

The Entry of International CPA Firms into Emerging Markets: Motivational Factors and Growth Strategies

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Abstract: *This article examines the entry of professional service firms, specifically the Big Six international accounting firms, into emerging foreign markets and explores how they develop and expand their business once established in those markets. The study is based on survey data (supplied by the Big Six) regarding their penetration of the People's Republic of China, the Commonwealth of Independent States, and Central Europe. A conceptual model is employed to illustrate the interrelationship between a firm's specific characteristics, the foreign environment, and foreign subsidiary intrafirm structure. Growth potential, client needs, favorable political/legal climate, and cultural considerations emerged as important factors in determining market entry and growth strategies for professional services firms. The research findings broaden our understanding of factors that influence professional services firms' development of pricing and marketing mix strategies. While all firms surveyed offered a full range of services, their marketing mix strategy differed from domestic approaches because of various local constraints on pricing and promotion.*

For decades, as domestic markets have become saturated, industrial corporations have expanded their operations worldwide. U.S. corporations have extended their operations throughout Europe, Asia, Africa; and the Americas. European companies have spread to the Americas, Asia, and Africa; and Asian firms have moved into the Americas, Europe, and Africa. Thus, multinational corporate (MNC) economic activity has become increasingly global in scope. The rapid international spread of MNCs has presented both opportunities and challenges to those firms that serve them, including the Big Six international public accounting firms.

The expansion of the international CPA firms¹ (hereafter, "Big Six") into international markets is a continuation of their long-term growth trend, as shown in Table 1. From 1990

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Table 1. Big Six Growth, 1990–1996

CPA firms	1990		1996	
	Staff*	Revenue (\$)**	Staff*	Revenue (\$)**
AA	56.8	4.2	91.5	9.4
CL	53.0	4.1	74.0	6.8
DT	59.7	4.2	59.0	6.5
EY	72.8	5.0	72.0	7.8
KG	77.2	5.4	78.0	8.1
PW	46.4	2.8	56.0	5.0

Sources: Issues of *Public Accounting Report*, recruiting brochures, and information from <http://www.rutgers.edu/Accounting/raw/internet/big6.htm>.

*Staff in thousands.

**Worldwide revenue in billions.

to 1996, all the firms have expanded greatly in terms of worldwide revenue. The announced 1998 mergers of (1) Coopers and Lybrand with Price Waterhouse, and (2) Ernst and Young (E&Y) with Peat Marwick (KPMG) emphasized the international aspect of professional accounting. One of the proposed advantages of these mergers is that the new firms will have the global reach, strength, and scope to meet the needs of their clients. Emerging markets were clearly on the minds of E&Y and KPMG chairmen and chief executive officers (CEO) when pursuing merger talks (which subsequently were discontinued in early 1998).² Stephen G. Butler, chairman and CEO at KPMG, stated “By combining resources, we intend to gain ground in China, Russia, and other developing markets” (MacDonald, 1997, A3).

Today, one of the fastest growing areas of international trade is business services. In general, world trade growth has been faster in services than in goods. In fact, recently, the growth rate in the world trade of services was about three times higher than the related growth in world trade in goods. In 1996, U.S. services exports amounted to \$224 billion.

The service segment of world trade involves all countries at every level of development; even the least-developed countries are seeking computer technology and sophisticated data banks to aid them in advancing their economies. These export figures may be underestimated by as much as 20 percent to 30 percent since data in the current account do not reflect all categories of services. Unlike merchandise trade that requires a declaration of value when exported, most services do not have to have an export declaration nor do they always pass through a tariff or customs barrier when entering a country. Services infrequently counted include advertising, accounting, management consulting, legal, and most insurance (Cateora, 1996).

The world market for services has grown at a faster rate (16%) than that for merchandise trade (7%) (Czinkota and Ronkainen, 1993). This growth has been apparent in professional services such as accounting and management consulting, legal, advertising, and public relations. Zeithaml and Bitner (1996) estimate that of the 10 leading U.S. global consulting firms, revenues from outside the U.S. represent more than half their total revenue. (Among the 10 are the consulting wings of four of the Big Six accounting firms: Andersen Consulting; Coopers and Lybrand; E&Y; and Price Waterhouse.)

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