently have a quasi-monopoly over affairs in Canadian law in the domestic market, in offices abroad for foreign enterprises interested in Canada and in the "Canadian portion" of international transactions. This monopoly may be threatened, however, by the creation of large multinational firms in many countries that, based on their international activities, consistently skim the clientele of large enterprises in all the countries, as the "big eight" did in the auditing sector.

Such changes are impossible for the time being due to regulation that, on the one hand, prohibits the establishment of foreign or multinational branch offices in Canada, and, on the other hand, separates auditing and legal activities. However, if, as the current situation is beginning to reveal, European countries and the U.S. open up to multinational firms, it would appear difficult for Canada to remain out of the action for long. Similarly, if the possibility and rapid expansion of multidisciplinary enterprises becomes a reality in Europe, these changes may have consequences in North America. These two points will surely be at the centre of GATT negotiations on professional services

and, in the long term, Canadian firms might find themselves facing fierce competition in their own domestic market if they do not seek sufficient international representation.

In order to show that this threat is no illusion, one need only remember that, not having any real competence on the international level, French lawyers have progressively given a business volume at times estimated to be half the volume of all the firms in Paris over to their colleagues in foreign firms established in this city. Although these statistics cannot be verified, they are frequently quoted by the profession[2] and provide an idea of the stakes involved. The Canadian equivalent would be half the revenue for Montreal and Toronto firms combined.

5.3 Assets and Possible Strategies

One of the principal assets of Canadian firms is the quality and reliability of their work methods, which are similar to those of British and American firms. Firms of continental Europe are, for the most part, much more individualistic and small-scale and, consequently, have a more serious handicap to overcome. This makes Canadian firms much less vulnerable than the French firms discussed above.

Furthermore, in addition to giving Canadian firms a certain advantage over their colleagues in continental Europe, the reorganizations, mergers and acquisitions in progress also assure them of a national dimension, in other words, the size and influence they lacked in the past.

Another asset of Canadian firms is the mastery of English as the language of business and the ability of many to work in both English and French.

Some of the strategies available and being implemented to strengthen the position of Canadian firms in the move towards globalization are:

- *Fortifying a position in Canada, through mergers and acquisitions, to increase establishment abroad.* It has been pointed out on several occasions that this desire to attain an international dimension is the basis of certain recent mergers or mergers in progress (e.g., selection of firms with the same international objectives).

- *Seeking partners to develop foreign branch offices.* The association of Osler, Hoskin & Harcourt (Toronto) and Ogilvy, Renault (Montreal) to expand common operations abroad under the name Osler Renault is a typical example. Other similar arrangements are being sought. Moreover, it is important to note that the search for partners is not limited to Canada. Canadian firms seek to develop ties with American firms of comparable stature that have few international operations but feel the need to become more internationalized in order to open foreign offices in Europe or any other area of the world.

- *Strengthening the capacity in Canadian law of Canadian foreign offices.* In fact, even small offices abroad, whose objective is to attract work for Montreal or Toronto, seem to have little future in the era of globalization since the Toronto office or a local truly international firm can be contacted directly. If Canadian firms can offer expertise in Canadian law (several seniors) in London, Paris or Tokyo, their situation in Europe is a strong one. This provides a sound reason to retain the Canadian portion of international transactions. Several firms have adopted this strategy, by recently reinforcing their foreign offices, particularly in London and Paris, and by specializing in certain niches (e.g., Canadian euroemissions).

- *Providing in Europe, and particularly Brussels, adequate expertise in Community law targeted first to Canadian clients, but which may also attract a larger clientele.*

- *The participation in networks that are being developed.* This strategy seems to be implemented, more or less formally, in relation to the Canada-U.S. FTA. However, little seems to be taking place for Europe. This is undoubtedly due to the fact that, with the exception of the United States, Canadian firms still mainly work with the idea of "the rest of the world versus Canada" in mind, and consider the reverse very little. As a result, local associations are still deemed unnecessary.

- *The development of truly international activities.* (This would involve laws other than those of Canada and, possibly, international affairs having nothing to do with Canada.) New teams created abroad are striving to attain this objective. However, will they have the required means? Do they have adequate support from their partners in Canada? A first step would be to obtain a significant portion of international affairs (in the sense of Canada versus the rest of the world) from their large Canadian clients. A few recent success stories support this strategy. However, these are still isolated cases.

- *Finally, a strategy aimed at supporting medium-sized Canadian enterprises in their efforts towards internationalization, particularly with respect to Europe.* What steps should be taken? Who can be relied upon? What are the doors to knock on? At present, this niche is particularly targeted by certain Canadian auditing firms. However, certain law firms are interested in it as well. It would seem that to be operational, this type of strategy should also be based on some kind of network of local correspondents abroad.

In conclusion, it should be emphasized that if the current trend towards globalization leads to the creation of several multinational leaders who will dominate international legal affairs, large Canadian firms will certainly be part of the networks formed. Reinforcements currently taking place in Canada and the international dimension acquired through the strategies described above will be assets to capitalize on during negotiations.

PART TWO

ACCOUNTING

1. INTERNATIONAL AND CANADIAN CONTEXTS

1.1 The International Context

The past few years have been marked by major reorganizations of international networks (the "big eight" became the "big six") and by the more or less turbulent implications of these reorganizations at the various national levels. The major characteristics of these reorganizations are:

- the creation of KPMG (1987) through the merger of Peat Marwick, Klynveld Main Goerdeler and the Fiduciaire de France;
- the merger between Arthur Young and Ernst & Whinney (1989) to form Ernst & Young;
- the merger between Deloitte Haskins and Sells, Touche Ross and the Japanese firm Tohmatsu to create DRT; and
- the failed merger between Arthur Andersen & Co. and Price Waterhouse.

These mergers were principally governed by:

a) the desire to take an increasing part in management and computer consulting markets, more promising than those of public accounting and auditing, since the latter are becoming saturated, particularly in North America. This objective meant that large auditing firms had to regroup their strengths and abilities to withstand the competition from large management consulting firms and large informatics management service companies, and to face increasing research and development (R&D) expenses in these sectors. In this manner, following their merger, Ernst & Whinney and Arthur Young, which ranked 8th and 14th respectively among consulting firms, join the leaders, i.e., Marsh & McLennan; McKinsey; Towers Perrin; and Booz Allen & Hamilton, which are far behind Arthur Andersen & Co. (see Table 5);

TABLE 5

Twelve Largest Consulting Firms in the World

Rank	Firm	Consulting fees (millions of US$)*	Number of consultants
1	Arthur Andersen & Co.	838	9 639
2	Marsh & McLennan	530	6 400
3	McKinsey	510	1 600
4	Towers Perrin	465	3 085
5	KPMG	438	4 700
6	Booz Allen & Hamilton	412	2 075
7	Coopers & Lybrand	381	4 712
8	Ernst & Whinney	374	3 255
9	Price Waterhouse	345	4 300
10	Saatchi & Saatchi	267	1 445
11	Touche Ross	248	2 142
12	Wyatt	237	1 600

Source: *Consultants News* and *La Profession comptable*, No. 69 (September 30, 1988).
* The U.S. dollar is worth approximately C$1.17 (June 8, 1990)

b) the increased globalization of the economy which leads firms intending to remain on top to expand at both the geographical and sectorial levels. In this respect, Deloitte, which is well-established in Anglo-Saxon countries, and Touche Ross, which is better established in Europe and Asia, or Arthur Young, which is well established in continental Europe and Ernst & Whinney, better represented elsewhere, complement each other well. Similar complementary characteristics may also be found at the sectorial level.

These positive aspects of the "size effect" should obviously not obscure the difficulties related to mergers between firms of this size, or the resulting problems of conflict of interest. Despite these difficulties, the trend towards concentration seems to prevail.

1.2 The Canadian Context

Public accountancy is divided into chartered accountants, general accountants and management accountants. However, it is dominated by chartered accounting firms, which are 28 of the 30 top enterprises in this sector. It is these firms that are mainly concerned with globalization, of which Europe 1992 is part.

Until recently, the public accounting profession was marked by strong particularities at the provincial level. Each firm, including the largest ones, was established mainly in one province. In Ontario, the first choice for subsidiaries of American firms, the main firms are those that have been affiliated with the "big eight" for a long time and, by doing so, have followed their clients to Canada, whereas in the other provinces, until recently, the leaders were independent firms or those affiliated with secondary networks. Finally, public accountancy has been concentrated in Canada for some time. In 1986 as well as in 1978, enterprises with more than 100 employees represented less than 1 per cent of firms, but more than 50 per cent of employment, and audited more than 90 per cent of the 1 000 top public enterprises.

For several years, the profession has been shaken by a significant trend towards mergers, acquisitions and concentration. This entails several dimensions:

- a reinforced position for the principal leaders in their province of origin, through mergers with smaller firms, usually local or regional ones;
- mergers between two or more medium-sized firms within a province;
- mergers between firms of different provinces to acquire a national dimension; some of these mergers take place under the leadership of the "big eight";
- the repercussions in Canada of the international movement; these repercussions were particularly marked since Thorne, the local affiliate of Ernst & Whinney, did not want to join Clarkson Gordon, Arthur Young's local affiliate, in the new entity known as Ernst & Young, and joined Peat Marwick instead.

The causes of this trend at the national level are essentially the same as those at the international level. Firms must expand geographically as well as internationally and improve their area of expertise to provide their clients' new needs; plus, firms must become large enough to secure a significant portion of the consulting markets, which are more promising and profitable than the auditing markets.

The split-up nature of the sector, stemming from its establishment mainly in individual provinces, served only to reinforce these requirements.

TABLE 6

Ten Largest Canadian Public Accounting Firms

Rank	Revenue US $'000	Firm	No. of professionals[a]	No. of partners	No. of employees	No. of offices	No. of firms audited among the FP1000 (fiscal 1987)[b]
1	270 000[c]	Thorne Ernst & Whinney (Toronto) January 1989	3 035	490	3 860	57	117 1/2
2	237 000	Clarkson Gordon (Toronto) January 1989	2 569	418	3 407	27	127
3	195 000	Touche Ross (Toronto) August 1988	2 180	380	2 760	47	105
4	192 000	Coopers & Lybrand (Toronto)	1 991	281	2 664	21	115 1/2
5	184 246	Deloitte Samson (Toronto)	2 288	322	2 994	56	81
6	172 000	Price Waterhouse (Toronto)	1 928	242	2 547	24	139 1/2
7	166 533	Peat Marwick (Toronto) January 1989	1 857	271	2 436	30	107 1/2
8	137 015	Doane Raymond Associates (Ottawa) January 1989[d]	1 643	294	2 067	92	23 1/2
9	107 000	BDO Ward Mallette (Toronto)	1 475	255	1 785	87	9 1/2
10	74 900	Collins Barrow Maheu Noiseux (Montreal) January 1989[d]	983	184	1 263	42	13

Source: *Financial Post 500*, summer 1989.

Note: These figures include consulting activities. The U.S. dollar is worth approximately C$1.17 (June 8, 1990).

[a]Includes partners.
[b]Joint auditors each assigned half.
[c]*Financial Post* estimate.
[d]Associations, not fully integrated partnerships.

2. THE EUROPEAN CONTEXT

As is the case for business lawyers, the situation for public accountants in EC countries is widely contrasted. These 12 nations may be divided into two groups.

The first group includes Mediterranean European countries, France and West Germany. Accounting is closely tied to taxation, so that until recently, consolidated financial statements were hardly developed; the profession was generally divided into two organizations (statutory auditors and public accountants) and generally was not concentrated.

The second group includes the U.K., the Netherlands and Ireland. Accounting is more related to the information requirements of capital markets. Consolidated financial statements, greatly appreciated by investors, have been used for a long time; auditing is traditionally more developed; and the profession is more sophisticated, internationalized and concentrated.

The following tables present the revenue of the 15 largest firms in 12 countries and the geographical breakdown of the "big eight" partners in the 10 major countries in the world. The predominance of British and Dutch firms in Europe is illustrated. Additionally, their superior work methods and more extensive international experience must also be considered.

TABLE 7

Revenue of the 15 Largest Public Accounting Firms in 12 Countries

Country	Ratio of Revenue (per thousand) of the GNP	Staff	Revenue in ECUs* per person
Netherlands	4.57	16 000	52 528
United Kingdom	3.59	47 000	42 800
Australia	3.57	16 200	38 124
Switzerland	2.79	6 200	64 805
Canada	2.57	23 158	39 629
U.S.	2.12	126 000	72 000
Sweden	1.96	6 300	40 842
F.R.G.	0.71	10 000	65 370
France	0.68	9 300	54 054
Spain	0.62	2 900	49 201
Italy	0.27	3 000	54 795
Japan	0.15	6 000	50 506

Source: *La Profession comptable*, No.69 (September 30, 1988).

* On June 12, 1990, the ECU was worth C$1.42.

TABLE 8

Breakdown of the "Big Eight" Partners in the 10 Major Countries in the World (% of the total number)

Firms[a]	U.S.	United Kingdom	Canada	Australia	France	Nether-lands	South Africa	F.R.G.	New Zealand	Japan	(%)[b]	Total number
AA	63.3	6.1	2.7	3.2	2.6	0.8	0.9	1.5	-	1.3	82.4	2 133
AY	30.9	8.4	15.5	3.2	2.1	9.4	2.4	2.8	3.5	nc	78.2	2 562
CL	34.9	10.9	7.3	6.0	1.7	0.7	2.4	3.0	2.8	5.2	74.9	3 341
DHS	34.1	11.0	14.0	3.9	1.1	4.6	3.6	1.7	3.3	0.9	78.2	2 345
EW	45.2	9.3	19.6	4.6	1.4	0.4	3.2	0.7	2.2	3.9	90.5	2 721
KPMG	34.7	9.7	5.0	4.5	11.5	4.1	2.4	3.6	2.0	1.0	78.5	5 161
PW	34.4	14.2	9.4	6.3	1.9	0.9	2.4	1.2	1.8	1.4	73.8	2 568
TR	29.9	8.5	12.0	4.4	1.6	5.1	3.6	2.5	3.2	6.4	77.2	2 792
Total	37.4	9.8	10.1	4.6	3.9	3.3	2.6	2.3	2.3	2.5	76.7	23 623

Source: V.B. Bavishi, *International Accounting and Auditing Trends*, CIFAR, Vol. 1.

a AA: Arthur Andersen & Co.; AY: Arthur Young; CL: Coopers & Lybrand; DHS: Deloitte; EW: Ernst & Whinney; KPMG: Peat Marwick, Klynveld Main Goerdeler, Fiduciaire de France; PW: Price Waterhouse; TR: Touche Ross. However, with reorganizations of international networks, the "big eight" have become the "big six" (for details see the first chapter in Part 2 of this report).

b Sum of the 10 countries (%).

3. CHANGES RELATED TO EUROPE 1992

The changes related to Europe 1992 that affect the public accounting professions are due to both the regulatory changes introduced for the completion of the larger European common market and the accompanying general trend toward the "Europeanization" and internationalization of business.

3.1 Regulatory Changes

Regulatory changes can be divided into the two categories: (a) freedom of travel, practice and establishment, and (b) the harmonization of accounting standards.

a) Freedom of Travel, Practice and Establishment

Freedom of travel is now a reality. A directive regarding the equivalence of diplomas is being prepared and should be implemented in January 1991. However, as was pointed out for business lawyers, this directive stipulates that for regulated professions, an "aptitude test" or an "adaptation training period" may be required in addition to a recognized foreign diploma. The interpretation of this clause may vary depending on the country and could give rise to certain rearguard battles before the Court of Justice of the European Communities can impose a jurisprudence, however liberal. Finally, the establishment of offices abroad is currently not subject to any Community legislation. National laws govern and, in this respect, vary greatly.

b) Harmonization of Accounting Standards

The two principal European initiatives for the harmonization of accounting standards are the fourth and seventh directives of companies law. Member States were to harmonize their local legislation for the fourth directive by January 1, 1984, and for the seventh directive by January 1, 1990.

The fourth directive applies to the individual accounts of business corporations and provides for the use of standardized balance sheets and income statements, comparable valuation methods and a standardized appendix.

The seventh directive stipulates similar objectives for the consolidated financial statements of companies heading a group, but deals more particularly with the accounting techniques of consolidated financial statements.

By early 1989, 9 of the 12 Member States (except Italy, Portugal and Spain) had entered the fourth directive into their laws, and 5 (France, the F.R.G., Greece, Luxembourg and Holland) had implemented the seventh directive. However, in these countries, the new law will only apply to all groups as of 1990.[3]

The various harmonization measures have a dual effect. They promote the "Europeanization" of the profession, and they accelerate the trend toward the generalization of consolidated financial statements, thus resulting in a new demand for the accounting and auditing professions.

3.2 The "Europeanization" of Business

The process of Europeanization, previously discussed for business lawyers, is one of the principal consequences of Europe 1992. It generates a number of mergers and acquisitions and the rapid "Europeanization" or internationalization of businesses that, until now, were mainly centred in their domestic market. The result is a new demand for trans-European and international audits: consolidated financial statements, audits in cases of mergers and acquisitions, increased information needs resulting from increased recourse to capital markets. Similarly, as a result of the trend towards reorganization, business consulting needs are being extended, i.e., management and audit consulting and informatics management services, among others.

The principal firms are therefore forced to organize to meet both this new demand and their clients' new needs. Otherwise they will lose their clientele to other firms.

4. CONSEQUENCES IN THE EC

The principal consequences of Europe 1992 for the accounting professions in the European community are due to the above-mentioned changes in client needs. They result in:

- accelerated national mergers;
- a national trend towards deregulation and the emergence of multidisciplinary firms;
- the development of foreign branch offices and the creation of European and international networks;
- the reinforcement of the supremacy of the "big six."

4.1 National Mergers

National mergers have accelerated since 1985, particularly with the largest firms and in countries where, until now, the profession was the least concentrated. Hence, in France, the revenue required to rank in the top five rose from 100 million francs (approximately C$20 million) in 1984 to 300 million francs (C$60 million) in 1989. These mergers are mainly due to improved geographic national representation, a wider range of expertise and finally (perhaps most significant) a strengthened starting position to negotiate entry into one of the networks of the "big six." Similar trends have been witnessed in the other European countries as well.

4.2 Reorganization of the Professions at the National Level

As is the case for business lawyers, the current internationalization and the approaching deadline of an inevitable opening up provide incentive for countries to make restrictive regulations more flexible. The principal measures aim to provide for the creation of corporations that are more capitalistic and the appearance of multidisciplinary firms in cases where such firms were not previously authorized.

4.3 The Opening of Foreign Branch Offices and the Creation of Networks

The opening of foreign branch offices is one response of different national firms to meet the changing needs of their clients, who are also expanding abroad. Networks (discussed later) allow foreign branch offices the advantage of continued services in the client's language, the same methods, and proximity between the client and the firm. Foreign branch offices also enable medium-sized firms to create their own international network without having to merge with large international firms.

The other type of response is integration into the international networks of the "big six."

4.4 Strengthening the Supremacy of the "Big Six"

Table 9 illustrates the growth of the "big six" ("big eight" at the time) on the various continents between 1982 and 1988. Europe's growth rate of 60 per cent is by far the most impressive. The number of European offices now exceeds the number in North America, and the number of partners, half the number in North America in 1982, rose to 60 per cent in 1988. This trend continued in 1989, and it is expected that in most EC countries the majority of large independent firms with no international network will soon join one of the "big six."

There are many reasons for the success of the "big six," as compared to a multipolar merger of the large national firms. The principal ones are:

- *The quality of their international signature.* At a time when companies become more internationalized and increasingly turn to capital markets, a firm's signature becomes a key success

factor for mergers or the issue of new shares;

- *The complementary nature of national and international firms.* Increasingly, large groups listed on the stock exchange turned to a national firm to sign their corporate financial statements and to one of the "big six" to sign their consolidated financial statements;

- *The significant presence of the "big six" in Anglo-Saxon countries.* At a time when businesses in continental Europe are becoming increasingly established, the presence of the "big six" meant that there was a risk that such businesses would not turn solely to these giants; and

- *The effectiveness of the work methods of the "big six" and their many years of experience operating in international networks.* Mergers of large national firms were more trial and error.

Mergers of national firms and the "big six" enable these giants to extend their area of expertise in various countries and, particularly, to expand their geographical scope. Until now they were mainly situated in major cities.

Ranked seventh, Binder Dijker Otte's (BDO) revenue in 1988 amounted to less than $1 billion, far behind the six leaders. However, this network's strategy aims to strengthen its structures, expand its geographical scope and increase its size, while positioning itself in specific markets (medium-sized companies, specialized sectors, etc.). The same applies for the Spicer & Oppenheim network. Although far behind the "big six," these two networks have experienced considerable international growth and continue to integrate their activities.

Other medium-sized firms also are attempting to develop their own network through strong establishment at the national or regional levels. However, they face the risk of having the "big six" continually skimming their clients, unless they develop specific niches.

TABLE 9

Growth of the "Big Eight" on Various Continents*

Country	No. of offices in 1982	No. of offices in 1988	Growth rate %	No. of partners in 1982	No. of partners in 1988	Growth rate %
North America	1 042	1 186	14	8 939	11 487	29
Europe	811	1 297	60	4 480	7 085	58
Asia/Pacific	425	544	28	2 019	3 019	50
Africa/Middle East	310	357	15	935	1 185	27
South America	217	245	13	691	847	23
Total	2 805	3 629	29	17 064	23 623	38

Source: V.B. Bavishi, *International Accounting and Auditing Trends*, CIFAR, Vol. 1.

* Now referred to as the "big six" (see the first chapter of Part 2 of this report for information on the reorganization of international networks).

TABLE 10

Revenue and Staff of the "Big Eight," 1985-88*
(millions of US$)**

Firm	1985 Rev.	1985 Staff	1986 Rev.	1986 Staff	1987 Rev.	1987 Staff	1988 Rev.	1988 Staff	Average[a] growth (%)
KPMG[b]	1 445	29 900	1 672	32 200	3 250	60 000	3 900	62 500	39.2
Arthur Andersen & Co.	1 574	29 800	1 924	36 100	2 316	39 645	2 820	45 918	21.4
Coopers & Lybrand	1 410	38 000	1 700	38 500	2 000	41 000	2 500	45 000	21.0
Price Waterhouse	1 234	30 400	1 488	32 700	1 804	35 086	2 218	38 535	21.6
Ernst & Whinney	1 185	25 000	1 492	28 800	1 778	31 200	2 191	35 600	22.7
Arthur Young	1 060	26 800	1 160	27 400	1 702	30 800	2 053	33 000	24.7
Deloitte Haskins & Sells	953	24 000	1 188	26 800	1 536	28 930	1 921	31 030	26.3
Touche Ross	973	26 000	1 151	27 500	1 450	30 000	1 840	33 000	23.7

Source: *La Profession comptable*, (February 17, 1989).

* The "big eight" have become the "big six" due to reorganization of international networks.
** The U.S. dollar is worth approximately C$1.17 (June 8, 1990).
[a] Including external growth.
[b] Merger in 1987 between Peat Marwick and KMG.

5. CONSEQUENCES FOR CANADIAN ENTERPRISES

The current trend towards global business creates a favourable environment and new opportunities for Canadian public accounting firms. These firms have good assets to take advantage of the situation, and several types of strategies exist so that they can make the most of it.

5.1 Opportunities

The general trend towards global business, concentration and the accompanying mergers results in an increased demand for auditing activities, notably, consolidated financial statements, and, particularly, consulting activities. This explains the considerable growth and profit in the public accounting sector over the past few years, which generally suffered less from the recession in the early 1980s than other sectors of the economy.

Insofar as European integration results in renewed interest in the EC by Canadian enterprises and in the rest of the world, including Canada, by the EC, it also creates new auditing and consulting opportunities for Canadian firms.

5.2 Assets of Canadian Firms

As is the case for business lawyers and globalization, the principal assets of Canadian public accounting firms are their size and work methods. Because the profession was concentrated for quite some time and because it developed on the model of British or American firms, the major firms have a strong corporate culture, well-structured work methods and a size enabling them to invest in new consulting activities such as management consulting, recruiting and computer services. These points are significant when the situation in Canada is compared with that of continental Europe (the Netherlands excepted), which is clearly lagging behind in this respect.

5.3 Possible Strategies

The new situation imposed two types of objectives on large firms to:

- intensify their national and international presence to follow their clients; or
- increase their size and means in order to invest in an increasingly widening range of consulting services.

To attain these objectives, large firms are developing various strategies. They can strengthen their position at the provincial level, hence the move by leading firms in each province to absorb smaller firms; or acquire a national and international dimension. In this respect, several options were explored:

- establish directly in other provinces;
- merge with firms in other provinces or countries; or
- integrate within the networks of the "big six."

A strategy to directly establish in other provinces, attempted by firms since the late 1970s, does not seem to have brought about the anticipated results.

As is the case in Europe, integration into the networks of the "big six" is a solution with several advantages. It provides firms with both a national and international dimension, and enables the "big six" to extend their representation, principally in Ontario, to acquire a truly pan-Canadian dimension. As a result of Europe 1992 in particular, the "big six" have momentum and play a growing part on the international scene. It is therefore not surprising that they recently absorbed several large firms which until now had remained independent. This trend will most certainly continue.

Until now, other firms have opted to remain independent from the "big six" and develop decentralized strategies targeted toward certain market niches and based on mergers with similar firms in other provinces and countries (U.S., EC) that are in networks (e.g., BDO, Spicer & Oppenheim, Grant Thornton).

These networks respect the specific nature and freedom of decision of the various member firms more than the "big six" do. In Canada, they avoid centralized power in Toronto and are geared more to regional strategies. As a result, they receive support from the provincial authorities and from those who wish to maintain freedom of economic decision in the provinces and regions.

Niche strategies develop a strong regional presence and personalized services adapted to the needs of medium-sized businesses. They target international development in areas that have more in common with the province where offices are being opened. Quebec firms, for example, concentrate their international business development efforts in New England, France and Mediterranean Europe.

For the reasons noted regarding the supremacy of the "big six," such a strategy would undoubtedly be impossible because the clientele is composed of large, internationalized enterprises introduced on foreign stock exchanges. However, the clientele of large firms, not situated in Toronto, comprises mainly medium-sized companies (as compared to multinationals) or small companies wishing to maintain the local representation and personalized service. This is particularly true in consulting, where medium-sized companies do not have the same needs as large enterprises. They require more follow-up and involvement by the consultants before the implementation stage.

Compared to their European counterparts, the principal asset of Canadian firms opting for this strategy is their size. It provides stature to invest in new consulting activities and to seek international alliances in those areas that may extend beyond the public accounting networks.

The vulnerability of this strategy compared to that of integrating into the networks of the "big six" has already been pointed out. Nevertheless, it corresponds with the two particularities of the Canadian context, a productive fabric of principally small or medium-sized businesses and pronounced regional characteristics. These factors create a strong strategy.

APPENDICES

APPENDIX A

Concentration under "Big Eight" Leadership, Mergers over Two Years

January 1988: Merger announced between Secor-Fra and GDV under the name Guérard Viala, to take effect October 1, 1989;

January 1988: KPMG merger confirmed and departure of Frinault Fiduciaire to Arthur Andersen & Co.;

February 1988: Merger between ACL Audit (member of Coopers & Lybrand International) and Pavie et associés;

September 1988: Merger between Hsd-Arthur & Young and La Villeguérin Audit and La Villeguérin Conseils;

February 1989: Integration confirmed of Péronnet Gauthier & associés into Guy Barbier-Arthur Andersen & Co.;

February 1989: Merger project announced between Salustro Vincent Gayet and Seec-Reydel Blanchot;

April 1989: Merger announced between Calan Ramolino et associés, Fae and Audit et Performance. New firm included in the Spicer & Oppenheim network;

May 1989: Integration announced of Frinault Fiduciaire into Guy Barbier-Arthur Andersen & Co.;

June 1989: Merger announced between Befec and Petiteau Scacchi et associés (member of Price Waterhouse).

Source: *La Profession comptable*, No. 78 (June 23, 1989).

APPENDIX B

International Networks of French Firms, July 1989

Firm	Revenue in millions of French francs	Staff	International network
Befec/Petiteau Scacchi**	510	919	Price Waterhouse
Helios Streco Durando/ La Villeguérin/Castel Jacquet*	482	900	Ernst & Young
Guy Barbier/Frinault Fiduciaire*	405	666	Arthur Andersen & Co.
De Bois Dieterlé et associés-Payer-Parex-Montagne**	334	688	Deloitte Ross Tohmatsu
ACL Audit*	320	650	Coopers & Lybrand
KMPG Fiduciaire de France*	294	596	KPMG (Peat Marwick and KMG)
Guérard Viala*	232	490	Own network
Salustro Reydel et associés**	175	327	No international network
Calan Ramolino et associés	135	290	Spicer & Oppenheim
Cabinet R. Mazars	105	190	Own network

Note: Temporary classification as at June 30, 1989, based on revenue for 1988. The French franc is worth approximately C$0.21 (June 8, 1990).

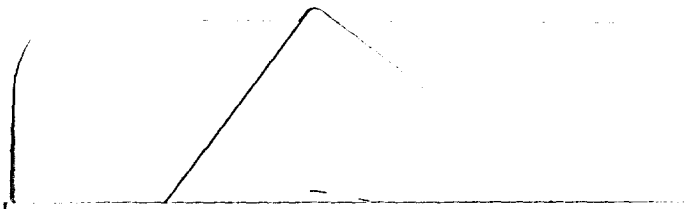
* Merger completed.
** Merger in progress.

NOTES

1. Some Canadian lawyers made the following comments: "One has to rate that Canadian law has found an international niche, particularly in the issuance of euronotes for Canadian issuers. Unfortunately, in spite of the possibility of using Canadian law in this area, many Canadian issuers, including governments, do not require the use of Canadian law."

2. Quoted in the report by Jean-Claude Coulon: *Les professions juridiques de service aux entreprises dans l'Europe de 1992* prepared for the Commissariat Général du Plan, Paris, November 1988.

3. Source: *La Profession comptable*, No. 78 (June 23, 1989).



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