

Marion Williams: Regional growth of accounting and other service firms

Address by Dr Marion Williams, Governor of the Central Bank of Barbados, at the launch of the New Deloitte (Barbados), St. James, 12 May 2005.

* * *

Good Evening, Ladies and Gentlemen.

I wish first to congratulate Toppin, Walker and Deloitte for achieving this milestone, that of combining to establish the new firm Deloitte (Barbados). It is a remarkable achievement which needs to be celebrated. Such accomplishments are the result of hard work, application and the ability to grasp opportunities when they arise.

This evening I plan to look at the need for firms in Barbados and the region to look outside their domestic markets and to venture further afield. In times where the world is going global, it is timely that there is a renewed call for firms to position themselves for greater interaction in the regional and global environment. I will look especially at accounting firms.

Within the last three years, legislators in various jurisdictions have embarked on changes to the accounting environment to make auditors of publicly quoted companies more responsible for financial statements and have sought to separate audit from other professional services. The most famous initiative is the Sarbanes Oxley Act in the USA, which provides for greater regulatory oversight of public companies and restricts the types of services auditors can provide to such companies. As a result, audit firms can no longer provide accounting, internal audit, IT consultancy and secretarial services to their clients. In our local environment this has resulted in a reordering and restructuring of several audit firms. In addition, other developments in the offshore sector have resulted in changes in audit firms activities. Generally changes bring opportunities. In this case, it has offered an opportunity for the establishment of Deloitte Barbados.

Change is universal and is increasingly evident in every form of activity. Increasingly, non-local factors are important for maintaining firm profitability, for supporting local industries and for ensuring national competitiveness. Consequently, every enterprise stretching from fast food outlets to clothing manufacturers has to deal with new forms of competition and a new economic framework. And this is not confined to regional market entrants. More and more, new and global competitors are entering regional markets and, hence, increasing the intensity of competition for and among established regional companies. It is for this reason that networking among firms, including accounting firms, is very important. It establishes opportunities and provides platforms for future growth.

We promote ourselves as a financial services sector and subsidiaries of major public companies in North America and Europe are incorporated here. These subsidiaries must adhere to the Sarbanes Oxley or similar legislation and this has the potential for exposing local auditors to higher scrutiny, not only from local regulators but foreign ones as well. These include Securities Commissions and Accounting Oversight Bodies. This has resulted in higher professional indemnity insurance and calls from audit firms for limited liability partnerships. (On this matter, representations were made to the relevant ministry by ICAB on behalf of audit firms – successfully so).

These kinds of protective mechanisms help the CSME as they give firms a more secure base from which they can grow and can assist their entry into the global marketplace. The CSME then plays a key part in the region's defensive mechanism and can be a vehicle for going global.

The merging of national boundaries

Until recently domestic firms principally acted within a domestic market, and this market was governed by national rules and protected by national barriers. The global thrust started long before CSME, but now the boundaries between national economies are becoming blurred, as there is a growing penetration of production and markets. Such events give rise to new dynamics in terms of markets and production.

Services have now become a powerful source of income in many countries including ours. This applies to accounting services as well. But even in the services industry there is an overriding need to

deal with global forces, regulatory and otherwise, and to ensure that the benefits of the services industry are maximised not only regionally but internationally.

The global co-operation phenomena

In the past the regional and international dimensions of production were usually the preserve of large multinationals, as they built oligopolies through concentration in national markets, through internationalisation and through the branding of their product. In a sense, the opportunity for local and regional companies to piggy-back on that branding is now most welcomed. What you are marketing today is the Deloitte brand and that brings with it name recognition.

Even though it is also possible to observe a strong concentration in many industries at a global level, resulting in the building of global oligopolies, these oligopolies are at the same time searching for co-operation and for ties with jurisdictions like ours. This search for co-operation results from the limits to concentration and the desire to avoid customer anonymity which can so often be an accompaniment to large size.

Regulation is becoming very international and as a regulator, we, in the Central Bank follow what is happening in the discipline. Most audit firms, for example, are part of an international franchise and are required to adhere to the requirements of head office. Most of these requirements are international though in some cases, I am advised that separate franchises were created for the Caribbean region. In fact, it is not unlike the regulation of the offshore sector, where a separate dispensation was created for "OFCSs", meaning of course financial centres in small developing countries. The point here is that for the most part, the Caribbean, despite putting its special case, tends to be a receiver of regulatory rules.

In the new environment, global involvement needs mean that access must be gained to strategic resources. These may exist in the non English speaking jurisdictions. Indeed, it is becoming increasingly likely that more firms will seek to form alliances with firms in the non English-speaking territories. Thanks to the development of communication infrastructure and information networks, the physical distance between people is becoming less important, so it is possible. Moreover, in the case of accounting firms, your business is numbers and numbers are universal, so language difficulties should be a less important hurdle to regional expansion for accounting firms, compared to several other service industries.

The changes that I have so far highlighted present both an opportunity and a challenge, for the advantages or disadvantages caused by globalisation depend on specific reactions, at least in some areas.

Generally, however, if firms want to stay competitive they have to become more externally oriented. They must look outside the domestic market. We should not, however, be deterred by limited capital and unfamiliarity in dealing with mergers and external alliances. We also need to be less constrained by the desire to have the company or firm dominated by a single family or shareholder. In the current environment such attitudes may be to the detriment of the firm in the long run. Since what is lost in control can be gained in increased market share.

In recent times there have been various forms of combinations and networking occurring, particularly in the financial sector, where there has been a flurry of takeovers and combinations within the last five years. The main aspects of networking are, on the one hand, the concentration of core competencies to exploit comparative advantages and, on the other hand, the access to specialised skills and experience which can be beneficial to the firm, by allowing the organisation to benefit from specialist skills in specific areas which would be otherwise costly to maintain for a small clientele.

Networking also enables enterprises to accelerate their processes, to save time and to shorten output schedules. It enables a more effective alignment with the rapidly changing demands of the customers since new enterprises with different skills increase functional flexibility.

Most businesses benefit by establishing a more solid presence in new markets, either directly or through a local partner, particularly since some traditional customers are still wary of conducting extensive business over the Internet because of the uncertainty of legal environment governing such transactions. Concerns about enforcement of contracts, liability, intellectual property, privacy, security and other matters have caused international business and consumers to be cautious. Hence, it is useful to have a local presence.

Nevertheless, subsidiaries of foreign companies may require financial statements under US, Canadian or UK GAAP, thereby expanding the work of local firms and increasing their exposure. International business jurisdictions like ours, therefore, tend to benefit from a vast international exposure even though they are locally based, because their clients are multi jurisdictional.

Evaluating entry options

Research shows that over 80% of companies seeking to expand plan to grow by adding new customers and entering new markets. However, entering new markets often involves learning, adopting and implementing new business practices and policies. Fortunately for us in the Caribbean, regional markets have, for the most part, similar accounting and regulatory systems, so that expansion regionally should not be problematic.

Successful companies who instinctively recognize the importance of new customers and new markets, are the firms which tend to succeed since they are proficient at establishing both effective marketing and new business development processes, including benchmarking and competitive analysis aimed at achieving sustained growth.

In the increasingly market-oriented, global economy, challenges bring changes. Even banks and others in the financial industry are revising their strategies, focusing on revenue generation after years of focussing on costcutting measures.

Global trends point therefore to increasing revenue growth, but the success of many firms located in the region, will be also determined by how well they respond to the forces that are changing the face of their respective industries, including the changing requirements relating to standards, and the need for additional transparency with respect to both the customer and the investing public, and how well they adjust to these global trends.

The CSME can assist in helping firms in accessing external markets through using the region as a stepping stone, though this intermediate step is not always essential to going global. With the help of some of the initiatives of government as well as initiatives from private firms themselves, successful regional expansion is possible.

Each firm will need to be able to formulate its own strategy to effectively respond to global forces in a strategic manner. In the end, however, the resources which firms put into integrating into the regional market in a proactive manner could influence relative success in the years ahead, not only in the region but internationally.

In closing, let me once again congratulate Toppin, Walker and Deloitte and all the partners on their recent initiative in establishing Deloitte (Barbados) and for the bold step which they have taken. I wish you every success.

Thank you for your attention.