BIG SIZED PLAYERS ON
THE EUROPEAN UNION’S
FINANCIAL ADVISORY MARKET

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Abstract: The paper presents the activity and the objectives of “The Big Four” Group of Financial Advisory Firms. The “Big Four” are the four largest international professional services networks in accountancy and professional services, offering audit, assurance, tax, consulting, advisory, actuarial, corporate finance and legal services. They handle the vast majority of audits for publicly traded companies as well as many private companies, creating an oligopoly in auditing large companies. It is reported that the Big Four audit all but one of the companies that constitute the FTSE 100, and 240 of the companies in the FTSE 250, an index of the leading mid-cap listing companies.

Key words: financial advisory services, market, financial expert, player market.

1. Introduction

Financial advisors are qualified personal finance experts who will help you decide which products in the market are suited to your needs. Their role is to determine your particular investment needs on the basis of your financial situation, lifestyle and goals, and then recommend suitable products. These are often investment funds but may also include insurance policies, pension plans or mortgages that offer the best solution for you.

In some countries, most financial advisors work for financial institutions such as banks or insurance companies; in other countries, financial advisors who work for their clients independently, rather than on behalf of a financial institution, are the norm. In this context, the term IFA (independent financial advisor) is often used. Especially in the UK, the term has a specific meaning and reflects the local regulations there. Fund management companies can also serve an advisory role by providing information about the investor types for which its respective funds are suited.

Advisors employed by banks and other institutions come under the supervision of local financial supervisory authorities. Independent financial advisors are generally supervised by the organization responsible for regulating the financial services industry in their home country. Advisors in Europe are also subject to the EU-wide Markets in Financial Instruments Directive (MiFID), which sets out very specifically the duties of advisors to provide advice suitable for their clients’ needs. The MIFID guidelines also require

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advisors to have the necessary qualifications, knowledge and experience to fulfil their responsibilities.

Advisors may specialize in a specific area of financial services such as pensions, investment or mortgages. There can be major differences in the way they are compensated. Some may receive a salary or also commission payments (including trailer fees) based on investments made by their clients. They may also receive a fixed or hourly fee from investors in the same way that lawyers do, for example.

They may charge a fee based on the total amount of assets under their management. In some cases, advisors are not paid by the investor, but receive a commission from the provider of the fund or another financial product.

Regardless of the case, the client should always be clear about the remuneration policy before he selects a financial advisor.

An advisor should gather all the relevant information needed to ensure that the right decisions are made in the client’s best interest. The first step is to analyze clients’ needs and to set their financial goals.

Also, an advisor should objectively analyze clients’ financial situation and financial goals. He or she should make an impartial assessment, uninfluenced by the pressure and emotion.

Most investors have more than one investment objective. An advisor can help clients to invest their resources in line with what they would like to achieve. Advisors may also advise clients on tax questions and can recommend tax-efficient solutions appropriate to clients’ home country’s tax legislation.

Financial consultants are professionals and they are required to respect professional standards and demonstrate certain core skills and capabilities. They are authorized by a country’s financial regulator. They work for an independent firm, or for a bank, insurance company or other provider of financial products.

Financial advisors provide advice on all products in the market, or just a limited selection.

A professional financial consultant must present how many clients he or she advised and must provide references.

2. “The Big Four” Group of Financial Advisory Firms

The “Big Four” are the four largest international professional services networks in accountancy and professional services, offering audit, assurance, tax, consulting, advisory, actuarial, corporate finance and legal services. They handle the vast majority of audits for publicly traded companies, as well as many private companies, creating an oligopoly in auditing large companies. It is reported that the Big Four audit all but one of the companies that constitute the FTSE 100, and 240 of the companies in the FTSE 250, an index of the leading mid-cap listing companies.[1] The Big Four firms are shown below, with their latest publicly available data.[17]

**Financial Data of the Big Four firms**

<table>
<thead>
<tr>
<th>Firm</th>
<th>Revenues (bn.)</th>
<th>Employees</th>
<th>Fiscal Year</th>
<th>Headquarters</th>
</tr>
</thead>
<tbody>
<tr>
<td>PwC</td>
<td>$31.5</td>
<td>180,000</td>
<td>2012</td>
<td>UK</td>
</tr>
<tr>
<td>Deloitte</td>
<td>$31.3</td>
<td>193,000</td>
<td>2012</td>
<td>US</td>
</tr>
<tr>
<td>Ernst &amp; Young</td>
<td>$24.4</td>
<td>167,000</td>
<td>2012</td>
<td>UK</td>
</tr>
<tr>
<td>KPMG</td>
<td>$23</td>
<td>152,000</td>
<td>2012</td>
<td>NL</td>
</tr>
</tbody>
</table>
This group was once known as the "Big Eight," and was reduced to the "Big Five" by a series of mergers. The Big Five became the Big Four after the demise of Arthur Andersen in 2002, following its involvement in the Enron scandal. None of the Big Four accounting firms is a single firm - rather, they are accounting networks. Each is a network of firms, owned and managed independently, which have entered into agreements with other member firms in the network to share a common name, brand and quality standards. Each network has established an entity to co-ordinate the activities of the network. In one case (KPMG), the coordinating entity is Swiss, and in three cases (Deloitte Touche Tohmatsu, PricewaterhouseCoopers and Ernst & Young) the coordinating entity is a UK limited company. Those entities do not themselves practice accountancy, and do not own or control the member firms. They are similar to law firm networks found in the legal profession. In many cases each member firm practices in a single country, and is structured to comply with the regulatory environment in that country.

In 2007 KPMG announced a merger of four member firms (in the United Kingdom, Germany, Switzerland and Liechtenstein) to form a single firm. Ernst & Young also includes separate legal entities which manage three of its four areas: Americas, EMEIA (Europe, The Middle East, India and Africa), and Asia-Pacific. (Note: the Japan area does not have a separate area management entity). These firms coordinate services performed by local firms within their respective areas, but do not perform services or hold ownership in the local entities.[24]

According to the latest analysis from www.Big4.com, the 2009 combined revenue for the four firms of $94 billion fell 7% from 2008’s record of $101 billion, but stabilized in 2010 as the revenue increased 1.4% to $95 billion. The 2011 revenue rose a further 9% to historic high levels of $103 billion, setting a new record.

Another new record was set in 2012, with strong growth momentum in all service lines and geographies continuing from 2011, helped by emerging countries, improvements in global economic profiles and increased business deal activity.

The combined 2012 revenue for the four firms rose to a record historic high level of $110 billion, up to 6% from 2011. With all global economies, except those in Europe, showing continued growth in 2012, the Big Four firms had outstanding performance in 2012, with revenues rising in all geographies, service lines and industries.

KPMG revenues grew the slowest at 1.4%, Ernst & Young at 6.7%, PwC increased 7.8% and Deloitte posted the highest rate at 8.6%. PwC grew slower than Deloitte yet reported 2012 revenues of $31.5 million, just $200 million more than Deloitte, thus maintaining its leadership position as the largest accounting firm on the planet.

KPMG’s modest growth is well out of line with peers. Big 4's analysis shows three factors: Europe is 50% of global revenues and was negatively impacted by US dollar appreciation versus the Euro, Advisory service line had modest growth and Audit presumably lost some relative market share.

2012 was a banner year for the Big Four accounting firms: Deloitte & Touche, Ernst & Young (E&Y), KPMG and PricewaterhouseCoopers (PwC) following strong growth in 2011, and erasing the impacts of subdued performance of 2009 and 2010. 2009 combined revenue for the four firms of $94 billion fell 7% from 2008’s record of $101 billion, but stabilized in 2010 as revenue increased 1.4% to $95 billion. 2011 revenue rose a
further 9% to historic high levels of $103 billion, setting a new record. Another new record was set in 2012, with strong growth momentum in all service lines and geographies continuing from 2011, helped by emerging countries, improvements in global economic profiles and increased business deal activity. Combined 2012 revenue for the four firms rose to a record historic high level of $110 billion, up 6% from 2011. With all global economies, except those in Europe, showing continued growth in 2012, the Big Four firms had outstanding performance in 2012, with revenues rising in all geographies, service lines and industries.

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About ethics and business conduct, PwC, as professional adviser, help clients solve complex business problems and aim to enhance their ability to build value, manage risk and improve performance. As business advisor, the firm plays a significant role in the operation of the world's capital markets. The company’s core values of excellence, teamwork and leadership help service users to achieve economic growth. In conducting its business within the framework of applicable professional standards, laws, regulations and internal policies, PwC also acknowledges that these standards, laws, regulations and policies do not govern all types of behaviour. As a result, the company has a code of conduct for all PwC people and firms. The code also provides a frame of reference for PwC firms to establish more specific supplements to address territorial issues.

The PwC team believe in being part of it: the global conversation and movement towards responsible business practices that create positive change in the world. The firm’s activity is focused on four areas where its services can make relevant and significant contributions: Responsible business, Diversity & inclusion, Community engagement, and Environmental stewardship. Responsible business means understanding risks and opportunities. It also means creating value for business and communities in the areas of ethics, integrity and trust, and by using team’s core skills to help address issues central to fostering a sustainable business.

The value of diversity and inclusion means “different is better”. PwC creates value for its people and its clients by promoting diversity, fostering a culture of inclusion, and supporting a healthy work-life balance. Community engagement means sharing the skills. The company creates value in local communities by using its people’s time, skills and experience to make a lasting difference. Environmental stewardship means collaborating for better solutions. PwC creates value by understanding and reducing its impact on the environment.[19]

3. Conclusions

The European Commission believes that the size of the Big Four and the breadth of services they can provide are a barrier to the ability of small and mid-tier firms to develop the necessary skills and expertise to undertake the statutory audit of large, global companies. They also believe that there is a systemic risk to the market if one of the Big Four were to fail.

The European Commission has set out a series of proposals that they suggest will address these issues – including mandatory firm rotation, substantial bans on non-audit services, and, in specific instances, the
formation of ‘audit only’ firms. “The Big Four” Group believes healthy competition is good for the marketplace. However, this should not be achieved through artificial intervention which is detrimental to audit quality.[20]

There are thousands of different investment funds to choose from, and finding those that best suit your specific needs takes time and knowledge. Professional advisors, working independently or as employees of financial institutions, have the resources, experience and skills to select the right funds for you. Before making any recommendations, advisors should put together a comprehensive picture of your investment needs and your attitude to risk. Advisors can help you draw up a personalised financial plan and select a fund or portfolio of funds that matches your investment profile.

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