

**Mergers, International Affiliations and
the Rise and Fall of a National Firm:
Kendon Cox & Co 1908 - 1988**

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FIRM: KENDON COX & CO 1908-1988**

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MERGERS, INTERNATIONAL AFFILIATIONS AND THE RISE AND FALL OF A NATIONAL FIRM: KENDON COX & CO 1908-1988

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Abstract: This paper aims to answer one research question: what are the main drivers of mergers and acquisitions (M&A) and disintegration of medium accounting firms during 1960s-1990s? This question is addressed by an investigation into the history of one medium national accounting firm, Kendon Cox and Co from 1970 to 1988. Two main data sources were utilized in the paper, including: i) oral history transcripts by Baskerville (2002) and ii) New Zealand Society of Accountants' yearbooks published from 1976 to 1994. The findings suggest that international affiliation with its related benefits was the main driver of the various mergers throughout the firm's history. It is found that the KPMG merger in 1985-1986, and subsequently the loss of international affiliation had triggered Kendon Cox & Co to disintegrate. Besides, it is the lack of financial and cultural integration among local branches and consequently a lack of a national identity that led to the firm's total fragmentation in the late 1980s. The findings of the study contributed to the literature on i) firm lifecycles, ii) firm strategy and iii) the drivers and success factors of M&A.

1. INTRODUCTION

It is arguable that mergers and acquisitions are one of the major forces that have shaped the accounting profession in the past for CA firms forty years. This trend started in the late sixties with major accounting firms initiating networking and establishing international connections with local firms around the world to service multinational clients. In the same way, most New Zealand local firms since 1970s were connected to some overseas firms. These linkages granted these local firms a reputation and competitive advantage over those that did not have overseas connections, in addition to a multiple of other benefits. However, the "dark side" of international affiliation was that it rendered local firms dependent and vulnerable to overseas influences. The subsequent mega-mergers between major accounting firms from 1970 to late 1990s as a result, has led to a number of substantial reductions in size, or collapses, of some mid-tier New Zealand firms.

This study investigates the case of Kendon Cox & Co, one firm which, in 1985, had 60 partners distributed in 12 different offices all over New Zealand, but had dropped to only 3 offices with about 18 partners by 1988. This firm was of particular interest because the national firm Kendons Cox & Co resulted from a series of mergers at different stages of the member firms. Moreover, the firm was affiliated with different overseas firms at different times. The study aims to provide an in-depth story into the drivers for its mergers, the role of international affiliation in the firm's survival, and the factors that caused its demise in 1986-1988.

In presenting the findings of this study, the remaining part of this paper is organized as follows: The second part will explain the methods and data sources employed by the study. The third part reviews the literature on some issues to be investigated later in this study. This will be followed by a review of the professional setting and mergers and acquisitions of other accounting firms in New Zealand during the same period, 1970-1990. The fifth and the major part gives a historical account of the mergers and other significant events in this firm's life cycle, from the beginning of the century with the establishment of its members firms to the very last year before the break-up of the national firm. The sixth part summarizes and discusses the findings

presented in part five, in comparison with the existing literature. Conclusions, and recognition of the study's limitations, will conclude the paper.

2. METHODOLOGY

The first data source employed in the study is Yearbooks published by the New Zealand Society of Accountants from 1976 to 1994. These Yearbooks record the names of partners in all offices of all accounting firms in New Zealand in the period. Based on these yearbooks, movements of partners between branches of Kendons Cox & Co and between it and other accounting firms are traced, and coded into increases and decreases in number of partners and branches for each year in the period. The Yearbooks also assist in tracing name changes in the respective years through various mergers in the history of the firm. The data collected from the Yearbooks are synthesized to give a basic frame to the history of Kendon Cox & Co and these are subsequently presented by the way of diagrams.

The second data source for this study is the oral history database compiled by Baskerville (2002). This database comprises of transcripts of interviews with 40 retired partners from a variety of accounting firms in New Zealand in the period from 1976 to 1994¹. Of these partners, seven were identified as retired partners from Kendon Cox & Co, the firm focused by this study. The majority of the firm's history is drawn from the memories of these partners on major events happening to Kendon Cox & Co.

A major disadvantage of an oral history study is the problem of different memories people have towards the same events/ periods. This study, on the other hand, aims to track the history of Kendon Cox chronologically, and present a family-tree view of the firm's predecessors, and the accurate timing of the firm's branches throughout the period from 1970-1987. The author makes the highest effort to look for commonalities between the memories of the five partners. When a majority of partners recall similar events, years or issues around the events, the events, years or issues, this information is taken as relatively reliable.

Total reliance on subjective memories could still be misleading and may result in diverse reflections which make it difficult to construct a coherent historical story. For this reason, other sources are investigated to look for further verification of the narratives presented by the partners. These further sources include issues of *Accountants Journal* published in the 1970s and 1980s, New Zealand newspapers and magazines in the same period and various newsletters circulated by the Kendon Cox & Co and its predecessor firms. These resources not only provided validation to the memories of partners, but also offered further insights into the various mergers and related events the firm experienced in its history.

Lastly, various books on internationalization of major accounting firms in the world during 1980s and 1990s, and books on the economic conditions of New Zealand and the world from 1970-1990 provided an overall picture of the economic and

¹ The period was chosen because it is the period the New Zealand Society of Accountants published Yearbooks that listed the partners' names and branches of all accounting firms in New Zealand. It was based on these Yearbooks that Baskerville identified the sample of 488 partners to send survey questions. Forty retired partners voluntarily agreed to participate in the Oral History Project of the author, and they are among the 108 partners who responded to the survey sent out earlier in May 2004

professional environment in which Kendon Cox operated. These macroeconomic factors, as well as trends in the world-wide profession, have important implications for the strategies utilized in the firm in each period as it strives to survive and thrive in a changing environment.

3. LITERATURE REVIEW

For this part, relevant literature is reviewed in order to ascertain the extent to which the issues related to this paper have been explored by other researchers. Four main issues will be examined, including organizational strategy, organizational life cycles, drivers of mergers and acquisitions (M&A), and firm culture and cultural conflicts in M&A.

3.1 Organizational strategy

There are a variety of approaches to analysis of firm strategy.

Langfield-Smith (1997) classifies firm strategy into three types, including

- (1) corporate strategy,
- (2) strategy that relates to individual business units, and
- (3) strategic variables.

Corporate strategy refers to strategies that are applicable organization-wide, comprising of strategies of the scope of services and adapting the firm to environmental and resource demands, as well as shareholders' expectations. Unit-level strategy refers to strategies that formulate and implement corporate strategy and break it down to business levels' operations. Strategic variables are the strategic typologies that bring about organizational success under specific environmental and organizational circumstances.

Miles and Snow (1978) demonstrate that firm strategy can be based on the manner the firm reacts to the market, and how it positions itself among its competitors. Four types of firm strategy are identified: defender, prospector, analyzer, and reactor. Firms that follow a defender strategy tend to be stable, and less responsive to environmental changes, having a narrow scope of services and products. Prospectors, in contrast, are less stable in characteristics, more responsive to the environment, innovative, and constantly seek opportunities to champion a lead market trends.

Analysers are middle-ground between prospectors and defenders in the sense that they seek both efficiency and new market opportunities through preferring a second-comer position; they are more risk-averse than prospectors, but more pro-active than defenders. Reactors pursue the less stable and inconsistent mix of organizational, engineering and administrative strategies, surviving through reacting passively to each environmental crisis, and no clear strategic existing to pilot the whole organization.

The applicability of these models to accounting firms is questionable. Arnett and Danos (1979) interviewed members of 33 firms in United States of varying sizes and found little correlation between strategic planning and growth for the year 1972 and 1977. This suggests that CA firms could grow without formal strategic planning or

choose a strategy of being stable and small in size as the most efficient and optimal for their firm's survival.

3.2 Organizational life cycles

Organizational lifecycle literature is important to this study because it proposes a framework to look at the different development and decline stages in the history of Kendon Cox & Co. Miller and Friesen (1984) suggested four such stages: growth, revival, maturity and decline. Firms often start by growing in market share, broadening produce scope, followed by a revival stage when firms diversify their products, move into unrelated markets, take risks and re-invent themselves. The third stage is when firms are mature, with established and formal structures, focusing on serving a defined market, with modest growth. Firms move into the last stage in firms' lifecycle, 'decline', with little innovation, conservation, and risk-averse market strategy, as, for example, using low-balling to retain existing audit clients.

Johnson (1997) integrated the lifecycle model of Miller and Friesen (1984) with the strategic typologies of Miles and Snow (1978). He established that firms during their growth stage will play prospector role, then slowing and moving into a revival stage with an analyzer strategy. The maturity stage is argued by Johnson as characterized by a defender strategy, and lastly, the reactor strategy is employed when firms fall into the decline stage. Figure 1 demonstrates this relationship:

-----Insert Figure 1 about here-----

3.3 Drivers of mergers and acquisitions (M&A)

The literature has a plethora of studies on the topic of mergers and acquisitions alone. For this reason, it is impractical to review it all within this paper. Instead, the review is limited to studies on M&A among accounting firms.

Wootton et al. (1990) reviewed a century of M&A by major accounting firms in the world. They suggested that the main drivers for mergers include internationalization forces, growth in size, and diversification of services. More specifically, the authors proposed the following reasons for the attractiveness of mergers to accounting firms:

- To meet the advanced requirements of clients
- To follow large corporations which 'go global' and to cope with the complexities in auditing these corporations
- To maximize strengths and lessen weaknesses
- To gain access and develop connections and trust with qualified local professionals

In New Zealand, Feil (1990) studied the incidences and motivations of corporate mergers in New Zealand, based on statistics of disappearances on listed companies from 1972-1990. He found the incidence of firms disappearing range from four to forty per year, peaked in 1970, 1979, and the most notably 1986-1988. Both horizontal and vertical mergers were popular during the period. High incidences of mergers coincide with times of high prices on the stock market. Major drivers for

horizontal mergers were economies of scale, geographical expansion, improvement in product range, elimination of competitors or coping with competitive pressures. The study supports the traditional theory of M&A that proposed economies of scale, better organization, and lower transaction costs were prime catalysts for M&A.

3.4. Measures of Success of M&A

Other researchers study the actual consequences of mergers between major accounting firms. Ivancevich and Zardkoohi (2000) investigated the mergers between Ernst & Young, and Deloitte & Touche. Consistent with the conclusions of Wootton et al. (1990), Ivancevich and Zardkoohi found increased efficiencies after the mergers, which were probably transferred to the clients by way of reduced audit fees. Concentration of audit markets was studied by Payne and Stocks (1998) in the U.S and Francis, Stokes & Anderson (1999) in Australia. They suggested the use of increases in either market share or market rankings could be used as proxies for measures of success of the M&As. The difference between market share and firm ranking is highlighted in Greenwood et al. (1993). They found that both market share and proportionate market growth are not associated with firm ranking. Firm ranking is suggested to depend on firms' industry specialization and market leadership.

Grey (1998) and Stevens (1985), on the other hand, cautioned that mergers could be problematic. Grey suggested that mergers are likely to cause conflicts and decrease staff morale, as well as triggers dissatisfaction for merging firms' clients which can lead to client loss. Stevens argued that benefits and costs of mergers need to be considered carefully before mergers are proposed. Similar recommendations could be found in Stimpson (2005).

3.5 Firm culture and cultural conflicts in M&A

Despite the extensive research on corporate cultures, it is surprising that little effort has been dedicated to study cultures of accounting firms (Hood and Koberg, 1991). One prevalent assumption in most of the limited literature is that accounting firms are culturally homogenous. Marsden (1993) conjectured that accounting firms have similar cultures due to the similarities in business strategies and organizational structure (cited in Holmes and Marsden, 1996).

However, Holmes and Marsden (1996) later suggested the opposite by showing that most accounting firms signal different cultural values to both internals and externals. They found that the values communicated to staff and the image shown to the public were differentiated in order to serve different management purposes.

There are also cultural differences at departmental level within accounting firms, emerging from the segmentation of departments and differing professional and occupational affiliations (Hood and Koberg, 1991). Applying different cultural typologies existing in the literature on firm culture, Hood and Koberg found no significant empirical differences in cultures between three service areas (tax, auditing and management); but cultural discrepancies exist in different management levels of accounting firms.

With the emerging literature in accounting firms' cultures, cultural fit is now considered to be equally important as strategic fit, in determining the combination

potential² and the subsequent success of mergers (Holmes and Marsden, 1996). Larsson & Finkelstein (1999) using large-scale case survey of mergers and acquisitions in the USA found different scenarios of cultural change, depending on combination potential and the strength of firm identities. Nahavandi and Malekzadeh (1988) suggested that cultural integration is only possible if staff of merging firms perceive their firms' cultural discrepancies minimal. Ashkanasy and Holmes (1995), undertaking a 36-month study of a merger between two public accounting firms, found that cultural integration between the two firms underwent four phases, initiating with a period of shock, and retreat, and then followed by adaptation, and change.

4. HISTORIC SETTINGS OF M&As BETWEEN ACCOUNTING FIRMS IN NEW ZEALAND

Since late 1950s, in meeting the needs of servicing international clients, major accounting firms in the world had initiated networking with each other as well as establishing connections with local firms in countries where their clients had branches. Many mergers resulted from these connections. The trend continued and became a phenomenon during 1970s and 1980s, when mergers and acquisitions were seen not only in the business world, but in the accounting profession, as imperative. Against this background in New Zealand, there was a common perception among accounting firms that international affiliations were critical to their survival. Most of the alliances and mergers at that time were transatlantic between strong U.S.-based firms and European firms. However, New Zealand lacked connections with U.S. firms since few New Zealand accountants came to work in the U.S. On the other hand, informal networks with British firms were operating on the basis of serving the same international clients, or pre-war overseas working relationships of individual accountants. In addition, overseas work experience gained before attaining partnership status was also providing some useful connections, as recognised in the Travelling Scholarships awarded every two years after World War I until the late 1960s. Consequently, according to Baskerville (2003) the major route for New Zealand firms to gain the international affiliation was through formalizing their less formal relationships with British firms. As a result, by late 1970s, most of the Big Eight accounting firms had established correspondents in New Zealand within local firms.

Before 1982, the New Zealand Society of Accountants (hereafter the Society) had regulated the names of international accounting firms were not allowed in New Zealand. Therefore when connections were set up between New Zealand firms and international firms, even in the case where a New Zealand firm became in-substance an integrated branch of the international firm, local names were still used in compliance with the Rule. The only exception was Price Waterhouse which had adopted the use of an international name before the Rule was introduced. Although the Society tried to prohibit the use of this name, the local partners of Price Waterhouse threatened to change their names to Mr Price and Mr Waterhouse by deed poll in order to retain the right to use this name if the Society refused their unique historic privilege.

² Combination potential is defined as the sources/capability of synergies in production, marketing, vertical economies, economies of scope, market and purchasing power and managerial style between the two merging firms (Larsson & Finkelstein, 1999)

This rule was removed in October 1982 with the decision passed by the Council's AGM³. However, before and even after the name adoption was permitted, there was no allowance from the Society for a full partnership agreement between New Zealand firms and international firms⁴. The adoption of the international name was only approved provided that the New Zealand firm acted only as agents of international firms⁵. No particular explanations were given for the rule change as well as why it took so long for the Society to lift the restriction (Baskerville, 2004a).

During the same period from 1970-1990, with merger "frenzy" in the trans-Atlantic practices, New Zealand firms also merged between cities, and many of them became national firms. The survey conducted by Baskerville (2004b) on the drivers of mergers and disintegration between accounting firms in New Zealand in the same period suggest that the following factors played the most significant role in decisions of New Zealand firms to merge:

- international affiliation,
- the need to attract big clients,
- efficiencies in internal structure and staff,
- with hoped-for cost reductions and size increases.

In respect of the size reduction and disappearance of some New Zealand firms during the late 1980s, such as KMG Kendons and Lawrence Anderson Buddle, the most significant factors recognized by the respondents included

- lack of efficiency in comparison to both bigger and smaller firms
- the loss of major international affiliation,
- internal conflicts between partners of different areas,
- lack of synergies and efficiencies as in Big 8 affiliates,
- the difficulty in attracting listed company audits
- realization that a big size does not bring about added benefits.

5. CHRONOLOGICAL HISTORY OF KENDON COX & Co.

5.1. Cox Arcus & Co. (1908-1980)

5.1.1. J.L.Arcus & Co.

J.L.Arcus was a family business that was initiated by Mr J. L. Arcus in Wellington in 1908. There three generations worked together to build up the firm. The original name of the firm was Gold & Arcus. When Mr Gold left the firm, J.L.Arcus was joined by his two sons and the name of the firm was changed to J.L.Arcus & Sons. In 1966

³ Accountants' Journal - hereafter AJ, October 1982

⁴ AJ, September 1981, p. 418

⁵ AJ, April 83, P. 93

W.A.Arcus died and Bill Arcus, his son and J.L.Arcus's grandson joined the firm. Soon after that J.L.Arcus retired and the firm took in four other partners. Considering the relative growth of the firm, the name J.L.Arcus & Sons was once again changed to J.L.Arcus & Co to recognize the contribution of other partners.

The main office of J.L.Arcus & Co was in Wellington; however, they opened branches in both Lower Hutt and Levin. Both of these branches were controlled by the Wellington office, both financially and operationally. J.L.Arcus & Co thus included Wellington, Lower Hutt and Levin offices, as well as running a one-day-per-week Otaki office.

From the outset, the partners of the firm had placed a particular emphasis on international affiliation. Through various ways, by late 1960s, J.L.Arcus had a connection with Thomson McLintock in Britain, Main Lafrentz in US and Hungerford Hancock and Offner in Australia. In fact Thomson McLintock formed an international practice with Main Lafrentz (Winsbury, 1977:133). These very first connections later facilitated further connections to both overseas and also local firms, and led to the formation of Kendon Cox in early 1980s.

5.1.2. Cox Elliffe Twomey

While J.L.Arcus was developing its business in Wellington region, in the other end of the North Island, Carlaw Greville & Twomey was formed in 1927 with three partners Ken Greville, John Carlaw and Maurice Twomey. In 1954 Carlaw died and Greville retired, leaving the firm run solely by Maurice Twomey. When Maurice Goodwin, who worked there since 1953 as a staff member, was made partner in 1961, the name was changed to Carlaw, Goodwin & Twomey. The name Carlaw was retained not only to credit John Carlaw, but also to highlight the reputation of the firm, since John Carlaw was a well known accountant in his days. For the first six years, from 1961 to 1967, the income paid to Maurice Goodwin was fee-based despite his being a partner, due to his young age and 'lack of experience'⁶. However, by 1967, they both shared income equally.

With the two partners and four staff, Carlaw, Goodwin and Twomey specialized in auditing, accounting services and compliance work. Audit, however, was seen as critical to the firm's survival. During 1960s, when some of its major audits were lost due to takeovers from private companies, it became an imperative for the firm to find new audits and stabilize its audit base. Merging with Cox Elliffe Highet & Co was seen as the answer.

Cox Elliffe Highet & Co in Auckland was founded by Alan Highet, and then joined by other partners Twidgen Cox, and Doug Elliffe. Alan Highet sold his practice to Twidgen Cox and went into the Parliament before the firm started possible merger talks with Carlaw Goodwin & Twomey. The talks were initiated because of a close personal relationship between Maurice Goodwin and Twidgen Cox.

When the two firms entered talks, it was found that their purposes were very similar. Both were looking to expand in order to attract new audits in order to replace those that were lost due to takeovers. Besides, they found that merger made them more

⁶ Interview with Maurice Goodwin, 2002.

attractive to university graduates and thus made it easier to recruit high quality staff. It was also expected that the merger would also help overcome staff shortages both experienced in planning audits. Due to these similar strategies and intentions, approval of the merger deal gained a quick consensus. The merger was implemented in 1967 by way of Carlaw Goodwin & Twomey moving into the offices of Cox Elliffe Hight & Co with all their partners and staff. The new firm took on the name Cox Elliffe Twomey. No significant personnel dropouts and no major conflicts surfaced, except for the departure of one partner one year later due to personal reasons. After formation the new firm soon gained the audit for Fisher and Paykel and this audit was retained through the subsequent mergers and name changes (Kendon Cox) until the audit followed former partners of Cox Elliffe Twomey to Coopers and Lybrand in 1987.

Until late 1960s, within New Zealand, Cox Elliffe Twomey was affiliated with J.L.Arcus & Co and acted as their agent for Auckland branches of J.L.Arcus' clients. About the same time, Cox Elliffe Twomey also had connection with Thomson McLintock, one UK-based accounting firm. This affiliation was later lost due to the merger between Thomson McLintock with US-based Main Lafrentz.

5.1.3. The formation of Cox Arcus & Co – the national firm

By early 1970s, both the client base and international connections that J.L.Arcus enjoyed for a number of years became shaky. The entry of international firms into New Zealand had resulted in a number of New Zealand firms being affiliated, and this trend continued until the mid-eighties. However, at this early stage, it became clear to the partners at J.L.Arcus that their audits were not sustainable and that a new and more effective strategy needed to be found to safeguard the survival of the firm. In addition, its connection with Hungerford, Hancock and Offner was shattered in early 1970s, due to the merger between Hungerford Hancock and Offner with another Australian firm whose correspondent in New Zealand, Morris Patrick at that time, ruled out J.L.Arcus retaining the affiliation.

On the other hand, J.L.Arcus as well as Cox Elliffe Twomey, had the need to refer work out of the local region at the same time to reduce the costs of serving national clients. Merger was a reasonable option to realize these goals. It was also recognized that becoming a national firm would enhance the firm image and thus enable attracting new clients. More importantly, both firms saw a national group as a way to increase their firm vigour and protect their existing audits from the power of the larger international accounting firms. The appeal of 'the national firm' image also indicated increased effectiveness in attracting and retaining high quality staff, which was central to firms' reputations.

J.L.Arcus approached Cox Elliffe Twomey, their affiliate in Auckland, together with S. P. Godfrey in Christchurch. The merger was proposed and agreed to and in 1969 the name of the new firm was Cox Arcus & Godfrey. However, this name was only in use for a short time or under limited circumstances. It ceased to be used in 1973 when soon after the merger, S. P. Godfrey decided to leave to join Wilkinson and Wilberfoss which subsequently became Arthur Young. Before the departure of S.P. Godfrey, Cox Arcus & Co had accepted the connection with Gillick Hercus & Co, a well-reputed firm in Invercargill, into its national network. Concurrently, they entered talks with its affiliates in other parts of the country, from Cox Innes Jones in Levin, to

Burn & Worsley in New Plymouth and Barron & Partners in Hamilton. All negotiations were concluded around 1973-1974 and the national firm was set up. However, local names were still used for a number of years until 1977. An event in 1977 drove the offices to drop their local names and take on a national name: the International Accountants Congress held in Munich. This was attended by partners from Cox Arcus & Co who were all part of this national connection. At this Congress, many firms sought for overseas firms with which to establish an international affiliation. They found a promising future with Turquands Barton Mayhew⁷, one of the biggest UK-based accounting firms. They saw the value in connecting with Turquands Barton Mayhew because this firm in 1976 was part of the European consortium Klynveld Turquands DTG⁸. Cox Arcus & Co, partners realized that they needed to crystallise a national identity in order to facilitate the connection. Back from the Congress, all the firms held a national meeting and decided to formalize the national connection. The new name, Cox Arcus & Co was agreed on and announced. With this name change, the international affiliation with Turquands Barton Mayhew was formalised.

After the 1978 merger of Ernst & Ernst with S.D.Leidesdorf, in 1979 Whinney Murray, Ernst & Ernst, and Turquands Barton Mayhew joined together as Ernst & Whinney, agreeing that they should operate internationally under a single logo and common stationery (Jones, 1981:246). This merger put an end to the affiliation between Cox Arcus & Co and Turquands Barton Mayhew.

When Turquands Barton Mayhew had left for Ernst & Whinney, the consortium was dissolved. Later that year in September, McLintock Main Lafrentz allied with Klynveld, DTG and other European firms to form Klynveld Main Goerdeler (KMG) in pursuance with the same strategy with the previous consortium in competing with the American based Big Eight firms.

Cox Arcus & Co saw this as an emerging opportunity to begin a new international affiliation. However, at that time, another firm was chasing after KMG for the opportunity to represent the consortium in New Zealand. Therefore in order to gain additional forces to strengthen the image of the national firm, to win the connection with KMG, Cox Arcus & Co approached Kendons.

⁷ Turquands Barton Mayhew itself was a national firm based on mergers at various stages between different UK accounting firms. These mergers were finalized in 1972.

⁸ Klynveld Kraayenhof & Co. was at that time the biggest accounting firm in Netherlands, and DTG (Deutsche Treuhand-Gesellschaft) was the second biggest accounting firm in Germany. The consortium was established by Turquands when UK entered the European Economic Community in 1972. This consortium was set up in an attempt to compete with the Big Eight firms that had strong American linkages at that time (Jones, 1981, p. 244). This form of alliance was by no means uncommon among accounting firms at that time. In 1955 Coopers Brothers was approached by the American practice Lybrand, Ross Bros & Montgomery to represent them in Europe. By 1957 they both practiced under the name of Coopers & Lybrand. Deloitte contracted cross-audits with Haskins & Sells in 1905 and starting from comparatively loose relationship gradually tightened up in 1952 with the cross arrangements; the common name Deloitte Haskins & Sells was adopted from 1978 (Hopkins, 1980: 62).

5.2 Kendons & Co. (1907-1981)

5.2.1. Kendon Mills Muldoon & Browne

The firm Kendon Mills was established by William Kendon in 1907, although much detail of the early history of the firm remains unknown. Walter (Wally) Browne, Robert Muldoon's uncle, was a CEO in Auckland and a prominent Baptist (Gustafson, 2000: 41), as was Charles Mills, a founding partner in this firm. When Charles retired, Fred Mills became a partner, together with three others: Frank England, Graham Browne (Wally's son) and Robert Muldoon in 1950. Thus connections were through family and church links. Robert Muldoon, who later became the Prime Minister⁹, remained as a partner in the firm until 1984. In 1972 the firm promoted two of their staff partners, Lyall Bunt and Bruce Butler. The firm grew further, taking another two partners, Richard Commons and Stuart Bauld. With the eight partners, the firm had representation in almost all areas of practice, including tax, auditing and business services. With Robert Muldoon's name gaining in value and their wide range of services, Kendon Mills Muldoon & Browne established themselves as a reputable practice in the Auckland region.

5.2.2. Mergers with Kendon Mills Muldoon & Browne in the 1980s

By early 1970s Kendon Mills Muldoon and Browne's business expanded to the extent they had to refer work outside the region, and demand for more partners and staff arose to support the growing client base. On the other hand, book-keeping machines had started to become obsolete. The new technology of computational machines however required a substantial investment. This need was shared by many other practices around the country. Consequently, Kendon Mills Muldoon and Browne started talks with its associates in other cities, Quirke Neale in Christchurch and some other firms. Muldoon was often a catalyst of these merger talks, and at the same time he invited partners from other specialist areas to join the new national firm. By late 1970s, mergers were finalised and the national firm of Kendons was formed with offices in Auckland, Lower Hutt, and Christchurch.

The formation of the national firm was planned to enable attracting nationally operated clients as well as reducing costs in servicing existing national clients. However, subsequent to the merger, all offices remained both operationally and financially independent. Despite national costs for common activities such as contact with overseas and domestic firms, running partner meetings, and conferences were shared between offices, not much work was referred among different offices, and profit was shared on a separate office-to-office basis. Besides, Kendons did not have any major international connection. During the International Accountants Congress 1977 in Munich, Kendons partners participated, but they did not join Cox Arcus & Co in their talks with Turquands Barton Mayhew. International affiliation was not a priority for Kendons during that period and even the subsequent merger with Cox Arcus & Co was not driven by the need for an international affiliation, in the views of the interviewees.

⁹ Rob Muldoon (1921-1992) became an MP in 1960, the Minister of Finance in 1967 and was Prime Minister of the National Government 1974-1984.

5.3. Kendon Cox & Co (1981-1987)

5.3.1. Drivers for merger

In 1979 when Turquands left Klynveld Turquands DTG and joined Ernst & Whinney, Cox Arcus was left without international connection for a number of years and was keen to find a new one. When KMG merger was agreed worldwide, KMG became a very attractive target.

KMG, on the other hand, was also looking for a New Zealand correspondent. McLintock Main Lafrentz, prior to the KMG merger, had connections with Morris Patrick who acted as their agent in New Zealand. However, in 1977 Morris Patrick merged with Gilfillan & Co and became Gilfillan Morris. Gilfillan & Co had been affiliated with Peat Marwick Mitchell in US. The affiliation was a partnership, since Gilfillan & Co was considered an integrated branch of Peat Marwick Mitchell International, although the local name was retained due to restriction of international name adoption enforced by the Society. Gilfillan & Co was successful in persuading the head quarter of Peat Marwick Mitchell to accept Morris Patrick into the international firm. As a result of this, Gilfillan Morris became the Peat Marwick Mitchell representative in New Zealand and the linkage with McLintock Main Lafrentz officially ended.

Cox Arcus & Co was not the only firm in New Zealand interested in getting the connection with KMG; Lawrence Anderson Buddle was also an active pursuer in the competition for KMG. In an attempt to 'outdo' Lawrence Anderson Buddle, Cox Arcus & Co was keen on merging with another national firm in New Zealand. Kendons was an attractive candidate, not only because of their strong client base and wide geographical coverage but also because they had Robert Muldoon, who at that time, although being the New Zealand Prime Minister, offered a presence to Kendons which created an advantage for Kendons over other firms.

From Kendons' perspective, the merger with Cox Arcus & Co was also a smart strategic decision. Kendons partners saw merger as the quickest and easiest way to grow the firm to the necessary size so as to handle larger audits. The financial pooling as the result of merger also means that the firm could afford to hire a managing partner and develop separate specialist committees to take charge of national operations, in replacement of numerous time-consuming and costly partner meetings. Besides, both Kendons and Cox Arcus & Co were (mostly) geographically complementary. The merger would extend the presence of both firms to all major cities around the country. The two firms had similar organizational structures and strategic fit. All these factors combined had accelerated the successful outcome of talks, and the merger was announced in mid-1981.

5.3.2. Post-merger consequences

The merger agreement was signed with the recognition that in cities where both firms have offices, the offices will be merged into one building. In Auckland, the Cox Arcus & Co people moved their facilities down to the premises of Kendons on Vincent Street. Physical mergers were also implemented for Lower Hutt and Wellington offices. Consequently, in these three cities, Cox Arcus & Co and Kendons people mingled and started to pool capital and sharing profit on an equal basis.

However, details of the processes of these physical mergers were subject to the discretion of each office in each city (Gibson, 1986).

Other than these three cities, no further mergers were implemented in other cities the two firms had presence in. For those offices in the rest of the country, the national firm was purely an ‘umbrella partnership’. The financial systems of each firm were independent. Profit was shared only within an office, and each office only had to contribute proportionately to costs incurred for the needs of the national firm as a whole, such as connections with overseas firms and partners’ meetings.

As it turned out to be, the merger was ‘strategically right’ but ‘operationally difficult’¹⁰. The main barrier to benefiting from post-merger synergies of the two firms was an inherent difference in their firm cultures and philosophies. Cox Arcus & Co was still a family-business style, a hierarchical and centrally-controlled organizational structure, with a more conservative approach to its practices. In contrast, with many younger partners, Kendons enjoyed an organizational structure that was flatter and more dispersed, enabling a culture of initiation, innovation and a ‘can-do’ mindset. As a result, the national firm was run on a relatively loose basis. The only connections between different offices were through special committees with mixed members from different offices as well as different practice areas. These committees were set up to ensure that a consistent and high standard was maintained by all offices in all specialization areas, including tax, auditing and business services. In addition, attempts were made to familiarize the partners with each other by organizing social evenings, training workshops, and short holidays. All these views were common to several retired partners.

However, the conflicts in cultures of the two firms could not be resolved, in addition to the perception of some offices that further integration was not unnecessary. In cities where the two firms were physically integrated, the increase in the number of partners with a diversity of personalities and management preferences had to be tolerated through substantial compromises and democracy in decision-making. This approach was not only time-consuming but also frustrating to some partners. As a consequence, some partners left the firm and opened sole practices, taking with them some of their clients.

Despite these difficulties, the merger was successful in respect of the desired growth. The new national firm, Kendon Cox & Co had a total of 57 partners, in 11 different offices all over the country. Besides the signalling effect, being national also strengthened the component firms in many ways, especially mutual client referrals and attracting new audits. In fact, Kendon Cox & Co enhanced their competitiveness over other medium-large firms with this merger.

The formation of the national firm also realized the aspirations of Cox Arcus & Co in winning the KMG affiliation. Thanks to this connection, Kendon Cox & Co also had a stronger position on the market. They were able to access “state-of-the-art” technological advances in the commerce and the accounting profession through KMG’s international partner meetings. This, in turn, enabled the firm to stay abreast of the changes in world business practice, and thus plan their activities in anticipation of the impacts of these changes on the New Zealand market. Moreover, the

¹⁰ Comment from one partner from Kendons.

information gained could be transferred to clients of the firm, increasing clients' satisfaction with the firm's services.

5.3.3. The adoption of KMG prefix

In October 1982 when the use of the international name was allowed by the Society, the Auckland office added KMG to their branch name and logo (Beesley, 1986b). However it took a longer period for other offices to adopt the KMG name. The relationship had developed steadily, to a stage when KMG was happy to refer the Philips audit to Kendon Cox & Co. This referral was seen by Kendon Cox & Co as a watershed for both international affiliation and professional development. Thanks to this occurrence, Kendon Cox & Co realized the importance of formalizing the relationship. Therefore the nation-wide adoption of the KMG name was announced in March 1985. Kendon Cox & Co was nationally changed to KMG Kendons and the new name was effectively in use after April 1985 (KMG Kendons, 1985). Acknowledging this name change, Murray Hercus, the managing partner of Kendon Cox & Co at that time stated:

“We value this international association for the facility it offers us to tap a huge information-bank to better serve our clients – particularly in light of the increasing number of overseas commercial transactions carried out by the small to medium sized businesses which make up such a large part of our client base.

... Our relationship with our international firm KMG remains just as it has always been, as do the relationships between our own numerous offices in New Zealand. We are simply emphasizing a link which extends our own resources and the level of service we can provide.” (KMG Kendons, 1985)

From 1981 to 1985 when the name KMG was added to the firm's title, Kendon Cox experienced a most stable growth period in its history. In 1983 it opened a new office in Takapuna, increasing the number of offices all over the country to twelve branches. Through the period 1983-1985, each year the firm took in or promoted three partners, bringing the number of partners to sixty in 1985. Appendix 1 and 2 show the changes in the number of partners throughout the history of Kendon Cox & Co.

5.4. The disintegration of KMG Kendons (1986-1988)

5.4.1. The early warnings

While the relationship between Kendon Cox & Co and KMG developed and increasingly strengthened, the US-based Peat Marwick Mitchell became a dominant player in the US market. In seeking to expand its influence to Europe in Peat Marwick Mitchell looked for potential European firms for a merger. Despite KMG having the second biggest position in Europe, it was not comparable to other American-based firms and in particular has a weak representation in US. The strategic fit had led the two firms into talks since early 1980s. Though it took a number of years for the merger to be announced, all members of Peat Marwick Mitchell around the world began to see that merger was a certain consequence.

Therefore, KMG Kendons in New Zealand realized from early 1980s that their affiliation with KMG was bound to undergo a major challenge. From 1982 to 1984, turbulence surfaced among KMG Kendons firms in respect of the future of the firm, and what moves the firms should take if the connection with KMG was lost due to its merger with Peat Marwick Mitchell.

5.4.2. The ‘cherry-picking’ of Peat Marwick

In September 1986 the merger between KMG and Peat Marwick Mitchell and the formation of KPMG was announced world-wide (Beesley, 1986b). However, it was left to the discretion of each member firm of the two international firms to decide whether it wanted to merge with the other firm or stay separate (Gibson, 1986).

In New Zealand, Peat Marwick had already established itself as very strong and highly-respected firm on the market. Rather than a mere ‘agent’ as was the case with the relationship between KMG Kendons and KMG International, Peat Marwick Mitchell in New Zealand had always been an integrated branch of Peat Marwick Mitchell International. Its operations and standards were regulated and monitored from the head office of Peat Marwick Mitchell International. As a result, many of its clients were either listed companies or branches of the multi-nationals which were referred from the head office in New York. In 1986, it was the largest auditor of New Zealand publicly-listed companies, including five of the top ten and 24 of the top-100 listed companies. In contrast, KMG Kendons mostly serviced local clients and was locally run by each individual office. Peat Marwick Mitchell also outdid KMG Kendons in terms of the number of partners and geographical coverage. Peat Marwick Mitchell had 95 partners in 14 offices and total staff of 800, while KMG Kendons in the same year had 43 partners in 9 offices. In addition, Peat Marwick Mitchell operated a ‘lean’ structure with one of the lowest partner to staff ratio of all Big Eight in New Zealand at that time. These advantages in turn enabled a higher income average for Peat Marwick Mitchell partners.

However from the point of view of a KMG Kendons partner, Peat Marwick Mitchell was ‘elephantine’¹¹. Possessing these advantages, Peat Marwick Mitchell in New Zealand was in a position to control the outcome of the merger in New Zealand. Peat Marwick Mitchell could have taken all KMG Kendons firms, similar to the practice in other countries. However, considering its existing extensive coverage of all cities around the country, Peat Marwick Mitchell employed an aggressive and discriminating approach in talks with KMG Kendons. They did not want all the KMG Kendons offices, because they regarded KMG Kendons as ‘not up to their standards’¹². From KMG Kendons’ perspective, however, this Peat Marwick Mitchell arrogance was intolerable. One partner in KMG Kendons recalled his perception of Peat Marwick Mitchell; their approach to it was seen by him as:

“We are dominant and we’re going to control this merger, and where we haven’t got offices and we want offices, then we welcome the Kendons offices; where we have got offices we don’t want to take over existing offices and leave them to run, we’ll take the one or two or maybe three partners that

¹¹ According to one retired partner in KMG Kendons.

¹² According to one retired partner from Peat Marwick

we want out of those offices, and we won't merge with the rest, we'll just take the eyes out of them. ”

This ‘cherry-picking’ attitude was anticipated by most KMG Kendons firms, in their recognition of the imbalance between the two firms’ forces. Even before negotiations, most KMG Kendons firms made up their mind that they would not submit themselves to direction by Peat Marwick Mitchell. The Hamilton and Dunedin, offices deciding that they wanted to join Peat Marwick Mitchell, entered individual talks with Peat Marwick Mitchell firms in these cities and merged with them in 1985 and 1986 respectively.

5.4.3. The split of the Auckland office

Partners in the remaining offices of KMG Kendons, perceiving that merging with Peat Marwick was not a sensible choice, started to find an exit route for their own offices. Peat Marwick started talks with individual offices of KMG Kendons from mid-1985. They approached the Auckland office with a mindset of a potent acquirer. One partner from the Auckland office of KMG Kendons recalled the terms of the Peat Marwick’s proposal:

“Because when Peat Marwick were looking at merging with us, they had 24 partners, and we had 19, and they said that’s too big. Well, Kerry Stotter said “That’s too big”. He was the managing partner at that stage in KPMG; they said “We’ll take two audit partners and your audits”. [laughs] We didn’t agree with that”.

These failures in negotiations between KMG Kendons in Auckland and Peat Marwick were noticed by Price Waterhouse in Australia. Price Waterhouse in New Zealand was both financially and operationally controlled by Price Waterhouse office in Australia. Price Waterhouse employed a strategy that focused on leading the market in specialist areas rather than increasing market share by way of geographical expansion. Like Andersens, Price Waterhouse was not interested in small towns; for differences in charge-out rates between cities and small towns might create a problem in income allocation and profit-sharing.

Pursuing a specialization-orientated strategy, Price Waterhouse from mid-1980s sought to upgrade their services in insolvency and business services, areas in which KMG Kendons in Auckland had particular expertise in. Price Waterhouse was not interested in merging with other offices of KMG Kendons, such as Christchurch. A merger was proposed to the partners in KMG Kendons in Auckland in early 1986.

This merger proposal however included one term that KMG Kendons partners had to undertake an ‘apprenticeship’ for Price Waterhouse for seven years before accepted as partners. This term upset many KMG Kendons partners, especially those more senior ones who did not have many years of practice before retirement age. With a simple majority votes, the office originally agreed to merger proposal. This consensus was communicated to the managing partner of the New Zealand Price Waterhouse office. However, to Price Waterhouse’s surprise, hardly had the merger been finalized and approved by the Price Waterhouse in Australia than the decision of KMG Kendons in Auckland was withdrawn. At a second partners meeting of KMG Kendons in Auckland, growing dissatisfaction among some more senior partners concerning of

the ‘apprenticeship’ requirement, had led to a split vote (9/10), which meant that the merger would not proceed.

Shocked by the turn-around of some older partners which effectively cancelled the merger, the younger partners at KMG Kendons who originally came from Kendons, were keen on joining Price Waterhouse. The unexpected equal vote started to trigger a cultural division between - at one end- the group of younger partners of antecedent Kendons who had always preferred autonomy and innovation; and at the other end the group of senior partners who were used to a somewhat conservative and risk-adverse Cox Arcus tradition. In his recollections, one partner from Kendons speculated the lack of enthusiasm from those senior partners in merging with Price Waterhouse:

“...they were ones that probably wouldn’t have excelled in a big firm, you see. Or they were so autocratic and difficult they preferred to go; one of them went out on his own, anyway...they were either people who wanted to passionately be on their own, and didn’t fit in, or who would not have excelled in the Price Waterhouse environment.”

As a consequence of the failure of the merger, these younger partners were forced to enter secret talks with Price Waterhouse. In early 1986, six of them departed KMG Kendons Auckland and joined Price Waterhouse. Price Waterhouse’s coup was proudly shown-off by a press release throughout New Zealand, stating: “Six partners with the Auckland accounting firm of KMG Kendons are to become partners of Price Waterhouse” and that the leaving of the six partners at once was “not a coincidence” (Beesley, 1986b).

As it turned out, Price Waterhouse gave these partners a favourable treatment. They were ‘in-substance’ partners under the name of an ‘apprenticeship’ and paid on an equal profit share as the other partners in Price Waterhouse New Zealand and Australia. These new partners were trained and placed in insolvency practice and when the Share Market Crash occurred, they soon became ‘high-flying figures’ in the market. If the departure of the six partners from KMG Kendons could be considered as the partial merger with Price Waterhouse, this merger could be seen as successful for both parties; on the one hand, it supplemented the existing skill base of Price Waterhouse and helped its reputation as a top firm in insolvency practice. On the other hand, for the incoming partners from KMG Kendons, the merger entitled them to a more innovative, proactive and supportive working environment where their skills were valued and extended.

Back in Auckland, KMG Kendons office recognized that six of their young partners were “seeing their future elsewhere” (New Zealand Herald, 1986). The departure of the six partners was however reportedly perceived as a “healthy” act:

“Yes, the mobility of partners is much more marked...there is a great demand for qualified accountants in all areas.”

“We’ve accepted that. You’ll see more of it. People will switch from firm to firm. It’s healthy.” (Jeff Couch, managing partner, cited in Beesley, 1986b)

The remaining partners aimed to rebuild the firm through making new senior position promotions from both internal and external personnel which was hoped to spur business expansion and a fee base increase:

“Six of our colleagues let us know that they saw their future elsewhere, and we have been interviewing potential partners from outside the firm and planning internal promotions. Implementing that plan will see us double our fee base within the next two years through the expansion of business advisory services, audit and taxation. The introduction of new services, such as financial organization and Micro-lab computer consulting over the past few months are examples of this new direction” (Jeff Couch, managing partner of KMG Kendons, cited in New Zealand Herald, 1986).

However, it soon became clear to the office that such plans were unattainable. The loss of KMG affiliation as well as the departure of the six Auckland partners to Price Waterhouse diminished the image of the firm significantly, and recruitment became extremely difficult. Soon the partners recognized their ‘deal-lock’ situation: the firm was not able get as big as it used to be, while staying small was not sustainable either. Coopers & Lybrand, at the same time, wanted to open a business service branch in Auckland the remaining partners in Kendons on the other hand, were strong in insolvency and compliance. Coopers & Lybrand internationally followed a strategy of mass mergers in order to gain market leadership in respect of both geographical coverage and service range¹³. KMG Kendons was spotted as an appropriate candidate for merger.

A proposal was put through to and approved by KMG Kendons in late 1986. The merger was ‘totally harmonious’ (Beesley, 1986b). All remaining partners from Auckland and Takapuna offices came to Coopers & Lybrand except for Jeff Couch, who later opened his sole practice. One term of the merger arrangement with Coopers and Lybrand was that partners who were over 50 would be accepted only as full-time consultants and would be not entitled to the profit share¹⁴. As a result, of eleven partners who entered Coopers & Lybrand in September 1986, only five became partners and the other six became full-time consultants.

5. 4. 4 The departure of the Wellington office

In the Wellington offices dissatisfaction stirred as soon as they observed the progress of KPMG merger worldwide. For the Wellington office, joining the national firm back in 1980 had always been for winning and benefiting from the international connection. Through the connection with KMG they had an enhanced reputation, received the Philips audit¹⁵, accessed an international information network, and were able to send staff to overseas offices of KMG for training. Apart from these benefits, the linkages between other offices of KMG Kendons around the country provided few gains, in terms of efficiencies, knowledge, and experience accumulation. Losing the KMG affiliation effectively put an end to their commitment to the national firm. An

¹³ One of the reasons that led major international accounting firms to merge with local firms was commented in the National Business Review: “Some of the big eights have specialized in auditing to such an extent that they haven’t provided clients with consulting services. And as auditing fees have gone down they are hurting on the bottom line. ” ...And that when the income partner went down, the top partner leaves and the firm needs to merge to strengthen their top” (Steel, 1986).

¹⁴ Coopers & Lybrand at that time had one of the youngest retirement age of all Big 8 accounting firms.

¹⁵ This audit was originally done by the Wellington office, but then due to the illness of the lead partner, was transferred to the Lower Hutt office.

international connection was perceived by Wellington partners as critical to their ability to ‘remain a full business’¹⁶.

Under the circumstances at that time, it was impossible for KMG Kendons to gain connection with any other major accounting firms, for they all already had representatives in New Zealand. On the other hand, they were well aware that Peat Marwick in New Zealand did not have a high appreciation of them, and neither did they want to be taken over by Peat Marwick. The only available option for Wellington KMG Kendons was to merge with another accounting firm that was a branch or an agent of an international firm in New Zealand. Kirk Barclay, representing the UK-based Spicer and Pegler accounting firm in New Zealand, appealed to KMG Kendons firstly in this respect. With further talks, the two firms found additional advantages to the merger. For example, Kirk Barclay had a strong marketing strategy and an experienced insolvency practice, which KMG Kendons in Wellington did not. On the other hand, KMG Kendons had recognized expertise and an established reputation in audit practice. This was a merger of equals: both firms had six partners in Wellington and both “had something to gain and also something to offer”¹⁷.

Consequently, the Wellington KMG Kendons partners left KMG Kendons in 1985, merged, and moved into the premises of Kirk Barclay in Wellington. The name of the firm was changed to Spicer & Oppenheim in 1988 when Spicer & Pegler merged with the US-based Oppenheim, Appel, Dixon & Co to form Spicer & Oppenheim^{18 19}.

5.4.5 Choices of the remaining offices – the final outcome of the national firm

The departure of the Wellington partners did not come as a surprise to the Lower Hutt, Otaki, and Levin offices, all of which used to be controlled and owned by the Wellington office in the days of J.L.Arcus. In fact, the philosophies of Wellington office and these offices had always been different. While the Wellington office always wanted to become national, aspiring to national clients and an international network, the other offices in the region preferred to retain their practices focused on servicing existing local clients. In addition, the close locations of these offices to each other caused substantial tension when it came to the work allocation for the shared clients. Thus the departure of the Wellington office was the opportunity for the remaining offices to take over its outstanding clients and audits. The Lower Hutt office took over the Philips audit for another three years, from 1986 to 1988. During this time, contact was made directly with the KMG head office in Geneva. In 1988 after the KPMG merger was completed worldwide, the Philips audit was returned to KPMG. This return also fitted the changing strategy of the Lower Hutt office then,

¹⁶ According to one partner from KMG Kendons in Wellington.

¹⁷ According to one partner from KMG Kendons in Wellington.

¹⁸ For a family tree of Spicer & Oppenheim, refer the website of ICAEW at http://www.icaew.co.uk/library/index.cfm?AUB=TB2I_36794

¹⁹ Soon after Kirk Barclay took on Spicer and Oppenheim name, the merger between Deloitte and Touche became unstuck in Australia. Deloitte in UK decided to merge with Coopers, leaving Touche, which is of much smaller size in UK. Touche made a merger offer to Spicers in London. However, Spicers and Oppenheim in NY was heavily into financial services and brokerage consulting. It collapsed due to uncollectible debts from clients who went bankrupt after the 1987 Share Market Crash. After that the name of Spicer and Oppenheim disappeared worldwide apart from Hong Kong and NZ. Affected by the dissolution of Spicers & Oppenheim worldwide, Kirk Barclay firms in New Zealand also split in different ways. The Wellington branch of Kirk Barclay merged with Grant Thornton. Kirk Barclay in Auckland, Hamilton, and Christchurch merged with BDO.

since they had decided to leave the audit market in order to concentrate on only business services. Tax consulting in particular was their niche, signified by highly skilled and experienced staff, ‘street credibility’ and reasonable fees they offered local clients.

For the rest of the previously KMG Kendons office, subsequent to the loss of KMG affiliation, there were similar feelings that they were ‘left on their own’. Neither was there any use in attaching themselves to the national firm anymore. Since the original point in forming the national firm was purely for the purpose of serving clients referred from overseas, the KPMG merger rendered this purpose void. Furthermore, there were few mutual referrals between the local offices, which made the connections of the national firm even looser.

Following the departures of the Wellington, Auckland, Dunedin and Hamilton offices, the remaining offices chose to go their own way. The New Plymouth office joined Price Waterhouse office in the same city. The Lower Hutt branch was also invited to join the Price Waterhouse office in Wellington. However, the Lower Hutt partners declined the invitation on the grounds that they were not “prepared to let our clients go and to just be simply serviced”²⁰.

Peat Marwick, right from the outset, had appeared not to have a high opinion of regional offices of KMG Kendons. But the Invercargill office, one of the strongest offices of KMG Kendons, stood out to them as the only office that managed to “meet the standards” of Peat Marwick. As a consequence, in 1987, the whole Invercargill office was merged into Peat Marwick.

The remaining offices were left feeling ‘betrayed’ by the sudden moves of individual offices around the country, whilst being largely ignored by both Peat Marwick and Price Waterhouse. As a consequence, the national partnership was totally dissolved in late 1987. The Lower Hutt office (KMG Kendons) and the Christchurch office (Kendons Canterbury) retained the name in their title but reverted to being local practices. In 1988 Otaki joined the Levin office, and the practice continued practice under the name of Otaki Kendons. The remaining partners of the national firm either retired, left the firm and started sole practices, or worked in other sectors.

Consequently, from a significant national firm with 60 partners and 12 branches in 1985, three years later in 1988 KMG Kendons was reduced to three small local practices in Lower Hutt, Christchurch and Levin, with approximately 11 partners. The national firm no longer existed after 1988, except the name that was retained in use by these three remaining firms. In total, during the demise of KMG Kendons, Price Waterhouse took in six partners from Auckland and two from the New Plymouth office; Peat Marwick accepted sixteen partners, including one from the Dunedin office, four from Hamilton, and eleven from the Gore, Invercargill and Queenstown offices. Coopers & Lybrand took in eleven partners from the Auckland office in 1986.

²⁰ According to one partner from KMG Kendons Lower Hutt office.

6. DISCUSSION

6.1. Organizational lifecycle and corresponding strategies

This history of KMG Kendons throughout its history from 1970 to 1990, including both its predecessors, highlights some interesting points compared to suggestions in the existing literature.

The lifecycle can be traced back to the beginning of the history when its member firms were founded. Up to late 1960s these firms were still small local firms serving local businesses, only growing slowly on the basis of making promotions from internal staff with little external recruitment except for new entrants. The growth pattern in these years for many NZ firms, Arcus and Kendons included, was relatively stable. However, from the 1970s, these growth patterns changed radically through a series of mergers. Figure 2 represents the changes in number of partners, number of branches, the number of inward and outwards movements, and net moves (inward moves deducted by outward moves) of Cox Arcus & Co in the period 1960-1980. Figure 3 represents similar categories of information for Kendons from 1907-1981. The changes in respective measures for Kendon Cox & Co from 1981 to 1988 are depicted in Figure 4.

-----Insert Figure 2 about here-----

----- Insert Figure 3 about here -----

----- Insert Figure 4 about here -----

From Figures 1 and 2, Cox Arcus & Co had relatively more stable growth compared to that of Kendons in all measures. Cox Arcus & Co appeared to have more extensive geographical coverage than Kendons; whereas Kendons had a higher number of partners in 1979 and 1980. This reflects that Cox Arcus & Co had a dispersed structure while Kendons are more concentrated in major cities of the country. The period from 1970-80 showed a slow growth of both firms thus being a growth period for both firms, according to the Miller and Friesen (1984) model.

When Kendon Cox & Co was formed, the new national firm was able to continue its growth in the number of partners and branches from 1981 to 1984. It is impossible to identify this period as a maturity or revival stage of the firm's lifecycle. There were characteristics of both analyzer and defender strategies. First, the firm structure was becoming more formal and its client base became stabilized, which indicated that the firm employed a defender strategy. On the other hand, with the KMG connection, the firm also had opportunities to innovate; and strove for new audits, especially publicly listed firms or firms referred from overseas. Though the analyzer strategy produced little success, it was, to some extent, continued in this period.

1985 to 1988 could be seen as the decline stage, with dramatic drops in both number of partners and number of branches. The decisions taken by different offices on a separate and spontaneous basis strongly suggests a 'reactor' strategy.

Overall, the study found a strong support for both the lifecycle model by Miller and Friesen (1984) and the strategy typologies of Miles and Snow (1978).

6.2. Drivers for mergers and acquisitions (M&A)

The four mergers in the history of KMG Kendons were:

1. the merger between J.L. Arcus and Cox Elliffe Twomey in late 1960s,
2. the formation of Cox Arcus & Co in 1977
3. the formation of Kendons in 1980 and
4. the formation of Kendon Cox & Co in 1981

An investigation of the major drivers in these mergers reveals significant commonalities.

-----Insert Figure 5 about here-----

As presented in Figure 4, attracting new audits is seen by most partners as the single most important driver to three out of the four mergers. Secondly, international affiliation, thus enhancing firm reputation, attracting quality staff and referring work outside the local region, which appeared as further critical issues in two mergers. The following remaining factors are also considered important: cultural fit, strategic fit, geographical fit, and better audit personnel planning, enabling further resources to invest in new technology, and protecting the existing client base.

These findings are consistent with the findings by Wootton et al (1990) that growth in size and internationalization forces are two major drivers to mergers. However, the study does not find support for the suggestion that diversification of services is imperative to the firms' decisions to merge. On the other hand, Feils' (1990) study of corporate mergers and conglomerates in New Zealand from 1972 - 1990 concluded that the major drivers for horizontal mergers were economics of scale, geographical expansion, improvement in product range, elimination of competitors and coping with competitive pressures. This study also found geographical expansion and coping with competitive pressures were among critical issues. However, while economies of scale in absolute terms was not on the discussion agenda of all the four mergers, reducing costs of servicing national clients – a way of increasing efficiency – attracted frequent attention during these mergers. This study, in most respects, supports the findings of Feil (1990).

6.3. Measures of merger success

The existing literature (Ivancevich and Zardkoohi, 2000; Payne and Stocks, 1998) suggests that the success of mergers could be assessed by measuring efficiency gains or an increase in market share in the cities where the new firm dominates the market for services. Due to the lack of information related to revenue, costs, and profit as well as income of partners, and changes throughout the mergers, it is impossible to give an accurate judgment as to whether the mergers have brought about any efficiency gains. However, the available data on the changes in the number of branches suggests that Kendon Cox & Co had a more extensive and dispersed geographical coverage as a result of the mergers, which may indicate that the firm did a better job in attracting and servicing large clients, as well as handling a wider audit base. The study also found evidence that with international connections at various

stages in the lifecycle of Kendon Cox & Co, this resulted in improved access to an international information network, and appeared to increase clients' satisfaction with the service quality offered by the firm.

6.4 Firm culture and cultural conflicts in mergers

There were a plethora of indications throughout the history of Kendon Cox & Co that earlier firm/cultural differences survived, with negative impacts on the outcomes of later mergers.

Of all member firms of Kendon Cox, independence²¹, objectivity, professionalism, democracy in decision-making and commitment to clients had always been upheld as core values critical to the survival of the partnership. This could be seen as providing support for Marsden's (1993) proposal that firms with similar structures and strategies have similar cultures. This study, on the other hand, is only confined to the experience from the partners' point of view. It makes it difficult to robustly evaluate whether these firms experienced any unified culture across the firm, or whether differences had been existent between different practice areas and management levels (i.e. between partners and staff, as in Holmes and Marsden, 1996). Thus this study does not provide additional insight to the literature in this respect.

However, among the member firms of Kendon Cox & Co, cultural differences were apparent. In particular, Kendons and Cox Arcus & Co are the two firms that had the most different cultures. While Cox Arcus & Co followed a traditional, conservative and centrally-controlled style of management, Kendons, with younger partners, enjoyed a more dispersed, innovative and risk-taking environment. This cultural clash, as suggested in many studies (Larsson & Finkelstein, 1999; Nahavandi and Malekzadeh, 1988), constrains a complete integration of the two firms when the merger took place. The lack of social and cultural 'glue' was partly responsible for the demise of the national firm. Had cultural conflicts been resolved and a national identity was built up through out the years, we would have seen more attachment and efforts from member firms to support the national firm through its difficult times. But what happened was the exact opposite: the component firms hurriedly looked for new 'marriages' and did not appear to give priority to how the national firm would survive. The collapse of KMG Kendons could have been foreseen, given such poor national identity. That the issue of cultural fit had been ignored during merger talks could be seen as the 'recipe' for the later demise.

7. CONCLUSION

At this stage, one conclusion is clear: that gaining and then losing an international affiliation was of a central importance in the history of KMG Kendons. At the outset, the member firms were so motivated by the prospect of an international connection that they decided to form Cox Arcus & Co, and Kendons. Later, it was in order to win the KMG affiliation that Cox Arcus & Co joined forces with Kendons and others to create Kendon Cox & Co. In the later years of its life, it was the loss of the KMG

²¹ There was one term in the partnership agreement that forbid partners from investing in any audit client of the national firm (Kendon Cox). But there was also an indication that independence was not an issue back then. It was an accepted practice to invest in clients, provided that the investment was made with careful consideration and with successful clients only. The restriction of investment only applied to audit clients, and not non-audit clients.

affiliation that drove the member offices apart and ‘tore up’ the national firm. We also see that while mergers attracted most accounting firms at that time, “Big is not the Best”. The merger which resulted in Kendon Cox & Co may have brought about benefits to the member firms in terms of economic gains, market share, or reputation. But despite their efforts, the national firm appears to have been regarded as ‘local’ in substance by both its clients and other major accounting firms. Under the umbrella partnership of the national firm, each office still operated separately with an independent financial and practice system. While few benefits prevented the firm from becoming more nationally integrated, it was the inter-entity cultural conflicts, and the lack of a strong national identity, that rendered the firm an easy prey to the manipulations of the bigger accounting firms. Due to the inter-relationships between Kendon Cox & Co and its overseas affiliates, the study does not present a story of an isolated firm; rather, it offers perspectives of the market strategies and cultures of these accounting firms within both international and New Zealand settings.

There are three major limitations to the study. First, it lacks financial data from the partnerships to verify the economic benefits and increased efficiency, if there are any, as a result of those mergers that the firms underwent. Second, the study was specific to one medium-sized accounting firm and thus the findings may not be comparable to the existing literature which is mostly based on mega-mergers between very large international firms. Thirdly, the applicability of the findings to today’s situation could be restrained due to changing environments, better management styles and strategies, as well as increased regulations that could restrict merger activities. Despite these limitations, however, this study offers a valuable perspective to both the literature and practice; many of the issues discussed in this study including cultural conflicts and management, strategic planning, justifications for mergers and their resultant outcomes remain ‘hot topics’ among today’s practitioners and academics.

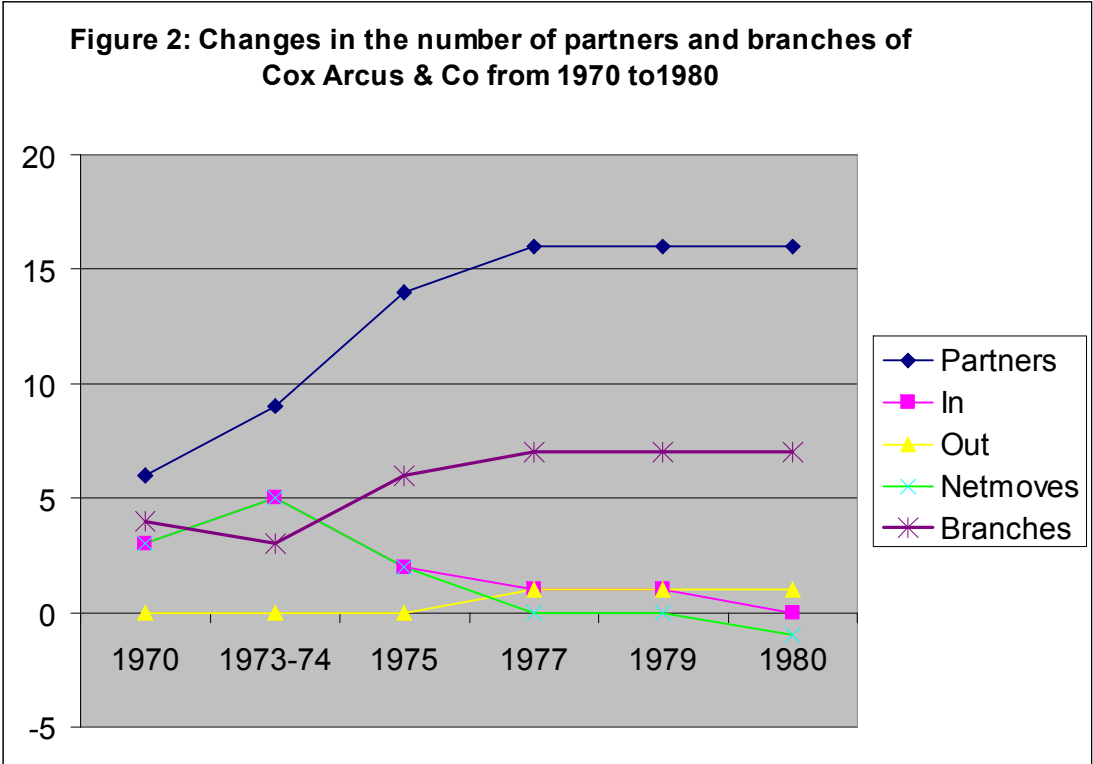
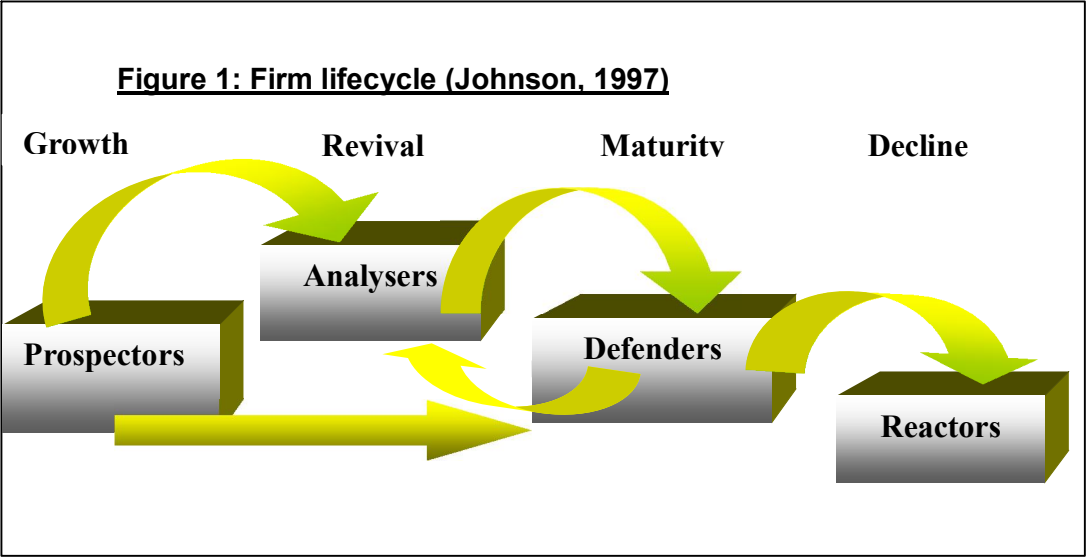


Figure 3: Changes in the number of partners and branches of Kendons from 1969 to 1981

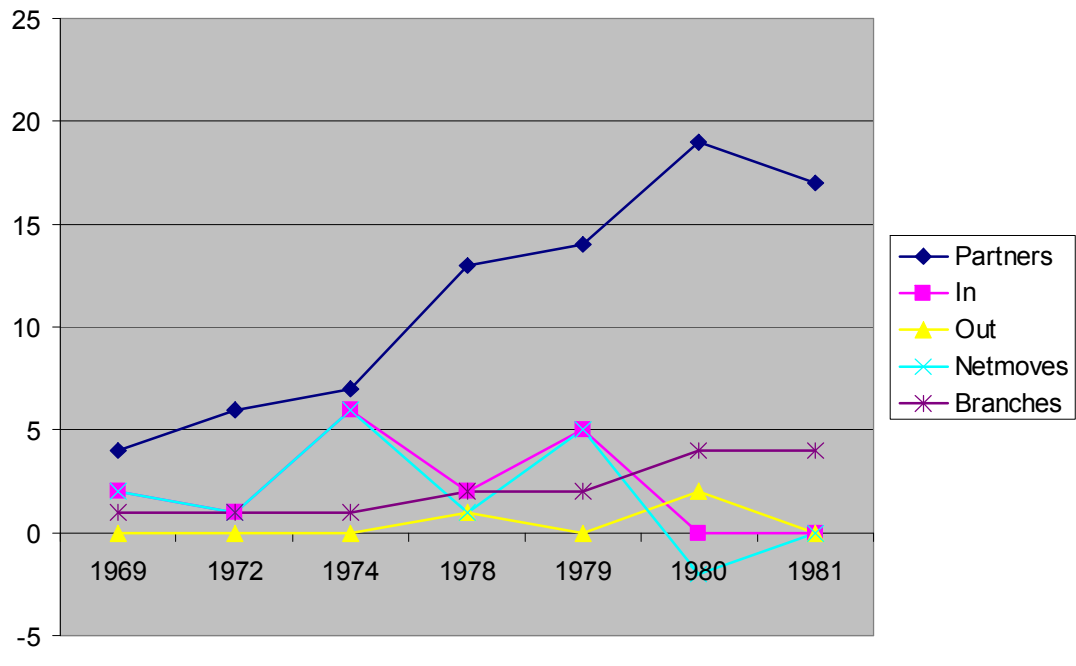


Figure 4: Changes in the number of partners and branches of Kendon Cox & Co from 1981 to 1988

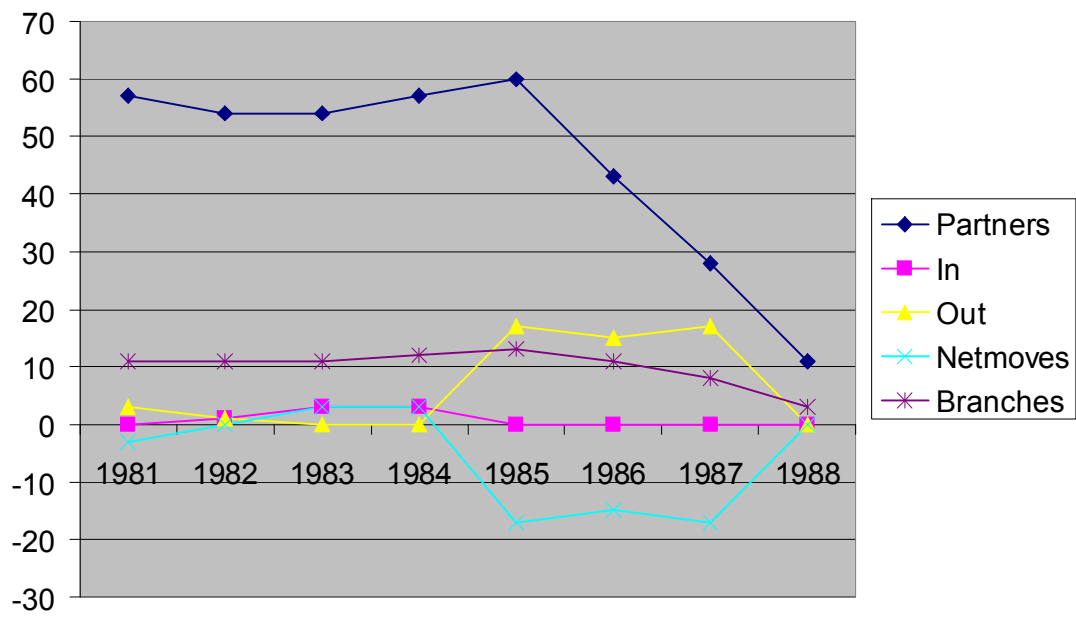


Figure 5: Drivers of mergers in the history of Kendon Cox & Co 1970-1988



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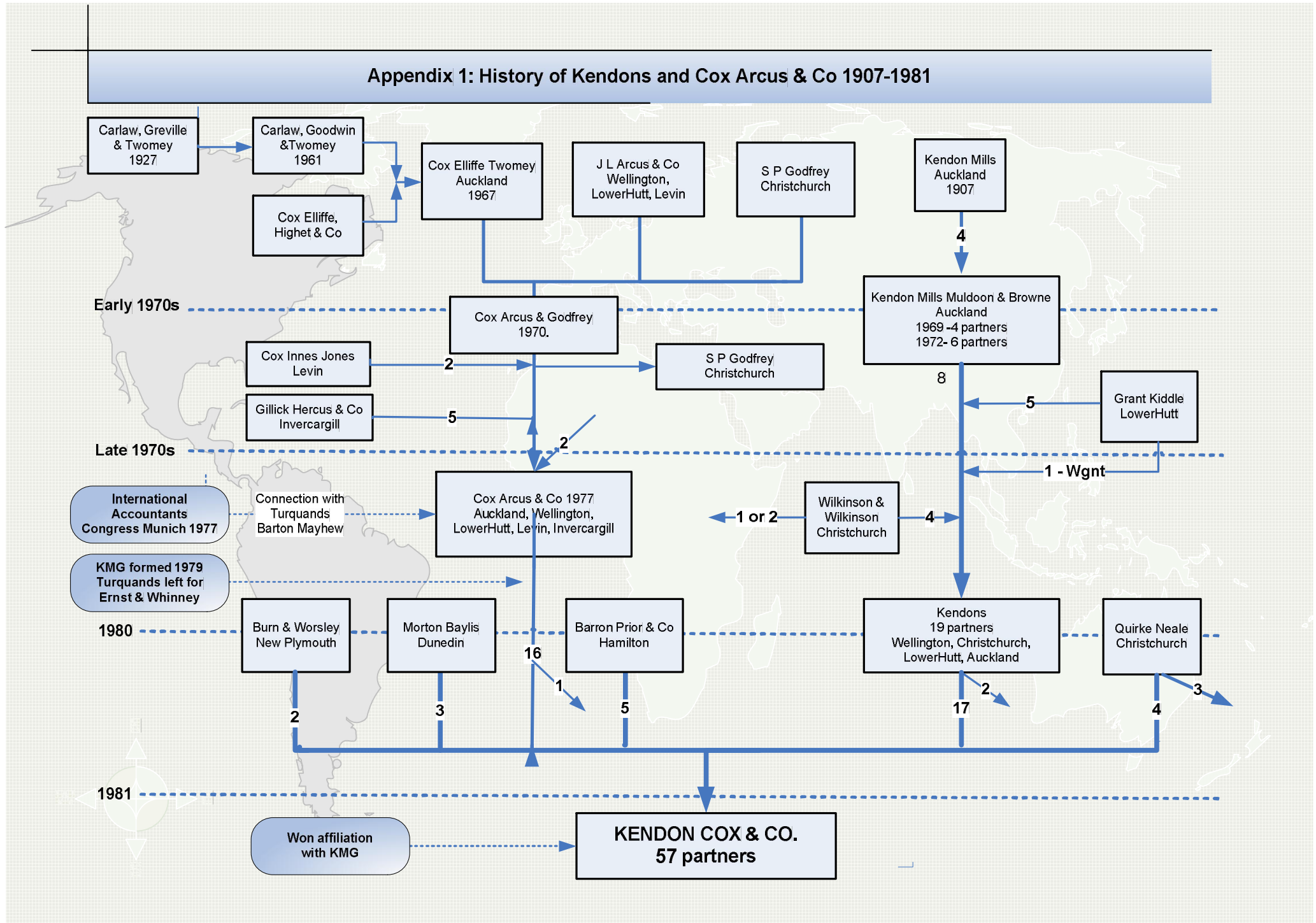
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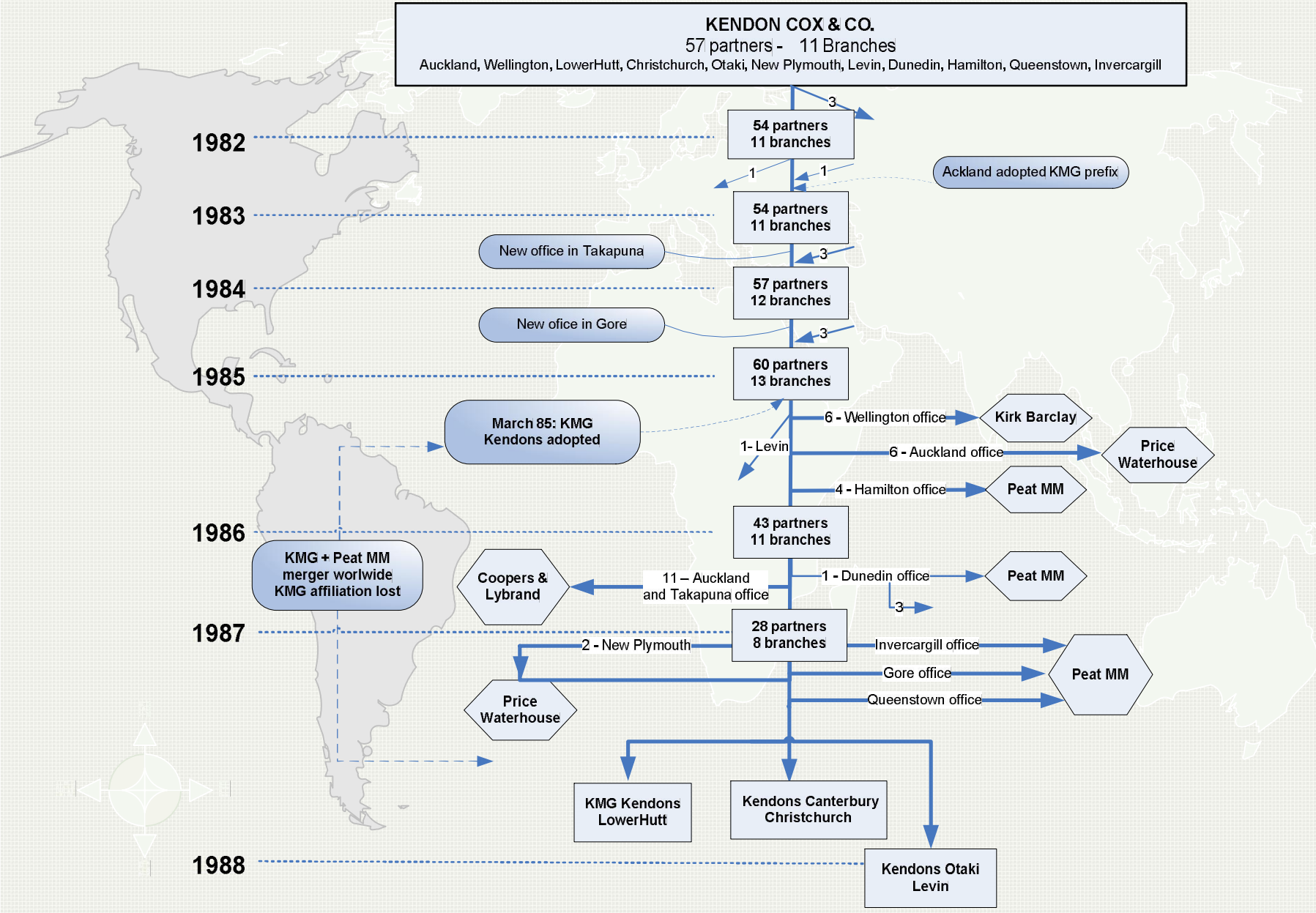
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Appendix 1: History of Kendons and Cox Arcus & Co 1907-1981



Appendix 2: History of Kendon Cox & Co 1981-1988



Appendix 3: The KPMG merger

In 1979, KMG was formed based on the merger between Deutsche Treuhand-Gesellschaft (Germany) and Klynveld (Holland) and Turquands Barton Mayhew (UK) and McLintock Main Lafrentz International (professional service firm) to make KMG Main Hurdman (in US) and KMG (in Europe).

Early 1980s when Klynveld and DTG wanted to leave the consortium and merge with US-based Peat Marwick, it was a precedent that they had to pay an enormous amount to the remaining member firms of KMG. To avoid this payment, a worldwide merger between KMG and Peat Marwick was proposed.

The merger brought together Peat's 2733 partners, 342 offices in 90 countries and KMG's 2827 partners, 435 offices in 73 countries (Steel, 1986).

In US, the firm remained Peat Marwick, but the official audit name was changed to Peat Marwick Main and Co. The merging of member firms required a majority of votes of partners in each country. In NZ, as it turned out to be, the merger was done on the office basis. This merger was said to intensify competition and spur other big eights to merge with each others in order to 'keep a competitive edge'²².

²² Arthur Bowman, Public Accounting Report, cited in *Accountants' Journal* (NZ), May 1986.