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Beware the growth of professional-services conglomerates such as Arthur Andersen & Co. or Ernst & Young that encompass accounting, consulting, and, if they have their way, legal advice. Unlike the growth of most other megacorporations, this trend could undermine two crucial underpinnings of our market economy: independent auditing and sound legal advice.

The tendency for various service professions to band together gained momentum earlier in August when a committee of the American Bar Assn. presented to its membership a recommendation to allow lawyers and nonlawyers to work in the same company and split fees. A formal vote of the ABA is expected to take place next year. In the past, such activity has been prohibited by the ABA, regional bars, and various state laws. But with soaring demand for sophisticated financial and retirement planning, many people want one-stop shopping for both legal and accounting advice. And a good number of multinational companies want the convenience of relying on a few service firms to handle all their global needs.

The most important reason why law firms will be merging their businesses with other service companies, however, is the voracious appetite of the big accounting firms. During this decade, the Big Eight have become just five: PricewaterhouseCoopers, KPMG Peat Marwick, Arthur Andersen, Ernst & Young, and Deloitte Touche Tohmatsu. All are obsessed with leveraging their accounting relationships to help clients do other things--plan their corporate strategies, build and manage their information-technology systems, and now, solve clients' legal problems.

TEMPTATIONS ABOUND. What's wrong with this picture? The potential for conflicts of interest is enormous. As the Securities & Exchange Commission recently said, the auditing profession must be more than just another business selling a product or service. It has an obligation to not only disclose financial information to investors but also to put investors' interest above those of the auditors' clients or even their own employer. On the other hand, lawyers are confidential advisers and advocates, with primary allegiance to the client.

Would it be ethical for the legal division of one of the Big Five to render an opinion on the auditing performance of that firm? If the lawyers and accounting partners are being paid from the same corporate profit pool, will one not be tempted to skew advice that requires further services from its sister group? Suppose a multiservice Big Five firm advises a client on management strategy. In good faith, could it conduct an independent audit of that same client's accounts, possibly casting doubt on the strategy itself?

The latest case in point is the deal between KPMG and Cisco Systems Inc. and the firms' announced intention to take their management-consulting venture public. This could raise a host of ethical and legal issues if KPMG audits a company that is also its shareholder.

Then there is the question of business priorities. Management consulting and legal work produce fatter margins than accounting. The all-important auditing business is likely to get subordinated.

GLOBAL SCRAMBLE. It's not as if the various service businesses don't have enough to do now. The Big Five are already scrambling to build global networks in their traditional businesses, and they would do well to focus also on reversing the serious deterioration in the quality of earnings statements. And as law firms get bigger, and as some merge with foreign firms, as Rogers & Wells LLP has recently done with Britain's Clifford Chance, there is no doubt that they will have difficulty managing themselves.

It is increasingly challenging to effectively manage any conglomerate these days. In a firm such as PricewaterhouseCoopers, with 155,000 employees in 150 countries, imagine the problems of coordinating disparate businesses, implementing new strategies, monitoring quality control, and melding different professional cultures and compensation systems.

Some powerful groups, such as the New York State Bar Assn., are objecting to the marriage of law and auditing because of conflicts of interest. But there is an enormous amount of momentum for it, and if such combinations are permitted, as they are abroad, they will spawn sprawling, unmanageable, and internally conflicted empires that will ultimately disappoint customers and raise the ire, if not the intervention, of regulators. And when such problems occur in the very professions that are central to the development of market

rules and full disclosure of investor information, they will undermine America's highly successful brand of capitalism.

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