DARK SIDE OF THE BOOM

Our Top 50 survey reveals that fee income is ballooning, but the bubble could be burst by endemic recruitment problems, writes Rachel Fielding

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Things may be looking up for the accountancy profession, if combined fee income is anything to go by. The killer combination of international financial reporting standards, Sarbox-style compliance work and an explosion in revenues from consultancy service lines all helped propel the sector well and truly out of the doldrums.

At £6.72bn, total fee income across the Top 50 has witnessed a 6% jump on 2004 – the Big Four firms alone have seen combined revenues increase by £200m on last year to £4.8bn. But it's the mid-tier that has reaped the most benefits from the upturn, with fees up almost 10% on 2004.

This should mean spirits are high, yet there is a distinct malaise across the profession. True, the pipeline of work may be bountiful, but staff attrition rates are at an all-time high. It means firms often struggle to replace those defecting to other firms or succumbing to the lure of business, let alone find additional headcount to man their growth-hungry departments.

Even in last year's *Accountancy Age* Top 50, skills shortages across the profession looked likely to overshadow a revival in the firms' fortunes. Back then, 80% of the UK's biggest firms said they were looking to increase professional headcount, and more than half said they had plans to take on more partners over the coming 12 months.

In reality, widespread increases in professional headcount have failed to materialise: 40% of firms in this year's Top 50 have actually reduced their numbers of professional staff in the last 12 months. At partner level, 63% of last year's Top 50 had either fewer or the same number of staff. Last year's prediction – that a dearth of qualified staff could stifle growth – rings all too true.

Whether the reduction in professional headcount is a result of a conscious decision to reduce staff numbers, or a consequence of an extremely tight recruitment market is impossible to divine from the survey results alone. But all the evidence suggests that boosting professional staff numbers is a priority. Going forward, 82% of respondents said they expected to increase professional staff headcount in 2005, and 70% said they wanted to take on more partners.

The harsh reality is that to sustain average fee income growth of 11.3%, a supply of qualified staff is essential. Against a backdrop of furious recruitment activity that has seen Big Four firms and large businesses going head to head for the crème de la crème of talent, the skills shortage should not be taken lightly – and no firm is immune.

> To sustain growth, a supply of qualified staff is essential. Against a backdrop of furious recruitment activity the skills shortage should not be taken lightly – no firm is immune

Stevan Rolls, head of recruitment at Ernst & Young, which saw a 4% reduction in professional headcount, admitted the last 12 months had been a struggle. 'The recruitment market is increasingly competitive. Not only is there more competition from industry, particularly banks, but from the mid-tier too. There's a risk it could inhibit growth.'

More than just a headache for firms, new research suggests a dearth of talent could actually be fuelling attrition rates, as an epidemic of burnout sweeps the profession. Just last week, a survey conducted on behalf of recruitment company Hudson found that more than half of British accountants had experienced symptoms of over-work in the last six months, with 59% of employers and 73% of employees saying they now had less people to do the same or more work.

With recruitment visibly high on the agenda, staff attrition rates are an important metric, so it's surprising how few firms are either willing or able to provide such data. After all, tackling the problem is only possible when you know what you're up against.

Of the Big Four firms, Ernst & Young was the only one to volunteer hard statistics, admitting that overall staff turnover currently stands at 37%. Figures may be lacking but even bullish PricewaterhouseCoopers admits it is having to be increasingly creative to capture the imagination of more mature candidates, even advertising in airports and on sandwich wrappers. KPMG, meanwhile, has resorted to casting a wider net to plug its skills gaps.

But average attrition rates across the Top 50 – currently 18% across all staff, rising to 26% among newly-qualifieds – conceal the true extent of the problem. Among mid-tier firms, it's not uncommon for a third to a half of newly-qualifieds to leave over the course of a year.

Recruiting from abroad not only means that KPMG isn't competing with rival big firms in the UK, but as Susan Newton, the firm's HR boss , said back in April, 'we improve diversity in the firm which makes us more attractive both to graduates and our clients.'

The idea sounds great on paper, but in reality only 4% of the firm's partners come from ethnic minorities – incidentally the average across the Top 50 as a whole. Apart from marking no increase on last year, the average conceals an all-too-familiar reality. Of those firms that provided figures on the ethnic makeup of their partners, 39% admitted they had no partners from ethnic minorities, compared with less than one third last year.

Meanwhile, the striking gender imbalance across the senior echelons of the profession is alive and well. The proportion of female partners across the Top 50 has increased one percentage point in the past 12 months to 9%. It's small consolation that the proportion of firms with no women at partner level has remained static at 10%.

True diversity remains a pipedream, and it's time, as they say, to wake up and smell the coffee. There's a war for talent, and it's a sad reflection on accountancy that so little headway has been made in promoting the profession as one where diversity and equality reigns – right up to the top. Until that time, recruiting the brightest and best to support growth across the sector will always be an uphill struggle.

BIG FOUR RETURN TO CONSULTANCY IN DISGUISE

Illustrations: Nigel Sandor

By James Bennett

The news that Ernst & Young has re-entered the advisory services market, thanks to the end of its non-compete agreement with former consulting partner Capgemini, is of huge significance to the profession and, above all, the Big Four.

Not only will the giants of the accounting world now be able to broaden out the range of work they do along with their client base, they will also be able to rebuild business lines they haven't touched for years. The advantages don't end there. The re-emergence of advisory services, otherwise known as consulting – even though firms are reluctant to use the phrase – will also inevitably boost revenues and enable them to push further ahead from the chasing pack.

The gulf between the mid-tier and the main contenders is already vast, but E&Y's repositioning to complete the pack could see Big Four advisory services revenues rise to over £1bn over 2005 and 2006. And all this without even touching a big-ticket IT contract. In fact, this figure will almost certainly surpass 2000 levels of around £700m, when the Big Four were involved in long-term, large-scale IT implementation deals.

In contrast, mid to lower-tier interest in consultancy work appears to have dropped off, with only PKF and RSM Robson Rhodes registering significant fee income, although the latter has seen a dramatic 50% rise in consultancy revenues. At the opposite end of the scale, Smith & Williamson saw just 2.2% of its income from consultancy.

At present, Deloitte generates the most revenue (£315m) because of its refusal to hive off its consulting arm. As a result, it is still the only Big Four firm to get involved in large-scale IT and outsourcing contracts. Thanks to this, it made a 7% leap in consulting revenues between 2003 and last year and increased to £315m the £299m it posted in the last Top 50. Not only this, it was the only Big Four firm to report 'consultancy' revenue figures in our last survey.

Despite once again refusing to disclose and break down money earned from 'advisory services', according to estimates by our sister title *Management Consultancy*, second-placed PricewaterhouseCoopers earned an estimated £200m, but it has made the biggest inroads with a 25% hike in revenues of £50m over 12 months.

KPMG earned £149m from advisory services, a 23% leap from 2003 to 2004, however a spokeswoman predicts this figure will grow by over 50% in the next 12 months, which could see the firm overtaking PwC in the advisory services race.

But with E&Y back on the scene things have suddenly changed and the boom times can now return to one of the most lucrative service lines that firms offer – and how they've missed it. Not only will the Big Four be challenging each other on all the standard fronts, the battle for advisory services can begin again in earnest.

One of E&Y's senior partners told *Accountancy Age* that the firm intends to seriously raise the stakes in a market in which it sees a 'huge opportunity'. It certainly means business and is currently close to appointing a head of division, as well as heavily recruiting for the 150 or so 'consultants' it needs to match and potentially overtake PwC's current advisory revenues. On top of this, it is going back to the Big Four for staff and re-recruiting from its ex-consulting arm Capgemini, as well as other more traditional consultancy firms such as Accenture, IBM and Atos Origin.

They may not refer to it as consulting, but the Big Four are without question undertaking advice-driven work helping clients improve the effectiveness of their finance functions, reduce costs and improve performance.

PwC, for example, has been a member of trade body, the Management Consultancies Association, for a number of years. And despite not entering into large outsourcing or IT deals, PwC, KPMG and now E&Y will be ramping up their efforts to outgun each other on the opportunistic 'advisory' battleground.

Accountancy Age Top 50, 2005

Year end	Number of UK offices	Fees per prof. staff £	Professional staff	Fees per partner £	Partners	UK fee income £m	Fee increase on 2004	Rank 2004	Rank 2005	Name of firm
30/06/04	35	148,639	10,549	2,071,334	757	1,568.0	4.0%	1	1	PricewaterhouseCoopers LLP[1]
31/05/05	18	200,326	6,739	2,307,692	587	1,350.0	8.0%	2	2	Deloitte LLP[2]
30/09/04	22	148,700	7,168	1,927,500	553	1,066.0	6.0%	3	3	KPMG LLP[3]
30/06/05	23	157,000	5,281	2,118,000	391	828.0	2.0%	4	4	Ernst & Young LLP[4]
30/06/05	33	122,000	2,092	1,064,000	239	254.3	7.3%	5	5	Grant Thornton UK LLP[5]
30/06/05	16	111,000	1,900	960,000	220	224.0	23.7%	6	6	BDO Stoy Hayward LLP[6]
31/03/05	32	114,900	1,505	1,212,800	143	172.9	3.7%	7	7	Baker Tilly
30/04/05	14	140,000	750	792,000	161	127.5	3.9%	9	8	Smith & Williamson[7]
31/03/05	23	88,000	1,286	1,160,000	98	113.7	3.0%	8	9	PKF (UK) LLP
30/06/04	27	90,000	1,050	725,000	131	95.0	10.0%	10	10	Tenon Group plc[8]
31/04/05	9	105,000	816	961,000	89	85.5	14.0%	12	11	RSM Robson Rhodes LLP
31/12/04	24	89,209	857	538,129	155	83.4	2.4%	11	12	Moore Stephens
30/08/05	18	100,000	482	833,000	80	62.5	2.8%	13	13	Mazars LLP[9]
30/06/05	-	-	-	-	-	60.0	150%	21	14	Vantis[10]
31/03/05	36	100,000	503	599,000	84	50.3	12.0%	16	15	Haines Watts[11]
31/05/05	10	81,000	598	917,000	53	48.8	38.0%	17	16	Bentley Jennison[12]
31/03/05	9	104,000	341	594,000	60	35.6	-27.0%	14	17	Horwath Clark Whitehill LLP[13]
31/03/05	10	152,400	229	635,000	55	34.9	10.4%	18	18	Saffery Champness
30/04/05	6	112,110	256	638,000	45	28.7	6.0%	19	19	Kingston Smith
30/04/05	10	88.50	296	416,000	63	26.2	9.0%	22	20	UHY Hacker Young[14]
30/06/05	7	151,205	166	502,000	50	25.1	4.1%	20	21	Chantrey Vellacott DFK
31/03/05	9	122,000	183	589,000	38	22.4	4.0%	23	22	Menzies MRI[15]
31/03/05	9	93,000	229	533,000	40	21.3	6.5%	24	23	MacIntyre Hudson
31/05/05	10	75,000	203	463,000	33	15.3	24.0%	29	24	Johnston Carmichael[16]
30/04/05	7	116,500	131	492,000	31	15.3	0.2%	25	25	Wilkins Kennedy[17]
31/12/04	4	75,000	190	680,000	21	14.3	134.0%	-	26	Ford Campbell
31/03/05	15	89,000	158	426,000	33	14.1	7.2%	27	27	Armstrong Watson
30/04/05	3	93,000	141	654,000	20	13.1	15.6%	33	28	Cooper Parry LLP
30/09/04	1	124,475	105	687,895	19	13.1	13.1%	30	29	Buzzacott
31/03/05	1	126,000	101	610,000	21	12.8	1.1%	28	30	Haysmacintyre
31/03/05	14	92,000	137	468,000	27	12.7	12.0%	32	31	Rothman Pantall & Co
30/04/05	6	80,000	155	517,000	24	12.4	12.4%	35	32	Francis Clark
30/09/04	7	73,170	164	600,000	20	12.0	7.1%	33	33	Lovewell Blake
31/03/05	1	136,322	87	593,000	20	11.9	9.8%	39	34	Littlejohn Frazer
30/04/05	6	120,212	94	1,400,000	8	11.3	16.5%	41	35	DTE
31/03/05	5	97,000	116	533,000	21	11.2	3.6%	38	36	Price Bailey LLP
31/03/05	9	58,000	190	412,000	27	11.1	6.2%	-	37	Duncan & Toplis
30/04/05	2	85,000	130	480,000	23	11.0	5.0%	37	38	Scott-Moncrieff
02/04/05	7	90,000	118	464,000	23	10.7	15.0%	31	39	Reeves & Neylan[18]
31/03/05	4	182,456	57	650,000	16	10.4	14.3%	44	40	Mercer & Hole
30/04/05	3	105,000	98	688,000	15	10.3	11.2%	42	41	Hazlewoods LLP
31/03/05	7	59,000	173	602,000	17	10.2	2.2%	40	42	Larking Gowen
30/04/05	3	135,714	70	730,769	13	9.5	3.3%	43	43	AGN Shipleys
31/12/04	1	193,000	49	859,000	11	9.4	13.5%	47	44	Haslers[19]
31/12/04	4	118,000	73	662,000	13	8.6	24.6%	-	45	Barnes Roffe LLP
30/06/04	5	133,333	63	646,000	13	8.4	13.5%	-	46	Streets LLP
31/03/05	2	115,000	73	646,000	13	8.4	12.0%	50	47	Berg Kaprow Lewis LLP[20]
30/09/04	4	109,000	76	488,000	17	8.3	2.5%	48	48	Morley and Scott
05/04/05	7	62,000	133	412,000	20	8.2	9.2%	49	49	Bishop Fleming LLP
31/07/04	4	183,720	43	564,285	14	7.9	5.3%	-	50	Pridie Brewster

1 PwC – corporate finance figures part of advisory fees including business recovery services and consultancy
2 Deloitte – insolvency fees grouped with corporate finance. Personal finance grouped with tax
3 KPMG – consultancy fees part of risk advisory service line
4 Ernst & Young – for insolvency fees read transaction advisory services including insolvency
5 Grant Thornton – fee forecast
6 BDO Stoy Hayward – estimates include annualised benefit of £14m from part acquisition of Numerica
7 Smith & Williamson – entry includes £15.3m from Solomon Hare merger. For partners, read directors
8 Tenon – figures include £5.7m turnover from businesses acquired in the period. For partners, read directors
9 Mazars – audit figures include advisory, consultancy and corp finance. Tax includes fees from pers finance
10 Vantis – fee income estimate, including £25m annualised revenues from Numerica

DAVIDS TAKE ON GOLIATHS AT THEIR OWN GAME

By Gavin Hinks

If you're looking for exceptional growth among the country's largest accountancy firms, it won't be the Big Four that catch your eye. No, you need to travel a little further down our Top 50 list to the number six slot where BDO Stoy Hayward reveals growth of 23.7%.

That's well above anything the Big Four can muster and speaks volumes about where the action is in the accountancy sector. Two trends are clearly emerging – the capitalising on the sensitivity surrounding compliance with new regulation and a rush to make acquisitions and mergers. In the first case, big companies are having to turn their backs on Big Four auditors to look elsewhere for tax planning, corporate finance, consultancy and advisory services.

The misfortune of the Big Four is good news for the mid-tier, as the figures show. The number five firm, Grant Thornton, reveals healthy growth of 7.3%, but, significantly, Tenon has growth of 10% and profits up 49%. Robson Rhodes is performing even better, with turnover up 14%. Haines Watts is up 12%, while our estimated figures show that Vantis could be up by as much as 25%.

The boon in advice on regulation came after the introduction of the operating and financial review, a modified combined code on corporate governance and, for those with a US listing, managing the minefield presented by the Sarbanes-Oxley Act.

Many speculate that the move to use the mid-tier to duck conflicts of interest could create its own momentum, to such an extent that these firms are considered viable alternatives to the Big Four in their own right.

Stoy's work as auditors and reporting accountants for the £5bn flotation of PartyGaming, the online gambling site, appears to point to this as a possibility. More evidence can be seen in Grant Thornton's aggressive new marketing campaign inviting potential clients to 'Think beyond convention. Think beyond the Big Four.'

But the mid-tier's performance is also linked to acquisitions. Figures for both Vantis and Stoy reflect revenue benefits expected from their split of Numerica, but other mid-tier operators have been on shopping sprees.

Tenon's figures will benefit from the acquisition of a new office in Rochdale and tax specialists Premier Strategies. Robson Rhodes should be seeing the fruits of acquiring RSM Moffat, a specialist IT company. The whopping 38% increase in the turnover of Bentley Jennison is accounted for by the acquisitions of WBS in Leeds and Moore Stephens in Birmingham.

While a host of smaller acquisitions may make a difference, the sector is alive with gossip that a big takeover is now long overdue. A quick glance is enough to see which firms might be likely targets for those doing well.

The big question for the mid-tier is whether the trends identified here have the potential to bring about real structural change among the largest firms. Will another firm emerge to compete with the Big Four? A big takeover or merger might help hasten that possibility, but it's still too early to tell from these figures. The next year could make all the difference.

Two trends are emerging – the capitalising on the sensitivity surrounding compliance with new regulation and a rush to make acquisitions and mergers

Audit/ accounting £m	Change on 2004	Tax £m	Change on 2004	Consultancy £m	Change on 2004	Insolvency £m	Change on 2004	Corporate finance £m	Change on 2004	Personal fin/ wealth mgmt £m	Change on 2004	Other £m	Male partners	Female partners	Ethnic partners
725.0	-4%	476.0	-3.8%	-	-	-	-	367.0	45.0%	-	-	-	91%	9%	-
410.0	12.0%	385.0	2.0%	315.0	7.0%	-	-	240.0	10.0%	-	-	-	89%	11%	10%
306.0	3.0%	277.0	5.0%	149.0	23.0%	96.0	-9.0%	84.0	17.0%	-	-	154.0	87%	13%	4%
371.0	15.6%	270.0	-6.3%	-	-	-	-	187.0	7.9%	-	-	-	86%	14%	14%
71.0	3.8%	69.0	6.0%	-	-	49.8	4.6%	36.0	25.4%	8.0	17.6%	20.5	91%	9%	5%
-	-	-	-	-	-	-	-	-	-	-	-	-	95%	6%	-
86.4	4.8%	47.6	0.0%	-	-	20.7	-4.4%	18.3	20.6%	-	-	-	95%	5%	-
19.3	3.3%	25.0	6.6%	2.2	7.0%	9.4	-6.6%	5.4	20.0%	63.3	6.0%	2.9	81%	19%	-
47.5	2.0%	26.3	2.0%	20.5	7.0%	12.5	4.0%	6.9	3.0%	-	-	-	97%	3%	3%
40.3	5.0%	25.5	28.0%	-	-	15.6	1.0%	4.1	60.0%	8.7	4.0%	0.8	93%	7%	-
30.3	16.0%	12.0	-3.0%	18.0	50.0%	11.3	-3.0%	2.6	27.0%	-	-	11.3	86%	14%	2%
33.1	-8.0%	15.7	10.0%	7.8	17.0%	10.0	19.0%	2.2	-14.0%	-	-	14.7	92%	8%	-
41.2	7.4%	13.7	14.2%	-	-	7.6	-27.4%	-	-	-	-	-	91%	9%	1%
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17.8	11.0%	15.0	15.0%	2.5	25.0%	11.2	12.0%	1.3	-35.0%	2.5	24.0%	-	93%	7%	4%
28.6	34.3%	10.0	25.0%	3.0	36.4%	-	-	2.2	83.3%	2.7	100.0%	2.3	90%	10%	3%
21.1	-21.0%	10.3	-21.0%	1.0	-	-	-	1.6	-60.0%	0.4	-60.0%	1.2	88%	12%	3%
11.3	4.6%	8.8	-1.1%	-	-	-	-	1.3	8.3%	-	-	13.5	86%	15%	-
14.9	4.0%	3.4	4.0%	3.6	0.0%	2.6	2.0%	1.5	76.0%	0.6	17.0%	2.0	87%	13%	2%
13.8	18.7%	6.6	9.9%	0.3	-54.8%	2.9	47.3%	1.3	52.1%	-	-	1.3	97%	3%	21%
10.3	0.0%	8.7	0.0%	1.0	100.0%	3.7	12.1%	1.1	22.2%	-	-	0.3	94%	6%	8%
-	-	-	-	-	-	-	-	-	-	-	-	-	95%	5%	2%
9.4	0.1%	6.3	6.7%	5.1	13.0%	-	-	0.5	33.0%	-	-	-	88%	13%	8%
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7.9	0.3%	3.0	1.4%	1.9	5.6%	0.9	14.8%	0.4	2.9%	0.2	41.7%	1.0	94%	7%	3%
2.0	80.0%	1.0	80.0%	-	-	-	-	2.5	-	-	-	8.8	90%	10%	-
4.5	-7.7%	3.1	20.4%	0.7	58.9%	0.4	19.4%	0.6	28.4%	2.2	6.2%	2.6	79%	21%	0%
3.9	4.0%	2.9	9.4%	2.6	19.5%	1.7	3.6%	1.6	120.7%	0.4	0.0%	-	100%	0%	0%
5.8	13.7%	5.5	12.2%	1.7	21.4%	-	-	-	-	-	-	0.1	95%	5%	5%
-	-	-	-	-	-	-	-	-	-	-	-	-	90%	10%	-
6.6	2.0%	2.4	5.5%	0.4	2.0%	2.7	59.0%	0.2	9.0%	-	-	0.5	90%	10%	4%
5.2	8.9%	3.3	8.9%	0.6	12.7%	0.4	-2.8%	0.7	30.4%	0.4	37.5%	1.8	92%	8%	0%
6.8	7.9%	2.2	-4.3%	-	-	0.6	20.0%	0.4	0.0%	0.6	23.0%	1.4	95%	5%	0%
5.2	-3.0%	2.2	0.0%	0.4	0.0%	-		0.4	0.0%	0.3	-	3.4	-	-	-
2.9	12.0%	0.9	80.0%	1.4	8.0%	4.6	18.0%	0.4	0.0%	-	-	1.1	100%	0%	25%
6.9	0.0%	2.0	0.0%	0.6	20.0%	-	-	0.5	25.0%	-	-	1.1	100%	0%	0%
3.9	11.0%	2.9	11.0%	2.4	11.0%	-	-	0.5	11.0%	0.9	-12.0%	0.5	96%	4%	0%
5.7	2.0%	1.9	0.0%	0.4	67.0%	-	-	0.8	-4.0%	1.4	21.0%	0.7	96%	4%	0%
3.2	-3.0%	3.6	-4.0%	1.4	2.0%	-	-	0.5	0.0%	-	-	2.0	91%	9%	0%
2.3	10.9%	6.0	17.6%	0.3	56.3%	1.6	11.6%	-	-	-	-	0.2	81%	19%	0%
4.7	8.7%	2.0	13.7%	0.6	15.0%	0.5	2.0%	1.2	11.4%	0.8	27.0%	0.6	100%	0%	0%
5.7	1.8%	2.4	9.0%	0.7	0.0%	0.4	0.0%	0.4	0.0%	-	-	0.6	97%	600%	0%
5.6	1.8%	3.2	320.0%	0.6	0.0%	-	-	0.1	0.0%	-	-	-	85%	15%	-
2.6	11.0%	5.8	36.3%	-	-	0.4	14.8%	0.6	-55.2%	0.1	-60.0%	0.1	91%	9%	9%
6.6	24.0%	1.5	36.0%	-	-	-	-	0.5	0.0%	-	-	0.0	100%	0%	0%
4.2	31.3%	1.5	0.0%	1.0	0.0%	-	-	-	-	1.7	0.0%	0.0	85%	15%	0%
3.3	-	1.6	-	1.3	333.3%	0.8	-	0.2	0.0%	0.7	-	0.6	92%	8%	-
-	-	-	-		-	-	-	-	-	-	-	-	94%	6%	6%
4.4	2.0%	1.8	12.5%	0.4	15.0%	1.3	20.0%	0.4	20.0%	-	-	-	85%	15%	0%
5.0	9.5%	0.6	8.2%	1.2	3.2%	0.9	5.6%	-	-	-	-	0.2	86%	750%	14%

11 Haines Watts – includes three mergers during the year
12 Bentley Jennison – fees include acquisitions of WBS (Leeds) and Moore Stephens (Birmingham)
13 HWC – first year for publication. 2004 figures included other parts of Horwath Clark Whitehill UK group
14 UHY Hacker Young – 'other' fees include personal finance. Fees per equity partner = £570k
15 Menzies MRI – merged with Wilfred Green at Portsmouth in July 2004
16 Johnston Carmichael – of 24% growth in fee income, 10% is result of acquisitions
17 Wilkins Kennedy – fee income includes £250k fees from acquisition of Meeson Smith in September 2004
18 Reeves & Neylan – fee income includes £990k from merger of Ashdens and £362k duty recovery work
19 Haslers – corporate finance and consultancy fees grouped together
20 Berg Kaprow Lewis – figures include fees from separate IT consultancy and financial services companies

CRUSHING REGULATION DRIVES AUDIT FEE WINDFALL

By Damian Wild

Tony Blair crashed, somewhat unexpectedly, into the governance debate last month. With untypical acidity, he said that the Sarbanes-Oxley Act had sought to remedy more than the recognised 'defect' of auditors being too close to managers, with the upshot that it was costing businesses billions of dollars.

And the prime minister couldn't resist a dig at the profession either. 'There is a delicious irony,' he said, in that 'Sarbanes-Oxley has provided a bonanza for accountants and auditors, the very professions thought to be at fault in the original scandals'.

His comments were, it has to be said, surprisingly insightful. In the wake of Andersen's collapse, the only way accountants could have been less popular was by adding endowments to their range of services. But as the table shows, the UK's leading practices have snatched victory from the jaws of defeat.

Last year, the Top 50 firms' income from audit rose by an impressive 9% to £2.42bn – accounting for 36% of the firms' total, collective revenues. The next highest is tax at £1.78bn – with the other, non-traditional, service lines still some way behind.

Both total audit fee income and its share of the Top 50's overall revenues are up – albeit slightly – on last year, confirming the resurgence of a service line that looked decidedly unfashionable a few years before.

Behind the headlines are some emerging trends. One is a decline in the amount of money being spent by large companies with their auditor on non-audit services. This has helped the larger mid-tier firms, who are picking up more work from traditional Big Four clients whose auditors are conflicted out.

But the clients are still having to spend more. The annual audit fees survey, produced by our sister title *Financial Director* earlier in the year, revealed that FTSE100 companies spend around £100m a year on audit-related expenditure and regulatory compliance – such as reviews of interims, SEC filings or regulated industry matters. It's just being spread about more.

Despite this, Ernst & Young clearly leads the way among the Big Four on the rate of growth in its audit arm, where fees have risen by 16%, with Deloitte not far behind.

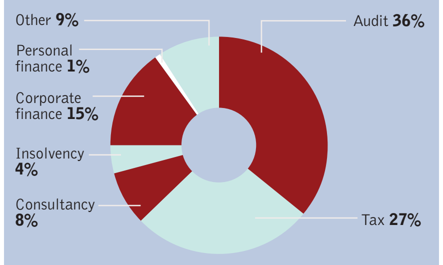
Within the mid-tier, fast-growing (and fast-acquiring) Ford Campbell has an 80% rise in audit and accounting-related fees. Acquisitions helped push up Bentley Jennison's fee income from this service line by over a third. Hacker Young posted 19% growth, an achievement all the more impressive as it appears to have been organic.

But probably the real star appears to be RSM Robson Rhodes, with 16% organic growth from audit and accounting-related services on an already sizeable base.

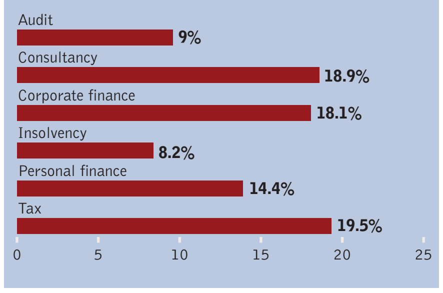
It seems as though the audit market has turned a corner. As recently as four years ago, then SEC chief accountant Lyn Turner was warning firms not to see audit as a loss-leader.

How times have changed. Perhaps now for the first time in over a decade it's an extremely profitable franchise too.

Average Top 50 income share by service line



Average Top 50 growth rate by service line



TREASURY PLUGS LEAKY FINANCES AT FIRMS' COST

By Nicholas Neveling

Despite the government making clear its intention to crack down on tax avoidance, accounting firms have generally managed to maintain a steady income stream from tax advisory services over the last year, according to the *Accountancy Age* Top 50. But with Gordon Brown leading the crackdown on anti-avoidance schemes, will the good times last?

Most of this year's top 10 firms have maintained or grown their income from tax work, with just two of the Big Four firms – PricewaterhouseCoopers and Ernst & Young – seeing a drop in tax as a source of revenue. PwC is hanging on to the tax advisory top spot with income of £476m, despite being down from £495m last year, while E&Y has suffered a 6.3% hit in tax work earnings, which fell from £287.6m to £270m.

The other Big Four firms are performing better in the tax arena, with Deloitte improving by 2% to £385m and KPMG increasing takings from £267m to £277m.

The real growth in tax advisory earnings – this year's star service line – comes in the mid-tier, however, where some firms are recording double-digit growth in tax work. Shortly before its acquisition of Numerica's Southampton, Bristol and Manchester offices, BDO Stoy Hayward reported tax income increases of 20% from the £54.3m it earned in 2004, while listed accounting firm Tenon saw an impressive 28% increase in its tax accounting work, bringing home £25.5m. Grant Thornton, (6%) and Smith and Williamson (6.6%) also saw tax work growth.

The growth in tax advisory work in the mid-tier comes after Grant Thornton, and BDO Stoy Hayward in particular, led the larger second-tier firms in a challenge to the dominance of the Big Four in tax advisory work.

The mid-tier firms have been eager to push their credentials as legitimate alternatives to the Big Four, and their growth in tax work indicates they may be improving their success rate when competing for contracts.

But, the mid-tier has a chasm to cross if it is to truly compete. E&Y has the smallest income from tax work within the Big Four, but it is still greater than the combined tax revenues of Grant Thornton, BDO Stoy Hayward, Baker Tilly and Smith Williamson.

The real challenge going forward for both the Big Four and the mid-tier, however, will be to sustain tax advisory earnings in the face of government's onslaught on avoidance.

A slew of anti-avoidance measures came into effect in this year's March Budget. Many firms had already finalised their accounts by this time, and others were close to their year-ends, which would have shielded them from the full-impact of the new rules.

But with the UK government having now effectively closed most loopholes, firms may be hard-pressed to provide clients with avoidance schemes they are willing to pay for.

In the US, meanwhile, firms' enthusiasm for taking on tax work may have been suppressed by the Department of Justice's decision to consider bringing charges against KPMG for tax schemes it sold to clients in the late 1990s. Such caution might ripple across the pond, which could see firms treading more carefully when pitching tax schemes.

For now, though, the tax advisory market remains steady, with the real challenges for tax advisers lying ahead.

Runners and riders

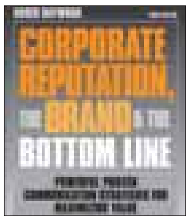
Ranking 2005	Name of firm	UK fee income £m	Increase in fee income on 2004	No. of partners	Fees per partner £	Year end	Fees per prof. staff £	No. of prof. staff	Male partners	Female partners	Ethnic partners
51	**James & Cowper**	7.5	8.7%	14	536,000	30/04/05	91,000	82	86%	14%	7%
52	**Hillier Hopkins LLP**[1]	7.2	4.2%	16	451,000	31/03/05	124,600	58	88%	12%	0%
53	**Simmons Gainsford LLP**	7.1	-1.5%	12	592,000	31/03/05	151,000	47	100%	0%	33%
54	**Critchleys**	7.1	8.0%	18	395,000	31/05/05	100,000	71	94%	6%	6%
55	**Forrester Boyd MRI**	6.7	8.0%	16	419,000	31/03/05	65,000	95	100%	0%	0%
56	**Unity**	6.3	8.7%	17	367,647	31/03/05	100,806	62	94%	6%	0%
57	**Spofforths**	6.2	3.7%	17	365,000	31/12/04	124,000	50	100%	0%	0%
58	**Mitchell Charlesworth**	5.8	9.0%	12	486,000	30/04/04	57,700	101	92%	8%	0%
59	**Lambert Chapman**[2]	2.5	0.0%	8	315,000	30/06/04	79,000	32	75%	25%	0%
60	**Wingrave Yeats LLP**	2.4	17.1%	6	404,000	31/12/04	114,988	25	83%	17%	0%

Notes: 1 Hillier Hopkins fees include £170k from acquisition of Burnhams 2 Lambert Chapman corporate finance figures included within consultancy


Focus on your clients
with real time
accounting

SENDING OUT GOOD VIBRATIONS

The reputation of your organisation matters – at all levels – and mobilising a vast army of goodwill ambassadors, in the form of your employees, will help boost your bottom line, says Roger Hayward



The company makes more than profits through the efforts of its employees; it makes good vibrations or bad. Employees perform some important functions to which most managements pay too little attention. As many of these services are totally unpaid and can make a big contribution to commercial success, this may not be the wisest approach.

What are these valuable, voluntary tasks that employees undertake for free?

First, whether you ask them or not, they put out messages about your operations to all the audiences upon whom you depend for success. Second, they can tell you what these audiences think about your organisation.

With imagination and management skill, this goodwill and powerful feedback can be a bonus on top of their paid-for efforts. But however many listeners, viewers or readers the communications may reach, no audience is as important as your staff. If personnel are not briefed and accept ownership of the corporate stance, then external communications will be undermined as soon as this credibility gap is exposed, as surely it will be.

Employees are a powerful part of the company marketing. They project messages about the company and embody the brand. In a service business it is vital not to underestimate the role that employees play – and their central role in creating and managing reputation.

Why brief analysts, inform shareholders, woo institutions, persuade customers, flatter legislators, or court journalists if you keep in the dark those who have committed their working lives to the company? The influence of employees (for good or bad) can be very significant. Poor employee relations can bring down the company, while a well-motivated team can dramatically improve productivity.

Employees are the living face of the organisation and must project the values that reinforce the reputation. Steve Gates, managing director of Denplan, runs a company that provides sophisticated services to the dental profession. 'As in any service sector, you depend upon good relationships and a strong reputation. Clients will only work with people and organisations that they can trust. This means that every employee must not only believe in the company values but also must project and demonstrate the reality of these in everything they do.'

Gates does not think it is sensible to allow this goodwill and understanding to develop on its own. Everyone on the team reflects the values that the top managers project. If customer care or integrity are slogans on the walls and not part of management attitudes towards the business and the customers, then standards of service delivery can go astray.

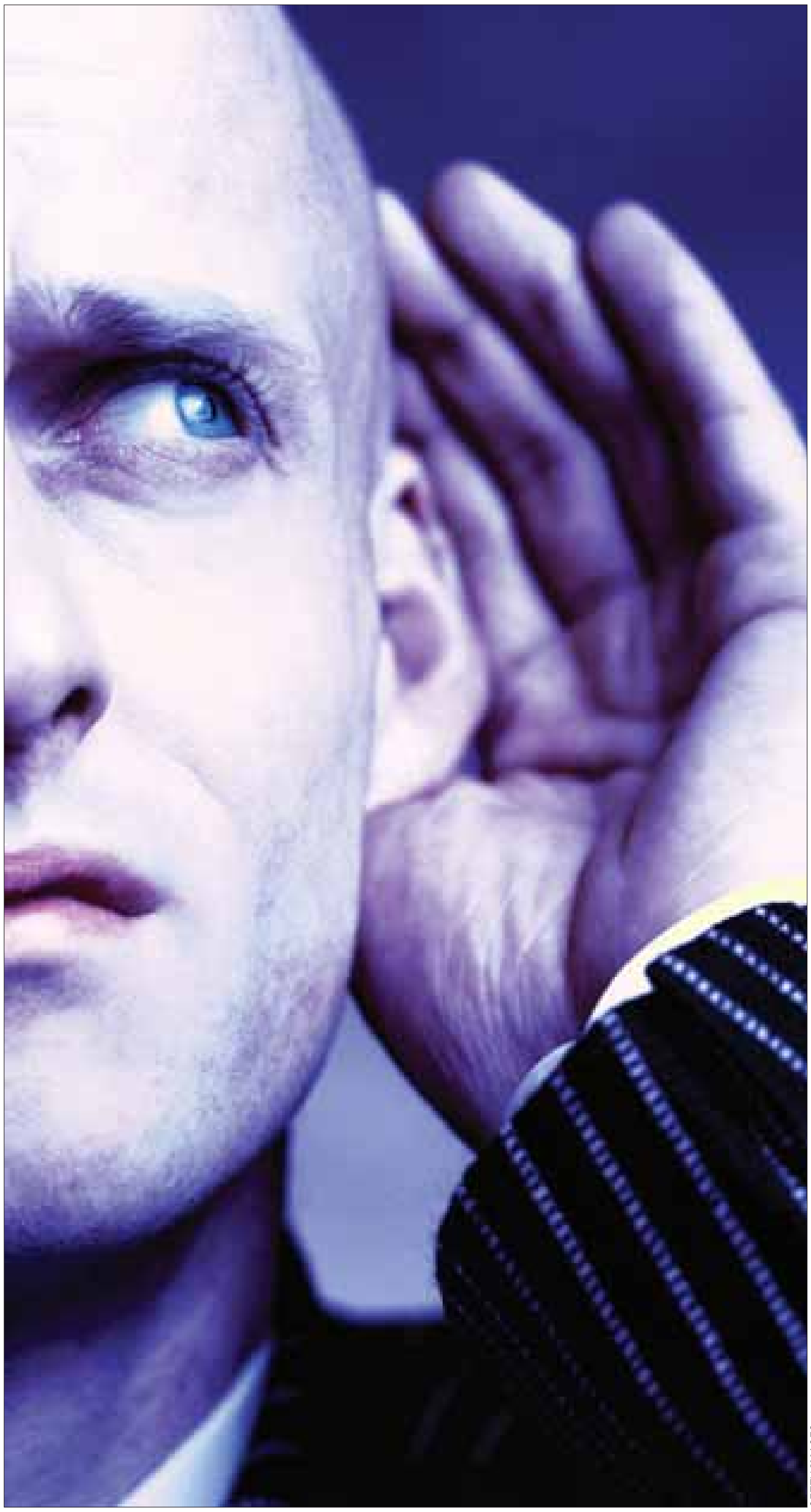
'Good, consistent and continuous two-way communications across the whole team is the only way to make sure everyone owns and is committed to the qualities that make the company special,' he asserts.

In Denplan, as well as communications being part of everyone's job, the whole company regularly goes away from the office for in-depth and candid reviews of company policies, progress, new developments, issues, problems and solutions. 'Our colleagues know they can say what they want to say and not just what the bosses would like to hear. That way we are all always dealing with reality. Therefore our service is not some conceptual idea, it is real and relevant. And our client retention levels of close to 100% seem to confirm that these policies work.'

The late Leonard Pool, chairman of Air Products, once told me that companies rarely have the 'wrong' people, more often the wrong management methods. After all, Sir Iain Vallance and his team created the BT success with largely the same employees that had made the organisation an inefficient, work-to-rule, unresponsive megalith. But success is not permanent or guaranteed. Later, the same teams became complacent and transformed one of the world's largest telecoms operations into a sad shadow of itself.

How was Asda changed from the who-cares to the customer-is-king style? This success

'Consistent and continuous two-way communications across the whole team is the only way to make sure everyone owns and is committed to the qualities that make the company special'



GETTY IMAGES

profited managers and shareholders alike, as it attracted Wal-Mart to buy the company. The differences lay in the management, and the business environment in which they could work.

There are, however, other factors affecting success which are equally as important as good employee relations. Third party publics upon whom the organisation depends are likely to form opinions based upon their observations. For example, their decisions to invest in the company, write favourably about it, lend to it, work for it, listen to it or buy from it will often be affected by the attitudes of those closest to the reality – the employees.

Coordination and consistent messages are essential to creating a well-informed and motivated workforce. To some degree, the corporate reputation is dependent on listening and adopting, not just talking louder.

One of the best contributions that your employees can make is to act as the eyes and ears of the organisation. You need to know what they see and hear when dealing with customers, competitors, factory neighbours and other groups. Everyone in the organisation is a member of the PR team. They should be listening to public comments and feeding them back, as well as putting out positive messages about the company.

Feedback systems play their part and there are many excellent books on how these work – as well as organisations, such as The Work Foundation, which advise on setting up team briefings and information feedback processes. These are beyond the scope of this book, but there are some communications principles that managers should consider.

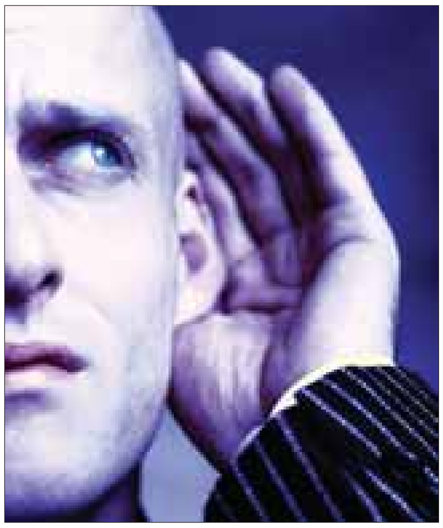
Remember that the more open you are in briefing and providing information to employees, the closer the coordination that you will need between internal and external communications. This is one reason why these two aspects of public relations are better coordinated through one person.

From long experience at the top in business, Sir Edwin Nixon, when deputy chairman of NatWest, offered a word of caution: 'Spend as much time as you can on communications but, whenever you are communicating some important message internally, you must assume that what you say will be transmitted externally, sometimes to the press, sometimes in minutes, but certainly within 24 hours. Write nothing internally without considering its impact in the public domain.'

How can the company ensure that it understands what people really think so that communications are addressing the real issues and shaping the actual perceptions?

A listening philosophy starts at the top. Leaders must lead but it is no sign of weakness to listen before leading. Those who consider they know best, without input, risk making mistakes; good decisions depend upon the views of others who may be better informed or closer to the action. The listening chief can be truly decisive; he or she can participate in all policy discussions because the views of those affected are known. The listening chief listens!

Listening is an infectious habit. It can spread throughout the company and be made part of the business culture. True listening – not the synthetic artifice – has kept Unilever,



To be told about developments one day and to read about them the next day in the national or local paper gives this news a special interest – and treats the employee as a trusted confidant. Reading that same news one day and being briefed on it the next is demeaning and can create massive resentment

Cadbury Schweppes, Microsoft and Procter & Gamble at the top. Listening proved a key factor in the recovery of Microsoft when it underestimated the internet revolution. Lesser organisations might have failed and missed this massive opportunity.

Checking the balance is simple. What would you want to know if you were an employee? What would you like to know? What would you accept that you should not know, for reasons of confidentiality, commercial sensitivity or otherwise?

However, the needs of employees in relation to information are rather different from their legal rights. At present there may be no statutory right for employees to know about the anticipated development of their company, but it might be a very realistic need; such information may ensure that they understand and support management plans.

Equally, employees might want to know what investments are likely to be made that will affect their jobs. Where commercial factors or stock exchange regulations limit the information that can be provided, employees will appreciate this being explained.

The corporation needs trust and it should have the confidence to trust its employees. And those who have tried will confirm how surprisingly loyal and confidential employees can be when brought onto the inside track.

Pamela Taylor, then BBC director of corporate affairs, recalls how she encouraged the director general to brief the top 160 staff on confidential plans. This was at the time the BBC was going through controversial changes. These senior managers included journalists in the news business (some of whom were concerned about the direction of the BBC's plans). Everyone respected the confidence and there were no leaks.

Of course, directors will need to have a clear view of the information that has to be provided by statutory right, union negotiation or trade precedent; that should be provided in the interest of good understanding; and that is confidential and does not have to be freely available until it is appropriate.

To build a company-wide public relations force requires skill and dedication. Even if employees are content and well motivated, they may not see it as part of their job to be positive in their discussions. A good moan may be a diverting pastime but criticism of the company by one of its own can be damaging.

Do not make the mistake of thinking that information alone is enough. Information is often not enough to change opinions or to foster the right attitudes. It is quite possible for employees to know what the policies are but not have an understanding of why they've been adopted. They may even resent them.

In one study, 45% of the workforce of a US company were not familiar with the corporate mission, widely published in literature and proudly displayed in receptions – but not presented properly internally. More seriously, even when shown this, almost 55% either did not agree or felt the company was not operating in the way it professed.

Communications should be organised so that employees are briefed directly and ahead of getting the information through other channels. To be told about developments one day and to read about them the next day in the national or local paper gives this news a special interest – and treats the employee as a trusted confidant. Reading that same news one day and being briefed on it the next is demeaning and can create massive resentment.

Stock exchange rules on insider trading may prevent a company from briefing employees in advance – but with planning, the workforce can be briefed virtually simultaneously.

Of course, shareholders and employees may want different information. Some staff may require additional explanation if they are to understand fully the significance of the developments. They will certainly want to know more about how business and financial performance affects their jobs.

Sir Richard Branson, maintains that in running a company the priority must be employees – even ahead of customers. If employees are well informed, supportive and well motivated, he suggests that they are more likely to provide the levels of customer service that keep clients coming back for more.

And if customers are getting the levels of service they want, this is more likely to generate the returns to shareholders. Many companies reverse this order and put little weight behind forming and motivating their employees – who actually generate the profits.

When a policy decision needs to be presented, employees should be treated as a priority. They need to have the opportunity to discuss such policies if they are to implement them effectively. Employees should only be asked for their views where the directors are likely to take notice of these in formulating decisions. Where a policy has been decided, it is an insult to ask people for their views.

Clearly, it is legitimate for a company to say: this is our policy, this is why we have developed it, we would like to discuss this with you so you can explore any areas of confusion and, when we have done that, we will be asking for your support. That's enlightened leadership, but it is not consultation.

This is an extract from Corporate Reputation, the Brand and the Bottom Line *by Roger Hayward published today by Kogan Page ISBN 0-7494-4408-8 £19.95*

LEADING FROM THE FRONT

The chairman or chief executive should demonstrate his or her belief that effective communications at the personal level is an essential skill for all managers. Acceptance by the top team will demonstrate to all employees the seriousness with which the topic is being addressed.

Explain how staff can support company aims. Employees need their communications responsibilities detailed. Members of the company will not communicate positively as an automatic procedure. They need to be advised that this is part of their role. They need to understand the impact that they can have on important audiences. They need to appreciate that they can help shape opinion and are therefore part of the company's public relations resource.

Make staff part of a feedback system. Employees of an organisation mix across a very wide range of audiences and are exposed to various types of comment, many of which may be more candid than those addressed to senior executives. Training must identify the ways in which they can feed back these reactions as part of the company's systems for monitoring public opinion.

Brief staff on the aims of the organisation. Employees can position their role within the broader ambition of the organisation if they understand what it is trying to achieve. They will also be better equipped to explain to third parties how individual elements of the organisation's stance can form part of the larger picture.

Give staff suitable support materials. Employees can quote articles from newspapers, notices, news stories and so on. New developments may be supported by briefing sheets or newsletters that can be used externally. Employees also need to be advised on what is confidential and what is available for public discussion. And on why there might be a difference between the two.

MOVING FORD-WARD

On the frontline: Tony Ford – the senior partner who has led a small firm to 26th in the Top 50, writes Karen Day

It's been a mammoth 12 months for Tony Ford. The senior partner and founder of Ford Campbell has seen the practice grow by a record 134%, rocketing it into the *Accountancy Age* Top 50 for the first time.

Ford, and his partner Andrew Campbell, set up the business 12 years ago and it now dominates the northwest as the largest independent corporate finance-led practice in the region.

The group, which is the highest new entry into this year's Top 50 at 26, has seen turnover increase from £6.1m in 2003 to £14.3m in 2004 due to an ambitious expansion programme.

Ford, a specialist in strategic advice, private equity and turnarounds, has developed the group from small beginnings into five business divisions and three sister companies.

Over the past 12 months, he has overseen a number of strategic mergers, acquisitions and new start-ups and the group now provides corporate finance, transaction support, business advisory and audit, specialist taxation, search and selection, as well as financial planning and private equity.

This growth in services – adding an extra three lines from 2003 – is part of his plan to turn Ford Campbell into the 'complete business partner'.

Ford significantly boosted the corporate finance part of the business with the acquisition of Freedman Ross in 2003. The firm was struggling to break the market in Leeds and has since merged its transaction services, strategic finance and recruitment divisions into the new Ford Campbell Freedman. Ford sees this as a key contributor to its record growth.

> Ford has proved he has the knack of predicting the ebbs and flows of the regional economy

It also acquired Moorgate House plc, an ailing independent financial adviser and integrated the business into sister company Carrwood. After a redundancy and relocation programme, the acquisition has seen its IFA business increase from £2.4m to £8.5m and it is now one of the largest providers of IFA services to accountants.

It has also opened a new division, Ford Hastings, a search and selection business based in London and Manchester to recruit finance specialists for Ford Campbell's client base.

Ford has proven that he has a knack of predicting the ebbs and flows of the regional economy, pouring resources into high-end corporate finance work during times of plenty and developing his turnaround work when belts start to tighten.

He is known to get a 'big kick' out of the turnaround side of the business and sees it as helping to save jobs and safeguard the local economy.

This work has also proven to be extremely good business, with Ford Campbell offering a strategic partnership-style service in exchange for an equity share. This ensures companies, that are also looking to grow or to sell, use all of the group's services while it gets a stake in any success.

In the case of telecoms company Eurocall, the firm reduced its fees by 50% in return for a 2% equity share. Within three years Eurocall had moved from break-even point of £20m to a turnover of £55m and was sold last year for £42m.

There are few accountancy practices that can rival the growth of Ford Campbell. Just four years ago it was celebrating winning *Accountancy Age*'s Small Business of the Year Award – now it is challenging the upper tier of the Top 50.

THE NEED TO REVEAL MORE

Accountancy Age's Top 50 is such an established benchmark for measuring the health of the profession that it's easy to forget it's less than a decade old. Until then, the only numbers most firms were willing to reveal about themselves were in their addresses.

That's all changed now, of course. These days, all firms are happy to tell us their fee income. But is it time firms went further in how much financial information they reveal?

We believe so.

This year, for the first time, we asked firms to tell us their operating profit. Only 13 were forthcoming. It is to the enormous credit of that minority that they did. It doesn't reflect well on those who ducked it.

Eleven of those who supplied bottom-line figures are limited liability partnership. As part of the LLP deal, greater protection is traded for more disclosure – including publication of financial data – so it's no surprise that the 11 coughed up.

By the by, Pridie Brewster and Reeves & Neylon – both partnerships – deserve praise for electing to supply bottom-line figures.

What is rather odd is that eight of the 37 who neglected to provide us with their operating profit are actually LLPs. The information is publicly available. It may have been an oversight. It may have been laziness. Or it may have been designed to avoid drawing attention to a poor margin. That lack of openness – by LLPs but by partnerships too – must change next year.

If it seems a little too early to be talking about the 2006 Top 50, indulge me. After all 2005 marks an important anniversary: it was a decade ago that the first firm opened its books to the public.

In 1995 KPMG Audit Plc was formed and with it came publication of audited financial statements. Then senior partner, Lord Colin Sharman, decided to combine the results of the partnership and the plc in one publicly available statement.

By including partner remuneration bands and details of his own salary, Lord Sharman shook up the firm and changed the way the profession was prepared to think about itself. A decade later and the profession is still more changed. Now it's time to move on again. Profits please, next time.

Damian Wild is editor of Accountancy Age

Three steps to…
Leaving the rat race

Step 1 Wake up
Evaluate where you are right now – be realistic about the pros and cons of being employed. And then go through the same process with self employment. Consider things like income, enjoyment, effort, work/life balance, tax, responsibility.

Step 2 Decide what to do
It's easy to eliminate certain business ideas from the equation – things you don't have the skills to do or that don't correspond to your strengths. Is it feasible? Do you have realistic expectations of a business idea based on your starting capital?

Step 3 Bite the bullet
Leaving the safety of a job is one of the hardest things to do. Make a list of the things that frighten you about self employment – and identify a countermeasure for each one and reduce it to a level that you are happy with – then leaving your job becomes easy.

buzzwords

Organisational currency

[noun] *People. Yes, that's it. People*

Do you know what the business world is crying out for? We'll tell you. Another word for people. There just aren't enough. Staff? We've always liked that one. Very Ronseal – says what it does on the tin.

Human capital? OK, we'll give you that. Familiarity can, we'll grudgingly admit, breed contentment. Living assets? Now you're testing our patience. Organisational currency? Would you like to step outside…?

An entirely superfluous term, organisational currency is both new and unwanted. But now it's here, make sure you 'nurture' your organisational currency, 'incent' it appropriately and, in a service industry like ours, it's essential you don't forget to 'productise' it either.

Bemused by business buzzwords? Then send them to **news@accountancyage.com** and we'll share them with everyone