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Ignace De Beelde

Nathalie Gonthier-Besacier

Alain Mikol

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Ignace De Beelde

GHENT UNIVERSITY

Nathalie Gonthier-Besacier

CERAG UMR CNRS 5820/IAE GRENOBLE

and

Alain Mikol

EUROPEAN SCHOOL OF MANAGEMENT (PARIS)

## INTERNATIONALIZING THE FRENCH AUDITING PROFESSION

*Abstract:* The objective of this paper is to trace the development of the French auditing profession, the *commissaires aux comptes*, focusing on the appearance of the large Anglo-American audit firms on the French market. The French audit market has always shown a number of peculiarities, including the continued importance of a number of local audit firms. The French auditing profession finds its roots in late 19th century company law that introduced an obligation for companies to release audited financial statements. The profession became regulated in its modern form in the 1960s. This paper attempts to explain the growing impact of the international audit firms on the French auditing profession. It also demonstrates how local professionals and the French state reacted to these developments.

### INTRODUCTION

Most European audit markets have witnessed significant changes over recent decades. A striking development that has elicited academic curiosity is the growing impact of the large Anglo-American audit firms on local audit markets. The development of audit markets has been well studied in many venues, generally from an economic perspective using contracting theory as the framework for the analysis of developments in the supply of audit services [e.g., Watts and Zimmerman, 1983; Craswell et al., 1995; Holmes and Zimmer, 1998]. The existence of large accounting firms is partially explained by economies of scale. Summarizing the relevant literature, Meuwissen [1999] concluded that large audit firms obtain cost advantages and receive fee premiums, probably due to product differentiation.

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Part of this research focuses on audit-market concentration as the largest international firms have declined in number from the “Big Eight” to the now “Fat Four,” expanding their market shares in the process [Pigé, 2003; Ramirez, 2003]. One of the first studies in this area was Zeff and Fossum [1967], followed by others that also focused on the U.S. Moizer [1992] observed how European research lagged behind, that little academic work was done in the area of the European audit-services market in Europe previous to 1992.

Eventually audit-market structures were studied in, among others, the U.K. [Moizer and Turley, 1987], The Netherlands [Buijink and Maijor, 1991], Denmark [Christiansen and Loft, 1992], Belgium [Weets and Jegers, 1997], and Sweden [Wallerstedt, 2001]. On the French market, Piot [2001] highlighted the barriers to competition between different categories of audit firms (the “Big Six,” large national firms, and local audit firms) on the basis of the characteristics of their client portfolios. Gonthier-Besacier and Moizer [2001] focused on the current perception of audit firms in France and found no significant differences between the “Big Five” and large local firms.

Most of the studies mentioned center on an analysis of empirical data relating to audit clients, fees, or number of professionals. Our objective, however, is to understand *how* and *why* the large Anglo-American firms became dominant in France, as in most other countries. The issue is worth pondering. Many consider France to be a country that vigorously defends its own culture, language, and modes of organization. The progressive introduction of the international firms means either that the French abandoned their traditional positions or that the international firms adapted to the French culture, language, audit approach, etc. These issues are explored in this paper.

## LITERATURE REVIEW AND RESEARCH QUESTIONS

The research question of this paper relates to the entry and strategies of the Anglo-American audit firms in France. The literature on multinational firms distinguishes different modes of foreign entry. Anderson and Gatignon [1986] classified modes of entry based on the degree of control afforded the entrant. The highest degree of control is characterized by dominant equity interests, such as majority shareholdings. Medium-control modes include joint ventures and contractual arrangements and franchises. Low-control modes are typically non-exclusive contracts and minority shareholdings. Chan Kim and Hwang [1992]

demonstrate that entry-mode decisions are not only influenced by environmental and transaction-specific factors, but also by the global strategy of the multinational enterprise involved. Agarwal and Ramaswami [1992] consider ownership, location, and internalization advantages as factors that have an impact on entry-mode choice. To compete with local firms, foreign entrants must have superior assets and skills. These depend on firm size and the ability to develop differentiated products. The market potential and investment risk in the host country have an impact on both the decision to enter and the mode of entry. The strength of competition from local firms also influences entry strategy [Buckley and Casson, 1998].

The audit industry is a *service industry*. Much of the literature on multinational firms focuses on manufacturing enterprises and the debate over whether their conventions are applicable to service industries [Ekeledo and Sivakumar, 1998]. Because of the people-intensive nature of services, the entry-mode choices of service multinationals are more influenced by behavioral uncertainties, trust propensity, and asset specificity. Similar choices in manufacturing firms depend more on environmental uncertainties and risk propensity [Brouthers et al., 2002; Brouthers and Brouthers, 2003]. Sarathy [1994] concluded that the internationalization strategies in service industries are quite distinctive. They prefer direct modes of entry into foreign markets, through foreign investment and acquisitions, often with a local partner. High fixed costs and government regulations that favor local firms may deter service businesses from entering smaller markets. In such industries, implementing a unified strategy across different countries is a significant challenge. Bouquet et al. [2004] found that in industries where there is close interaction with end customers and where extensive levels of professional skills, specialized know-how, and customization are involved, there is a preference for wholly owned subsidiaries and expatriate staff. In business services such as accountancy, internalization and equity-based, foreign direct investment are the preferred modes for exploiting ownership advantages [Bodewyn et al., 1986]. These characteristics made it necessary to adjust the traditional transaction-cost framework used to study entry-mode choice [Erramilli and Rao, 1993].

Kipping [1999] studied the expansion of U.S. management-consulting companies to Western Europe in the 20th century. He concludes that the long-term success of consulting companies depends on the establishment of successful external (client) and internal (partner) networks. The success of U.S. consultancies

was linked with the aura of professionalism of U.S. industry and with the expansion of U.S. companies to Europe acting as a bridging function.

Previous research on the French accounting and auditing profession focuses on the development of associations of accountants in France between 1880 and the 1940s [Bocqueraz, 2000, 2001] and on the sociology of the accounting profession between 1920 and 1939 [Ramirez, 2001]. Ramirez [2003] relates the evolution of French auditors since 1970, as well as the role of the Anglo-American audit firms. He concludes that the success of these firms is due to their integration with the French elite and to the lack of adaptation of the traditional professional model to changes in the market.

### RESEARCH METHOD

This paper is based on the analysis of a broad series of documents and archives, as well as on a series of interviews. These documents and archives have rarely been investigated. They consist of reports on the meetings of the *Conseil Supérieur de l'Ordre des Experts-Comptables* (CSOEC, National Council of the Institute of Public Accountants) from 1960, reports on meetings of the *Conseil National de la Compagnie Nationale des Commissaires aux Comptes* (CNCC, National Council of the National Association of Statutory Auditors) from 1970, and the archives of the *Institut Français des Experts-Comptables* (IFEC, French Institute of Public Accountants), a major trade union for French accountants from 1964.

The interviews provided information that was not found in any other source, as is often the case with oral history. The interviewees were selected on the basis of the role they played during the period studied and their functions in the audit profession. They include key players from the 1970s and 1980s – former presidents and directors of professional bodies, leading partners in international and local firms, and members of oversight bodies. The list of those interviewed can be found in Appendix A. All interviews took place in June and July 2002, and were attended by two of the authors. They were not taped, but extensive notes were taken and a report written by one author and checked by the other as close as possible to the interview date.

### THE FRENCH AUDITING PROFESSION

The traditional audit function in France originated from company-law regulations in the third quarter of the 19th cen-

ture. Although oversight functions on behalf of the shareholders existed occasionally before 1863, the law of May 23, 1863 on limited companies introduced the statutory audit (the *commissariat*) in limited-liability companies. Article 15 of the 1863 law stated that the general assembly of shareholders had to elect one or more *commissaires* (auditors) who were required to submit a report on the situation of the company, its balance sheet, and the accounts presented by the directors. The auditor was called *commissaire des comptes* (auditor of the accounts), *commissaire de surveillance* (supervisor), or *censeur* (censor) [Houpin and Bosvieux, 1935, p. 291]. The 1863 law saw the *commissaire* as a company entity, similar to the board of directors, but with the task of auditing the books and analyzing the activities of the company [Foyer, 1971, p. 195]. As in other countries with similar systems, this auditing regulation was strongly criticized due to the lack of independence and competency regulations [Mikol, 1993, p. 4]. Shareholders, relatives of directors, or employees of the company were all eligible as auditors [Girardet, 1927, p. 104].

In 1935, the role of the auditor was clarified and his independence strengthened [Salato and Ghez, 1960, p. 25; Dupuis, 1967, p. 97; Mikol, 1993, p. 9]. A decree was issued on August 8, 1935, during an era of financial speculation and parliamentary corruption [Faure, 1929, p. 13]. It became impossible for directors, employees, or their relatives to serve as auditors. The provision of non-audit services to audit clients was not allowed; auditors could not receive any fees apart from an audit fee. They could only become directors after a five-year cooling-down period. The auditors had a mandate for three years and could not be terminated before the end of term. Other 1935 innovations included professional secrecy and the obligation to report illegal acts to the legal authorities [Kovarik, 1965]. In public companies, the position of auditors was further strengthened by introducing the requirement that at least one of them had to be chosen from a list of qualified auditors selected by the Courts of Appeal after an examination. But the function of *commissaire* was not restricted to specific professionals; most were *experts-comptables* (accountants), *conseillers juridiques* (legal advisers), or well-respected citizens. There was no specific auditing profession<sup>1</sup>; most of the *commissaires* had no accounting

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<sup>1</sup>Private initiatives to organize accountants include the *Compagnie des Experts-Comptables de Paris*, born in 1912. In 1927, the Ministry of Education created a state-recognized certificate for accountants [Mikol, 1993, p. 5]. After World

background [interview 2].

As late as 1967, external auditing was often considered ineffective [Chaput, 1990, p. 28]. Eventually, the auditing profession was comprehensively organized with the August 12, 1969 decree. This decree included a definition of the objectives of an audit and requirements with respect to entry examinations, independence, and professional secrecy.<sup>2</sup> It led to the creation of the *Compagnie Nationale des Commissaires aux Comptes* (CNCC), a national body under the jurisdiction of the Ministry of Justice, contrary to the OECCA, the accountants' professional body, which was linked to the Finance Ministry. Before this, there existed only regional *Compagnies des Commissaires aux Comptes* in each Court of Appeal district. They assembled in a federation, but this federation was not a real professional body under the authority and/or control of a ministry [interview 10]. One of our interviewees suggested that the creation of the CNCC was an attempt to create a more homogeneous body of experts, in contrast to the OECCA, whose membership was, by and large, considered incapable of performing audits [interview 3]. In fact, the OECCA complained that the state did not recognize the economic role that its members could play and, at the same time,

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War II, the only profession that was organized on a legal basis was the accounting profession for whom an *Ordre des Experts Comptables et des Comptables Agréés* (OECCA) was created in 1942 [Salato and Ghez, 1960, p. 24]. Apart from the legally based OECCA, there were many associations for accountants and bookkeepers. (For a discussion of the development of the French accounting profession between the two World Wars, see Ramirez, 2001.) Although organized in the same body, the *experts-comptables* were opposed to the existing *comptables agréés*, a second-tier profession with little recognition. Interest in auditing was generally limited. Among the *experts-comptables*, the most advanced professionals were those working for judicial expertises. In fact, "most members of this profession were not involved in auditing" [interview 1].

<sup>2</sup>The reform was prepared following the 1961 and 1962 OECCA congresses. The 1961 congress had been dedicated to standards on auditing and the definition of auditing, although this word was never used as such [interview 1]. Although almost no Anglo-American auditing firms or auditors were active in France at the time, the working parties of the OECCA who prepared the reform were strongly influenced by the methods and standards of such auditing firms and included a partner of Arthur Andersen France [interviews 1 and 2]. At that time, the only French firm that had formalized working standards was the *Fiduciaire de France*, possibly also the *Fiduciaire de l'Est* [interview 2]. One of the consequences of this lack of French practice was that the organization of the audit profession was to be based on the Anglo-American model. The draft company code of 1966 stressed that the auditors should "obtain the competency, independence, and prestige of the auditors of the Institutes of Chartered Accountants in the U.K., the members of the American Institute of Certified Public Accountants or the German Wirtschaftsprüfer" [Law Proposal 1003, May 6, 1965, *Journal Officiel*].



admitted being troubled by the tendency of the state to interfere in its internal problems [National Assembly, meeting on November 22, 1967, *Journal Officiel*, May 28, 1968, p. 773]. Because a significant percentage of the OECCA's members were at the same time *commissaire aux comptes* [Scheid, 2000; Bocqueraz, 2001], it is not surprising to find that it was common for the CNCC president to have held leadership positions in the OECCA. The OECCA and the bodies representing the *commissaires* also cooperated on a number of occasions.<sup>3</sup>

The first presence of the Anglo-American accounting firms in France probably should be understood from a transaction-cost theory perspective [Boddewyn et al., 1986]. By offering services in multiple locations, these accounting firms allowed their clients to reduce their international transaction costs. In other words, the auditors followed their clients. The historical sections of Anglo-American audit firms' websites reveal that some of them arrived quite early on the French market. At least one was already present in Paris before 1914, due to the presence of American oil companies [interview 3]. Price Waterhouse established its Paris office in 1916. In 1960, it became the firm's major European office, with eight Anglo-American partners. Cooper Brothers, through its Belgian office, opened a Paris office in 1929. Due to the merger with Lybrand, Ross Bros & Montgomery in 1957, the Paris office became the first in the world to bear the name "Coopers and Lybrand." An Arthur Young office was established in 1929. Andersen came rather late to France in 1952, becoming a full-member firm only by 1970. Until the end of the 1960s, it seems that the partners of these Paris offices were all Anglo-American; Price Waterhouse, for example, had its first two French partners only in 1969.

Although some of them were present early on, their impact on the French market was originally rather symbolic. They worked only with Anglo-American clients and their offices were small. The Price Waterhouse office in Paris, for example, em-

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<sup>3</sup>For example, the general report presented at the 25th OECCA congress in 1970 was prepared by a working party consisting of OECCA representatives, the *Institut Français des Experts Comptables* (a major trade union group among accountants), the *Institut National des Syndicats et Associations d'Experts Comptables et de Comptables Agréés* (a secondary trade union among accountants), the *Fédération des Associations de Commissaires de Sociétés inscrits* (which became, in 1970, the *Compagnie Nationale des Commissaires aux Comptes* and still exists today) and the *Compagnie des Commissaires de Sociétés Agréés par la Cour d'Appel de Paris* (which, in 1970, became the *Compagnie Régionale des Commissaires aux Comptes de Paris*, still in existence) [OECCA, 1971, p. 2].



ployed less than 300 persons in 1975 [interview 1]. They do not seem to have been involved in statutory auditing before the end of the 1970s. To them, statutory auditing was apparently a legal formality, left to French professionals. One former president of the OECCA remembers that there were no Anglo-Americans at the beginning to assume the role of legal auditor (*commissaire aux comptes*) in French firms, nor were French professionals involved in contractual, non-compulsory audits for Anglo-American clients [interview 2]. This resulted in a clear market segmentation up to the 1970s; the international firms were involved in contractual audits or consulting services for subsidiaries of international companies [interview 3], whereas only French firms dealt with statutory auditing, which the Anglo-Americans viewed as “complicated, dangerous and difficult to understand” as it had a fundamentally legal consonance [interview 3].

In 1971, 5,171 *commissaires* were registered by the CNCC. Ninety-one percent of these worked as sole practitioners, and 87% spent less than half of their time on statutory audits [Bennecib, 2002]. Positions were not equally distributed; only 4.5% of auditors held at least 50 positions as statutory auditors. Eighty-four firms acted as statutory auditor for 80% of all listed companies. The vast majority of French professionals were sole practitioners who ran their offices in a very “traditional” way – no engagement letters, no analysis of internal control procedures, no confirmations, no physical inventories, etc.<sup>4</sup> One of their major weaknesses was their dispersion. This situation was further complicated by the heterogeneity of the French profession. Not only was it divided between the OECCA and the

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<sup>4</sup>Quite early on, the accounting profession attempted to educate its members in the field of auditing. As early as 1965, the 20th OECCA congress resulted in the publication of a textbook, *Auditing: Theory and Practice of the Control of Financial Statements*, highlighting the state of the art in auditing financial statements [OECCA, 1965]. This textbook was distributed among its members in an attempt to improve practice. Contemporary audit methods seem to have been known in France in the 1960s and 1970s, even though they were not used by the vast majority of French practitioners. In fact, even in 1970, the OECCA summed up a number of techniques that were not often used in French auditing – evaluation of internal controls, establishment of an audit program and extensive working papers, statistical sampling methods, and direct confirmations of account balances [OECCA, 1971, p. 3]. The professional body also tried to have an impact on education. In this area, there were initiatives by the profession and higher education institutions, especially in the area of audit education. Up to 1970, accounting was barely taught at universities, but before that year, it was already part of the programs offered in vocational schools and in a growing number of *Grandes Ecoles* business schools [Casta and Mikol, 1999].

CNCC, but also within the major bodies, there were tensions between *comptables agréés* and *experts-comptables* [Mikol, 2004, p. 9]. International audit firms, on the other hand, had aggressive growth strategies. They were constantly looking for alliances and strategies that could give them a competitive advantage [Stevens, 1991].

In the 1970s, all of the “Big Eight” international accounting firms were present in France [Bennecib, 2002]. Their French offices were legal entities according to French law, registered with the OECCA. At that time, their majority shareholders were either French citizens registered as *experts-comptables* or *commissaires aux comptes*, or foreign nationals having resident status in France with the same professional qualification [Colasse and Pavé, 2005]. The arrangements within the international networks of firms were diverse. Generally, they were partnerships. In some, there was a centralized structure with branches in different countries. In others, there was a more federal structure where the local firms had exclusive rights to use the brand name and where contractual arrangements between the international and the national levels included an obligation to train staff according to a defined methodology and to collaborate with other network firms, as well as potentially receiving sanctions if a local firm abandoned the network.

The Aubin report [1982, §64], a major governmental report on the status of the profession, summarized the situation at the end of the 1970s as follows: “The atomization of practices that damages the coherency and quality of their services; the increasing power of the Anglo-American practices, supported by a clear strategy of market entry and massive resources.” In such circumstances, conflicts between the different sectors of the profession became unavoidable.

## FRANCE AND INTERNATIONALIZATION

Internationalization strategies of companies are strongly influenced by institutional factors. Decisions on entry modes are influenced by attempts to gain legitimacy from internal and external claimants. Yiu and Makino [2002, p. 667] argue that “choices of foreign entry mode are significantly influenced by isomorphic pressures embedded in foreign national environments.” Multinational firms face pressure to conform to the standards and values of the host country and to the practices within the multinational enterprise. Their behavior is influenced by regulative, normative, and cognitive aspects of the institu-

tional environment. Institutional distance refers to the extent of dissimilarity between host and home institutions [Xu and Shenkar, 2002]. A large institutional distance hinders the transfer of organizational practice from the parent to the foreign subsidiary. This is relevant for this paper as the culture of the international audit firms was mainly U.S.-based, which might have made entry into France more difficult.

The attitude of France with respect to U.S. business innovations has been analyzed comprehensively by Djelic [1998]. This section summarizes some of the key developments that she identified. Before World War II, France was a country of small companies; large firms were concentrated in only a few industries, such as mining or iron and steel. French firms were typically individual or family-owned. Private limited companies and partnerships were far more popular than public companies. In France, little trace could be found of the managerial revolution that changed much of the U.S. industrial structure at the same time. In fact, developments in the U.S. were generally met with fear and dismay and were considered incompatible with the French economic and social order. World War II changed this pattern significantly. France emerged from the war as a weak and divided nation. Large parts of the population questioned existing traditions and institutions. A dynamic economic system came to be seen as a basis for geopolitical power. The examples of the U.S. and the U.S.S.R. became attractive for their emergence as great powers that relied on innovative and growing economies. Following the war, cross-national networks were created linking small groups of powerful French technocrats and progressive Americans, generally associated with the Marshall plan. Examples include Jean Monnet, Pierre Mendès-France, and the newly founded *Ecole Nationale d'Administration*. They started a modernization process of French industry to increase productivity, often with the American economy and U.S. managerial knowledge and methods as references.

This context made the introduction and growth of the Anglo-American auditing firms in France easier. Our respondents indicated that the Anglo-American firms enjoyed a young, modern, dynamic, and competent image. This positive image was felt to affect the company managers who hired these firms as auditors. They had a good reputation due to their methodological advantage [interview 2]. They were seen as “modern and chic” [interview 3]. This view was confirmed in the professional journals: “We also observe a growing fad for Anglo-American techniques”

[*L'Expert-Comptable de Demain*, May 1982, p. 18].

The international firms had a stronger financial position than French professionals because they were really firms rather than loose groupings of professionals [interview 2]. Due to their stronger financial position, they were able to take over attractive clients from retiring French professionals [interview 6]. It seems that they also could charge higher fees (the ratio was from 1 to 100 compared to a French firm, according to interview 2, based on a certain kind of “snobbism at a time of prosperity” [interview 3]. Contrary to this, one of our respondents indicated that the Anglo-Americans “low balled on audit fees to get an introduction to a client, and then made money out of consulting” [interview 5]. However, this is difficult to confirm because audit and non-audit fees were not disclosed in France until recently. Anyway, higher fees would be consistent with the observation in the literature that “multinational firms should have superior assets and skills that can earn economic rents that are high enough to counter the higher cost of servicing these markets” [Agarwal and Ramaswami, 1992, p. 4].

International firms were well-organized, focusing on audit methodology and efficient use of staff. Previous research demonstrates that most traditional French *commissaires* approached the verification of financial statements from a narrow, legalistic perspective [Ramirez, 2001]. The international firms, on the other hand, adopted a more modern and comprehensive approach. It was well known that there was a large gap between French audit practices and those in the Anglo-American and Germanic countries [Law Proposal 1003, June 20, 1964, p. 696]. The professional competency of the Anglo-American firms was undeniable [interviews 5, 6, and 9], and they used tools that the French auditors did not have [interview 6]. The only exception seems to be the *Fiduciaire de France* which remained an innovative firm until the 1980s [interview 8]. The international firms were perceived to be more serious [interview 2] and provided their clients with the presence of numerous assistants, making their work visible and valuable. Their files were full of working papers, which was not always the case for French firms [interview 6]. From a methodological point of view, they had an edge over most French professionals [interviews 2 and 3] and guaranteed the quality of a homogeneous service [interview 3]. The Anglo-American firms demonstrated their methodology also to a broader audience.

The increasing internationalization of French companies from the 1980s onwards further strengthened the position of

the Anglo-American audit firms.<sup>5</sup> French audit firms apparently could not offer overseas services to the same extent, and their names were not recognized abroad [Casta and Mikol, 1999, p. 114]. Although some French firms tried to establish networks of correspondents (e.g., Salustro and DFK in 1966), the Anglo-American networks proved much stronger because they were more integrated and had existed for a longer time [interview 2]. French firms definitely suffered from a competitive disadvantage because the major positions, e.g., in the U.S. market, were already taken by home-based firms there [interview 3]. Using the signature of international audit firms allowed French companies to gain recognition abroad [interviews 6 and 7].

The international firms also offered a broader range of services. In France, the market for non-audit services was completely open. During the 1970s and 1980s, the local audit firms had “nothing else to sell but accounting or taxation consultancy,” with the exception of *Fiduciaire de France*, which also offered legal expertise. International firms systematically sold a broad range of services [interview 6], including computer services (a key area for Arthur Andersen according to interview 3), tax consulting, recruitment consultancy, corporate finance, and environmental consulting. Their competence was overwhelming in the field of “real consulting, that is, one that leads to setting procedures and information systems,” and which allows the sale of thousands of hours of services [interview 5]. Often they got a foothold in companies by offering tax services, especially those related to international tax issues, and then extended their involvement [interview 7]. The timing of their large-scale introduction to the French market coincided with the prevalence of huge opportunities in this area. They also provided specialist services, such as consolidation. French professionals were unfamiliar with group accounts. The term “consolidation” does not appear in the 1957 Chart of Accounts (*Plan Comptable*), neither does it appear in accounting teaching curricula nor in the July 24, 1966 law on commercial firms [Casta and Mikol, 1999]. Although the first consolidated statements predate 1968, the practice was not widespread, and reports were prepared without legal or professional rules [OECCA, 1971, pp. 133-159]. The Anglo-American firms immediately dominated this part of the market; large groups, such as Saint Gobain, depended strongly on international audit firms, in part because their consolidated statements

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<sup>5</sup>Of the capital of French companies listed on the Paris Stock Exchange, 37.5% was owned by foreign investors as of 2000 [*Le Monde*, 2001, p. 22].

generally adopted American accounting standards. Consolidated financial statement regulations were eventually introduced into the French law in 1985 [Touron, 2003].

## INSTITUTIONALIZING THE INTERNATIONAL AUDIT FIRMS

*The Reaction of the French Public Authorities:* In 1982, Minister of Finance Jacques Delors commissioned Finance Inspector Christian Aubin [1982] to conduct an investigation into the accounting profession. According to one of our interviewees who personally participated in its elaboration, this study was mandated by the profession itself [interview 3]. It suggested the easing of regulation on the provision of non-audit services and the creation of a new body of larger audit firms that would be internationally recognized. The position of the French government was also expressed during the parliamentary debate: “The objective of the government ... is to facilitate the development of French firms that have a professional level and a size that allows them to offer quality services which are comparable to those of their international competitors” [Senate Debates, November 20, 1982, *Journal Officiel*, p. 5,624].

The Aubin report was followed by an initiative by the minister of finance, approved by the minister of justice, who asked Inspector General of Finance Philippe Huet to propose measures to strengthen the audit profession in France and to help it in its international development. However, Mr. Huet concluded in 1984, that it was only through joining worldwide audit firms that French auditors would have their professional quality recognized internationally. Starting with such associations, French firms could become famous and then continue on their own [*Aujourd'hui et Demain*, No. 28, June 20, 1984].

All these reports suggest that the position of the French State was to conclude that mergers within the accounting profession were unavoidable. Smaller firms apparently saw this as an attempt to stimulate the creation of large audit firms, to the detriment of small firms and sole practitioners, and blamed the state for helping the Anglo-American firms. One of our respondents averred that the state has “done nothing to help the French profession” and even “has an absolute responsibility” for weakening the position of French professionals [interview 3]. The same message was communicated in the editorial of *L'Expert-Comptable de Demain* [July 1983, p. 3]: “Mr Aubin concluded that, faced with competition and in order to be able to invest in research, our profession is bound to merge ... M. Aubin



seems to think that great size is the necessary and sufficient condition for making a professional firm credible. This is not our opinion.” This mistrust of the role of the state was already present among practitioners in the 1970s. As an example, Jacques Secher said at the general meeting of the IFEC on November 4, 1972: ‘The main enemy are the Public Authorities and a number of technocrats who want to abolish the professions, the medical doctors, the barristers’ [cited in *IFEC Informations Mensuelles*, November 1972, p. 31]. To some extent, this type of reaction reflected a development that goes beyond the world of accounting. It represents a transformation from a profession focusing on its institutional role to one in which business interests became much more significant. During this period, French notaries, architects, and doctors, confronted with similar changes, questioned their professional organizations.

*The Role of the Commission des Opérations de Bourse: The Commission des Opérations de Bourse (COB)*<sup>6</sup> was created in 1967 to supervise the French capital market. It could have had a significant impact on the introduction of these international audit firms since it ratified the appointment and renewal of statutory auditors in listed companies. Although the COB did not have any decision-making power, companies often asked its opinion when audit mandates had to be renewed. Evidence with respect to the role of the COB is contradictory. Generally, it increased the demand for competent and independent auditors [interview 1]. Some of our respondents suggested that the COB had a list of auditors that it recommended to companies desiring a listing [interviews 2 and 4]. This view was rejected by the former head of accounting policy at the COB [interview 7]. For some, the COB apparently preferred the French audit firms because its contacts with such firms were easier and because it had more impact on them [interview 2]. However, other respondents stated the opposite, suggesting that the COB preferred the Anglo-American firms because they were more fashionable, more competent, and/or more dynamic [interviews 3, 5, and 6]. Other respondents said that the COB was not very concerned [interview 9] or that its position varied depending on the preferences of its president [interview 4]. On balance, the COB on this issue appears to have favored larger audit firms. It confirmed that the certification of financial statements should be based on an audit

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<sup>6</sup> The COB is currently known as the *Autorité des Marchés Financiers* (Financial Markets Authority).



(*une révision comptable*) by *commissaires* with a team of assistants, carried out during the accounting period, and supported by a permanent file, including an analysis of the internal control system [Meary and Salustro, 1971, pp. 176-177]. This position went contrary to the approach of the traditional French *commissaire*, who often worked individually [Ramirez, 2003]. There is no factual evidence of a clear position taken by the COB. During our interview, the former COB executive showed that French audit firms audited 45% of the medium-sized firms listed on the Second Market, created in 1987, and all of the companies listed on the New Market, created for high-tech firms in 1997. In conclusion, it is unclear which firms were favored by the COB, and whether there was any systematic pattern in its preferences. Its role should not be overestimated, in any case, because the French stock market was only of secondary importance and many large French companies were state-owned.

In the 1980s, the big Anglo-American firms came to dominate the whole of the French audit market, as shown in Table 1. Among 591 audit firms employing more than 20 persons in France in 1983, only ten had more than 200 employees, representing one-third of the profession in terms of personnel. Just nine of them audited 48.3% of French listed companies. A decade later, audit firms with more than 50 staff employed only 1.3% of French auditors and accountants, but earned more than 29% of the total revenue of the profession in 1997 [Béthoux, 2001]. A number of local firms continued to audit listed companies, although the vast majority of companies on the stock exchange were audited by international firms.

TABLE 1

## French Audit Market in 1983

Panel A: Turnover of French Audit Firms in 1983,  
French Francs, (000s omitted)

Rank	Audit Firm	International Network	KF
1	Helios Streco Durando	Arthur Young	186,000
2	Guy barbier et associés	Arthur Andersen	115,000
3	De Bois Dieterlé et associés	Touch Ross	95,700
4	Gufflet et Cie	Coopers et Lybrand	90,000
5	Blanchard Chauveau et associés	Price Waterhouse	85,000
6	Audit continental	Peat Marwick Mitchell	73,000
7	Befec	B.D.O.	72,000
8	Frinault Fiduciaire	K.M.G.	69,800
9	SEEC Reydel Blanchot	Dunwoody Robson	58,000
10	Cabinet Mazars	N/A	52,000

### Panel B: Audit Firms with the Highest Number of Listed Clients

Rank	Audit Firm	International Network	Number of Listed Clients
1	Befec	B.D.O.	155
2	Frinault Fiduciaire	K.M.G.	121
3	De Bois Dieterlé et associés	Touch Ross	108
4	Helios Streco Durando	Arthur Young	100
5	SEEC Reydel Blanchot	Dunwoody Robson	58
6	Calan Ramolino	DHR International	53
7	Castel Jacquet	N/A	50
8	Fiduciaire de France	KMG	51
9	Pavie et associés	N/A	51
10	Cauvin Angleys St Pierre	Howard et Howard	39

Source: ATH, 1985

### OPPOSITION AGAINST THE INTERNATIONAL FIRMS

*The Cultural Reaction:* Following World War II, not everyone in France was convinced of the need to modernize the French economy. Part of the French business community has always continued to defend its traditional positions against the modernizers [Djelic, 1998, p. 237]. French business associations were divided with many of its members suspicious of the modernization project. Especially in smaller companies, there remained strong support for traditional family capitalism in the 1950s. This conservatism limited the potential growth of the Anglo-American audit firms in France. In general, multinational corporations are hindered in their expansion if there are significant legal or cultural differences between home and the target country [Xu and Shenkar, 2002]. The differences between France and the Anglo-American countries, home to the large accounting firms, were quite significant [Nobes and Parker, 2000].

A legalistic tradition is a major component of French society, leading to a "highly regulated position of statutory auditors" [Piot, 2001, p. 463]. Specific French attributes, such as the strict regulation of independence and requirements in corporate law to issue specific reports to third parties, may have produced a significant barrier to the entry of Anglo-American firms into the auditing market. Another significant issue is the role of French culture and its impact on the business community. Antinomies between French and the Anglo-American cultural models made the Anglo-American model ill-adapted to French behaviors [d'Iribarne, 1985]. Traditional preferences for "French products"

also helped the French accounting firms, especially in small companies (*culture franchouillarde* or “Frenchy culture”), as one of our respondents put it [interview 2]. Those who resisted the introduction of Anglo-American firms strengthened this protectionist cultural attitude. Those cultural and regulatory barriers appear to have been quite strong. As indicated before, the Anglo-American firms originally established themselves with non-French partners, illustrating the American preference for majority ownership in foreign subsidiaries [Erramilli, 1995, p. 228]. It is probably also linked with their limited target market (subsidiaries of foreign companies) and with the relatively small number of French professionals who could meet their standards in these early years. To overcome the limitations that this policy placed upon their growth potential, their strategy adapted to French culture and regulation and the international firms became rapidly “francized.” They began to hire French professionals and promote them to the partner level; “they adapted marvelously to the French environment by hiring French professionals very rapidly” [interview 5]. More generally speaking, it suggests that these firms gradually adopted a strategy of licensing or franchising once a sufficient number of knowledgeable professionals was present in the French market [Boddeyn et al., 1986].

*The Reaction of French Professional Bodies:* As with other industry associations, the professional accounting bodies defended the interests of French professionals. The accounting activities of foreigners were strictly regulated. Based on a September 1945 regulation, foreign professionals could be allowed to provide accounting services in France. However, their number remained quite limited.<sup>7</sup> Our interviews suggest that official representatives of the profession often were against the development of the large Anglo-American firms in the early 1970s [interview 2].

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<sup>7</sup> Some examples show these low numbers. Fifty-eight Swiss professionals and ten professionals labeled as “refugees” joined the profession in 1959. The “refugees” probably came from former French colonies; they definitely were not Anglo-American [Actes du CSOEC, February 10, 1960]. In 1960, 60 Swiss and 11 “refugees” [Actes du CSOEC, February 6, 1961] and in 1961, 60 Swiss, 17 “refugees,” and 4 professionals from Morocco were accepted as members [Actes du CSOEC, February 14, 1962]. In 1971, some U.K. professionals were accepted by the OECCA, but the following year, another candidate was rejected. The report on the meeting of the OECCA board that discussed the rejected candidate’s application mentions intense discussions on the subject of “tolerated professionals,” presumably referring to the Anglo-American accounting firms.

This opposition was not only a nationalist reaction, it was also a reflection of what perhaps could be labeled as a more traditional view of the accounting profession. Jean Sigaut, president of the CNCC between 1975 and 1979, for example, considered both the Anglo-American firms and large French firms, such as the *Fiduciaire de France* and *La Villeguérin* (a multiservice firm), to be breaking professional rules with respect to combining statutory audits and advisory services.

A number of measures were taken that made it more difficult for the Anglo-American firms to grow. Auditors could only practice as *commissaire* under a French name. This was a serious handicap for the international firms since the use of their international trademarks would have given them a significant ownership advantage over lesser-known competitors [Boddewyn et al., 1986, p. 50]. Some of them, such as Arthur Andersen, tried to register under French names. Others were registered as “foreigners” and prevented from conducting statutory audits [interview 3]. A second measure that acted in fact as a barrier to Anglo-American firms was a ban on publicity. In 1984, advertising was allowed for audit firms in the U.K. [*La Profession Comptable*, November 1984], leading to a multitude of advertisements in such newspapers as *The Financial Times*. It was followed by debates in France because the liberal U.K. policy created distortions in the market as the continental branches of the international audit firms obviously profited from those campaigns.<sup>8</sup> Third, the regulation on accepting trainees stated that one could spend only one year of the three years of traineeship in a foreign firm to become qualified for membership in professional organizations [Aubin, 1982, §111]. One of the consequences of this limitation was that a number of professionals from the Anglo-American firms moved to large French firms. One of our respondents cited the case of approximately ten promising, young auditors who left Peat Marwick, were hired by Mazars for their training period, and remained there afterwards [interview 1].

The limitations on combining different types of services were supposed to prove more cumbersome to the Anglo-American firms. As a consequence of disciplinary actions, these firms created separate entities for each of their activities. Peat Marwick, for example, created *PMM France* (consultancy), *Audit Continental* (accounting), *Agence Juridique et Fiscale* (law), and *SCP Claude Briollay* (auditing) [Aubin, 1982, §113.] However, the

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<sup>8</sup> Advertising for audit firms was only allowed in France in 2005.

French State, had it really wanted to, could have done more to limit the expansion of the international audit firms. It did not prosecute the international firms for violating conflict-of-interest regulations, probably because the CNCC never initiated legal actions on these issues. Jean Sigaut, president of the CNCC, declared at the general meeting of the *Compagnie Régionale des Commissaires aux Comptes de Paris* on July 10, 1979, that the CNCC did not want to take action because that would have publicized the problems of the profession and would have damaged the whole of the profession. Another reason was probably that the Anglo-American firms were not alone in offering multiple services. Large French firms such as *Fiduciaire de France* and *La Villeguérin* did the same [*IFEC Archive*, IFEC General Meeting, October 23, 1971], and many sole practitioners also offered different types of consulting to their auditing clients [*CNCC Archive*, CNCC National Council, July 10, 1972; *CNCC Archive*, General Meeting of the *Compagnie Régionale des Commissaires aux Comptes de Paris*, July 10, 1979]. If the profession had gone against the international firms, it would have to take action also against local practitioners.

It seems that the professional bodies were stuck between their traditional defense of the French profession and the need for stronger auditing firms. René Ricol, at that time president of the CNCC, confirmed in 1987 that the first objective of the CNCC was to support the development of French audit firms capable of providing services to French clients abroad [*La Profession Comptable*, No. 54, June 1987]. The second objective was to provide a French identity to international firms with French branches that would be as independent as possible from international networks. Ricol [as cited in *La Profession Comptable*, No. 54, June 1987] analyzed the situation as follows:

... I am referring to the clear evolution of some major international networks towards a federative structure, in which strong national firms regain their independence. I continue to hope to see one or two French audit firms capable of creating a smaller, less ambitious network that would be entirely at the service of France. ... The real debate nowadays is for the medium and small-sized firms who have to devise their strategy. This choice is either a local client base, the voluntary decision to join a federation, or a restructuring of audit firms.

*The Reaction of French Professional Associations:* Professional associations also reacted to the developments but were divided

on the issue. Some, such as the *Experts-Comptables de France* (ECF), defended the small firms; others, such as the IFEC, favored international firms [interview 4]. An interesting initiative was the creation of the AFDA, the *Association Française pour le Développement de l'Audit* (French Association for the Development of Auditing). According to *Le Nouvel Economiste* of February 15, 1982, the AFDA was a lobbying instrument, set up by the public authorities after the election of François Mitterand as president of France in May 1981 and the OECCA, in order to support the large French accounting firms in their negotiations with the French administration and those responsible for the management of the public sector. The AFDA was supposedly introduced to stimulate the election of large French firms as *commissaire aux comptes* to the detriment of the large Anglo-American firms and the smaller French auditors [*L'Expert-Comptable de Demain*, May 3, 1982]. The creation of the AFDA led to diverging reactions from the profession. It was immediately criticized by a significant number of sole practitioners who considered the AFDA to be an initiative to conquer their traditional market: "I have written that the AFDA is a scandal and I have said it openly: the AFDA is a group of people who reserve the business for each other" [*Franc Parler*, No. 33, 4th quarter, 1984, quoting J. Sigaut]. Others said that it "became a closed group with a corporatist attitude whereas it should be an instrument to promote quality" [*Franc Parler*, No. 18, 2nd quarter, 1982, quoting J. Caudron], and that it was created to "reserve part of the accounting market for a limited number of audit firms" [*L'Expert-Comptable de Demain*, June 6-7, 1982, quoting Maranchon]. However, the AFDA also had its supporters within the profession because it could help maintain the presence of French firms as auditors for large clients [*L'Expert-Comptable de Demain*, June 6-7, 1982; *Aujourd'hui et Demain*, No. 7, June 15, 1982]. Guy Cosson summarized the strategic role of the AFDA as follows: "The AFDA is not only a battle machine between the large French firms against the large Anglo-American firms, for the large auditing assignments; it will also (I do not dare to say mainly) be a tool to speed up the concentration of engagements for the large firms" [*L'Expert-Comptable de Demain*, October 1982]. In conclusion, the AFDA was created with the support of a few large firms to put into place a structure capable of fighting the Anglo-American firms by co-opting their very own methods, such as high-quality services, a large and competent staff, and systematic quality control. Its creation in fact confirmed that the Anglo-American accounting firms were considered to have



superior assets and skills that allowed them to compete successfully with local competitors [Agarwal and Ramaswami, 1992]. Their superiority apparently was considered such that mimicking them seemed to have become the only viable alternative for part of the French profession and the state.

*The Importance of French Legal Joint-Audit: The co-commissariat* was another support for the traditional profession. To strengthen the protection of public savings, the August 8, 1935 decree had forced listed companies to select at least one of their *commissaires* from a list maintained by the Courts of Appeal. These auditors were selected on the basis of an examination of their technical competency. Thirty years later, the law of July 24, 1966 maintained the obligation to have two *commissaires* in listed companies and in private limited-liability companies possessing a capital of more than five million francs. However, all *commissaires* had to meet the same minimum quality standards from 1966, and the introduction of the Eighth European Directive in 1984 further harmonized the level of professional competency. This means that the original obligation to have two auditors, one of them having a guaranteed professional competency, became meaningless. The existing regulation was criticized by the COB, the financial market regulating body: "The unity of the audit methodology and of professional responsibility ... seems incompatible with collegiality" [*National Assembly*, Report 1526, May 26, 1983, quoting Jacques Roger-Machart]. Industry, represented by its Paris lobbying body, the *Chambre de Commerce et d'Industrie de Paris*, also criticized the regulation: "...the only consequence of the obligation for certain companies to employ two *commissaires* is that they have to pay additional fees" [*CNCC Archive*, CCIP press release, April 2, 1971]. The CNCC continued to support the *co-commissariat*: "...facing directors who – in this type of companies – are often eminent personalities, the presence of two *commissaires* who support each other increases significantly the importance given to their opinions and their capacity to resist pressure from the directors" [*CNCC Archive*, Jean Sigaut, in a letter to the director of the exchequer, March 10, 1976]. Other advantages, according to CNCC officials, were that young professionals could audit large companies with the help of experienced *commissaires* and that the system generated additional fees [*CNCC Archive*, letter from Roger Caumeil, president of CNCC, to Representative Roger-Machart, June 30, 1983]. Caumeil believed that the suppression of the *co-commissariat* would lead to the replacement of French auditors by Anglo-



American firms [CNCC Archive, letter from Roger Caumeil to Robert Badinter, minister of justice, January 17, 1984]:

Now that we introduced the obligation to have the consolidated financial statements audited, suppressing the *co-commissariat* would lead the large companies (that have international financial operations and consequently need the signature of an international audit firm), to keeping only the French branch of international firms as their auditor. Consequently, many French *commissaires* would be eliminated and the largest companies would be audited by international firms. The *co-commissariat* allowed the French auditors to maintain their position up to now and even to increase their market share in auditing.

Eventually, the discussions during the first half of the 1980s maintained the *co-commissariat*, even though the law of March 1, 1984 focused its application on companies that published consolidated financial statements. In conclusion, the *co-commissariat* was seen as a way to oppose the dominance of the Anglo-American firms and to defend the interests of the auditors in large companies. Eventually, also, the *co-commissariat* would not be able to prevent the growing impact of the international audit firms, which extended their impact on listed and other large companies through mergers in the early 1990s.

### GROWTH STRATEGIES OF THE INTERNATIONAL AUDIT FIRMS

The Anglo-American firms in France followed different growth strategies. The majority experienced internal growth coupled with the takeover of local firms, a more efficient and less costly strategy than creating new offices [interview 9]. Mergers with local French firms were seen as a way of overcoming French resistance against an Anglo-American takeover [Gonthier-Besacier and Moizer, 2001].

One example is Arthur Andersen. It began its activities in France by following clients with activities in Europe. In December 1970, the firm abandoned its international name to become *Guy Barbier*, adhering to a regulation of the OECCA that required the use of a French name. In its early years, the firm did not take over French accounting firms, adopting an internal growth strategy. "Local fees," or local clients, progressively became just as important as "referred fees," local subsidiaries of foreign firms that had to have the same auditor as the parent

company abroad. Around 1980, the firm expanded its client base to smaller companies and eventually acquired *GPA (Peyronnet Gauthier)* while maintaining this company strictly separate from its other activities. The objective of this acquisition was primarily to obtain a number of large French clients, but a group of middle-sized clients also came on board [the Andersen story as told by interviewee 7]. *Guy Barbier* also acquired *Frinault* in 1987, after the former partners of that firm decided to leave KMG (now KPMG). Other firms adopting similar strategies were Price Waterhouse (merging with *BEFEC* in 1989) and Deloitte (merging with *Calan Ramolino* in 1997).

With respect to their establishment outside Paris, different strategies could be observed. Some firms, such as Arthur Andersen, remained focused on Paris for a long time as the presence of *Guy Barbier* outside of Paris remained limited to Lyon. Most other firms developed from a single Paris office only to an expanded presence throughout the country. Expansion was carried out through associations with local firms as this approach was seen as a more effective, less expensive growth strategy than the creation of new offices.

A totally different strategy is exemplified by KPMG, growing from a local firm into an international one. The origin of KPMG France is *Fiduciaire de France*, created in Grenoble in 1922. Originally, it was a legal and tax-services firm that extended its activities to accounting only later, mainly due to the development of fiscal regulations. In 1945, the *Fiduciaire de France* had established its activities all over France and split into two different entities, the *Société d'Expertise et de Commissariat aux Comptes Fiduciaire de France* and the *Fiduciaire Juridique et Fiscale de France*. In 1970, it started to look for foreign partners as a consequence of the fact that its clients internationalized. The firm then had auditing standards, a research department and a methodology department, its own professional training organization, and a modern technology orientation. At that time, most of its auditing activities were contractual, not leading to an externally published opinion on financial statements. In 1979, it joined KMG, a federation of the American firm Main, at that time the ninth largest U.S. accounting firm, and the largest national accounting firms in The Netherlands, Germany, the U.K., and France. It was located in Amsterdam. In 1980, it took over *Frinault Fiduciaire*, a firm that had prestigious French clients. The KMG methodology was subsequently transferred to *Frinault Fiduciaire*. KMG remained a federation, meaning that there was a common brand, development strategy, and quality control sys-

tem, but also that local identity was respected and profits were not shared on an international level. KPMG was created in 1986, merging KMG and Peat Marwick Mitchell (PMM), known in France as *Audit Continental* with a staff of about 200 employees. The merged firm adopted the federative model of KMG rather than the centralized PMM model. This resulted in individual economic entities on a national level with a common name and methodology. The brand *KPMG Audit* was created, employing approximately 450 professionals in Paris. In 1988, *KPMG Fiduciaire de France* became *KPMG S.A.* without participating in the capital of the international network but contributing to an international budget. In conclusion, the development of *Fiduciaire de France* is the outcome of a quite specific strategy. It succeeded in developing from a local firm into an international one, even being part of one of the largest networks in the world. In March 2005, one of the last remaining French firms, Salustro Reydel, decided to join the KPMG network.

The Anglo-American audit firms developed a recruitment strategy that was significantly different from the recruitment policy of traditional French firms. It turned out to be a major innovation that supported the growth of the international firms. French firms mainly recruited staff holding degrees from vocational institutions. From the end of the 1960s onwards, the international firms started hiring high-quality staff generally holding degrees from the *Grandes Ecoles* management schools. This has to be seen in the wider context following World War II referred to above. The creation of business education along U.S. models was considered essential to structurally embed the U.S. business model. American institutions and organizations encouraged the development of training programs around management-related issues. Schools like HEC and ESSEC in Paris played an important role in the diffusion of new management approaches [Djelic, 1998, p. 211]. Graduates of these schools were strongly attracted to international accounting firms. The teaching staff of the *Grandes Ecoles* strongly supported MBA and CPA qualifications, which were found in large numbers in the large Anglo-American audit firms. Ambitious graduates were attracted by the high salaries that these firms were willing to offer new recruits. These salaries were systematically higher than those paid by French firms and were complemented with permanent, systematic training and an exposure to business experience that was well beyond mere bookkeeping. This recruitment policy resulted in an inflow of staff capable of obtaining quickly both the French *expert-comptable* qualification and an expertise in English. The

auditors of Price Waterhouse, who prepared consolidated financial statements for Saint Gobain for the first time in 1976, had to study Anglo-American textbooks because consolidation techniques were not part of the accounting curriculum and very few books on the subject existed in French. Another consequence was that staff members who left the profession quickly became senior executives in industry and frequently called on their former employer for its services. "All those who have left us, have fed the practice," according to a former Andersen partner. Finally, and even more fundamentally, this recruitment policy also resulted in a rapid "Frenchization" of the big firms. From the end of the 1970s onwards, the partners of the Anglo-American audit firms in France were mainly French citizens born between 1945 and 1950. Almost all the employees of these firms were French, with degrees from the French higher education system, and for the older ones, an *expertise comptable* degree. Originally, professional bodies, the state, or French society isolated the international firms because of their culture, their nationality, and/or their foreign origins. The growing dominance of French professionals in these firms made it impossible for these market players to continue to marginalize the international firms and made it possible for the international accounting firms to wage a wide-scale commercial battle in the 1980s under very favorable circumstances.

## CONCLUSION

The introduction of the large Anglo-American audit firms into the French audit market was a complex process. Today, these international firms dominate the market, and only a few large French firms, such as Mazars, still maintain strong positions. The strategies of the international firms followed a pattern that can be framed within the literature on the internationalization of service industries. Using the entry-mode classification of Anderson and Gatignon [1986], their original entry strategy was a "high-control" strategy, focusing on using expatriate staff involved in auditing subsidiaries of foreign clients of the Anglo-American firms. A specific audit report for the French market was irrelevant in this context. However, this policy significantly limited the growth potential of the Anglo-American audit firms in France. To become larger, they had to expand their activities to French clients as well. In most cases, they chose an external-growth strategy by taking over French audit firms or entering into alliances with local partners. This reduced direct control

over their activities in France, but it was compensated by licensing the use of brand names, common approaches, etc.

Hiring French professionals had two advantages that turned out to be essential to the success of the Anglo-American firms. First, from an institutional perspective, their “Frenchization” can be seen as conforming to the roles and norms of French society, making them more acceptable to the French establishment and making it much more difficult for traditional French accounting bodies to protect the market for audit services. Yiu and Makino [2002] argue that foreign entrants face significant pressure to conform to local standards in this way, in line with Kipping [1999], who underlined the importance of establishing successful external and internal local networks to expand U.S. consulting companies in Western Europe. We go further and state that the “Frenchization” of the international firms was a key success factor for them. Second, the educational background of these French professionals made it possible for the Anglo-American firms to profile their services as being of significantly higher quality than the local standard. Consequently, they became similar to the French service providers, but they could also maintain an image of higher-quality service providers. Agarwal and Ramaswami [1992] considered superiority of assets and skills as a precondition to compete successfully with local service providers. Indeed, the superiority of their assets, their larger size, and their differentiated products both within and around the audit industry made it difficult for the local firms to compete and explains why they became dominant despite their wide institutional distance.

The international audit firms strongly influenced the way audits are carried out in France. Their methodology was transferred to French audit firms by auditors trained in the large international firms but continuing their careers in local firms. This strengthened large local firms, which could start competing with the international firms to gain large clients. These local firms were helped by the French system of *co-commissariat* joint audit [Piot, 2001]. However, it is doubtful whether these large French firms will continue to play an important role for much longer. The recent integration of Salustro-Reydel, one of the two largest French audit firms, into KPMG illustrates this trend. Increased competition in the market of larger clients also led to recent attempts to increase the market share of the international audit firms in the market of small and medium-sized clients, eventually affecting the whole audit market structure. The traditional audit markets became saturated as both international

and local firms expanded into new types of assurance services and into new markets. This development was interrupted in the post-Enron era when the corporate scandals that shocked the financial markets at the start of the 21st century shifted the focus back to conflicts of interest and auditor independence. On the European level, some basic rules of the game were rewritten in the new Eighth Directive, and France introduced a new supervisory structure and regulation of the financial markets. To a large extent, these changes are taking place now, but their effects will only be seen in the future. It will be interesting to observe how professional structures will reflect these changes and whether they will lead to the renewal of a debate that was essential in shaping the French profession a quarter century ago.

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**APPENDIX A****List of the Ten Interviewees**

Interviewee 1	former member of the <i>Conseil Supérieur de l'Ordre des Experts- Comptables</i> ; former president of the <i>Commission des Diligences Normales</i> of the OEC; created a small firm that became one of the largest independent French audit firms
Interviewee 2	former president of the <i>Conseil Supérieur de l'Ordre des Experts- Comptables</i> ; former partner in a small audit firm
Interviewee 3	former general secretary of the CNCC; moved from a large Anglo-American firm to create his own small firm
Interviewee 4	former general secretary of the CNCC
Interviewee 5	former president of the CNCC; former partner in a mid-sized French firm
Interviewee 6	former president of the CNCC; former partner in a small French firm
Interviewee 7	responsible for accounting resources at the COB (AMF)
Interviewee 8	partner of an Anglo-American audit firm
Interviewee 9	partner of an Anglo-American audit firm
Interviewee 10	university professor