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NUMBER CRUNCHERS' TOUGH EQUATION; For accountants, the latest industry pressures add anxiety, subtract fun
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1192 words
18 October 2010
Crain's Chicago Business

Ernst & Young LLP this year decreed a Summer of Fun: Accountants got to wear jeans on Fridays and take several days off for community service projects. One afternoon, the Chicago office attended a Cubs game en masse. The firm bought 900 tickets, and the Cubs did their part by winning.

Though tame by some standards, the fun and games were a nod to the funk pervading the accounting industry. Revenues are down, margins are squeezed and many employees are unhappy, particularly at the Big Four firms like Ernst & Young that dominate the profession.

"I'd say the dissatisfaction index would probably be at a 10-year high, in the high 60s or low 70s," says Buzz Patterson, an executive recruiter who specializes in accounting clients for Donahue/Patterson Associates Inc. in Chicago.

The recession and iffy recovery have hammered the accounting industry, as they have other professional-services sectors. And a surge in advisory business, courtesy of a regulatory crackdown in the wake of the Enron Corp. debacle and other corporate scandals of the early 2000s, has waned.

Hiring of recent college graduates by CPA firms nationwide fell to 25,500 in 2008 from a record 36,000 in 2007, according to the American Institute of Certified Public Accountants in Washington, D.C.

Corporate clients—themselves hurt by the recession—have demanded and won fee reductions of as much as 50%. Accounting firms have cut employment by an estimated 10%; pay raises that were running as high as 8% in 2007 shrank to less than 1% this year, according to Menlo Park, Calif.-based staffing firm Robert Half International Inc.

"We see our business stabilizing," says KPMG LLP's Phil Rohrbaugh, Chicago office managing partner, after some 100 local jobs were eliminated, leaving about 1,600. "Having said that, there's still a lot of uncertainty in the economy."

One sign of that uncertainty: Clients are shopping around. Telular Corp., a Chicago-based maker of wireless telecom equipment, saved 30% to 35% when it switched to Grant Thornton LLP from E&Y last year, Chief Financial Officer Jonathan Charak says. And there were even-cheaper alternatives to Chicago-based Grant, he says. E&Y declines to comment about client matters.

The slide in audit fees and the loss of advisory business are putting the recession's survivors in consolidation mode as they hunt for opportunities to streamline operations and bulk up in specialty areas, where demand for services is still relatively strong. Revenue at the Big Four audit firms declined as much as 10% last year.

Deloitte LLP, which recently acquired the public-services unit of bankrupt consultant BearingPoint Inc. of McLean, Va., for $350 million, said consulting revenues worldwide climbed 15% for the year ended in May, compared with a 1% decline in audit-related revenues.

Meanwhile, PricewaterhouseCoopers LLP plans to buy Chicago-based Diamond Management & Technology Consultants Inc. for $378.0 million, while KPMG this year purchased the supply-chain advisory services unit from Grant Thornton.

The recession, meanwhile, has taken a toll on morale by restricting opportunities for audit firm partners to become chief financial officers or to take other corporate jobs. Potential liability associated with botched audits—an age-old worry heightened in the wake of Enron—adds to partner angst.

Jim Peterson, a former Arthur Andersen lawyer who teaches risk management at DePaul University and accounting and finance at Northwestern University's law school, says big audit firms are one disaster away from oblivion. "They're not capitalized to survive," he says.

Chicago-based BDO USA LLP, for instance, was hit with a $521.7-million judgment after it was sued by an investor in a BDO client that collapsed. The verdict in Miami was reversed on procedural issues, which the court said inflated the level of damages. A new trial was ordered. BDO CEO Jack Weisbaum declines to comment on the matter.

"There used to be a time you made partner and sat back," says Duane Morris LLP's David Kaufman, a Chicago lawyer with audit firm clients. "Now it's twice as hard, and it gets harder every year."

Without the normal attrition of partners, fewer senior managers are moving up to partnerships and fewer junior auditors are getting marquee assignments.

Demand for accountants in finance posts has been crimped, as well, by a business environment that puts a greater premium on executive experience.

"Now you need a really strong operating person who's less of a bean counter, less of a green eyeshade and more of a true hands-on operating finance partner," says Clement Johnson, a partner at Hinsdale-based executive recruiter Crist/Kolder Associates. "We honestly hunt in other, larger corporate environments."

TRAFFIC JAM

Kelly Grier, E&Y's Chicago office managing partner, acknowledges the management challenge. "We have not been immune to the difficult environment. Our ability to promote people is predicated on growth," she says. After a 5%-to-10% decline over the last two years, headcount is growing again, she says.

In a no-growth environment for most audit firms, the Big Four are moving down-market, trying to poach former clients they shed during the boom years. It's a temporary expedient, designed to keep the worker bees buzzing, but in the meantime the trend is muscling second-tier firms.

"We're now just trying to take marketshare from each other," says Jeffrey DeYoung, regional managing partner at Chicago-based Baker Tilley Virchow Krause LLP, the 14th-largest U.S. accounting firm. "M&A activity (among Baker Tilley's advisory clients) is picking up, but it is nowhere near what it was three years ago."

At Steinberg Advisors Ltd., a 40-member CPA firm in Northbrook, which froze compensation last year, “everyone’s nervous about their job,” CEO Irwin Steinberg says. “A lot of town hall meetings. They really want to know what the future of the firm is.”

Lack of succession planning at many smaller firms—there are about 45,000 nationally—has ignited a merger frenzy that will last for years, says industry consultant Allan Koltin, CEO of Chicago-based PDI Global Inc. He estimates that CEOs of large local and regional accounting firms are spending up to 50% of their time on potential combinations.

The professional life of many accountants simply isn’t as much fun as it used to be. The Sarbanes-Oxley Act of 2002 stimulated industry demand by forcing clients to hire separate firms to perform audit and advisory work.

At the same time, it restricted auditors themselves from the often more-rewarding work of counseling their clients on strategic and operational matters, instead requiring them to enforce tighter accounting standards.

“Rule books have expanded so much even the partners are feeling that they’re financial police and are not as able to be business advisers to their clients as had been the case in the past,” says Mr. Patterson, the industry recruiter and former Andersen partner.

Says Mr. Steinberg, “The accounting profession now is becoming a vendor.”