

1975

What is Touche Ross International?

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Recommended Citation

Tempo, Vol. 21, no. 1 (1975), p. 04-08

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In response to the increase in multinational business organizations and the growth of international trading communities, the public accounting profession has re-examined its role in the world business community.

These developments are the subjects of the opening set of articles in this special international issue of TEMPO. The authors are Russell E. Palmer, managing director and chief executive officer of Touche Ross International and managing partner of Touche Ross in the United States; William R. S. Ritchie, chairman of the board of governors and managing partner of Touche Ross in the United Kingdom; and Ian H. Bell, vice-chairman of the board of governors and managing partner of Touche Ross in Canada.

To set the firm's perspective on these developments—and on the contents of this special issue—Russell Palmer discusses the thinking behind the new firm organization, Touche Ross International, its purpose and objectives. Next, William Ritchie analyzes the potential of the Common Market in light of Britain's recent membership. And finally, Ian Bell tracks the growth of multinational corporations and their increasing conflict with the political states in which they do business.

WHAT IS TOUCHE ROSS INTERNATIONAL?

An Interview with RUSSELL E. PALMER,
Managing Director, Touche Ross International

What is going on in the world today that prompted Touche Ross to create its new international organization?

Three factors. First, there is a tremendous growth in the volume of international business. Large and small companies everywhere are becoming more involved. Their need is to be able to work through their public accounting firm and be served wherever they operate.

Second, there is an equal increase in the complexities of conducting business in many countries. Accounting standards, government regulations, tax laws, and business practices are unique in each country. To deliver effective service, firms serving international interests require the experience, understanding, and expertise that can only come from professionals who are at home in each national environment.

Finally, nationalism grows stronger in every part of the world. Whenever possible, corporate managements turn first to professionals of their own country to direct the services they require worldwide. They prefer that these professionals be influential leaders in an international firm—not mere branch representatives of foreign-dominated organizations.

How is Touche Ross International a response to these developments?

The three factors appear to set up conflicting requirements. The first calls for coordinated central leadership and direction of client service from the perspective of the client being served; the second places emphasis on unique

national expertise rather than in a single home-country experience; and the last requires that professional firm leadership be genuinely multinational in composition and character. In combination, these requirements call for a unique new form of organization for the independent public accounting firm.

How does TRI meet these requirements?

It does so by bringing a new organizational concept to the service of clients worldwide. Over the last decade, we have joined long-established, strong national firms under a Memorandum of Understanding in creating the foundations of our international organization. These are the member firms of Touche Ross International. The central leadership necessary to direct our development and coordinate our resources is provided through the new Policy Agreement, which joins as one firm those members operating in the major commercial and capital export centers whose interest in international development is paramount. These firms, by the new Policy Agreement, are designated as operating entities.

The UK client with operations in Australia can effectively command the services of professionals in both London and Sydney working with only one firm. The work will be performed to meet the uniform professional standards he requires under the direction of a partner he knows. The US client with operations in Madrid, Nassau, and Beirut can consult with his professional advisor in New York and be guided in the intricacies of the tax laws where he operates by qualified and experienced professionals of those countries. In such cases, the work is not referred to an independent correspondent but to an operating entity of Touche Ross International that has a direct interest in that institution as well as in the services performed.

In further contrast, it is worth noting that such work is not sent to a branch operation which has been set up and is directed by the home-country firm. The experience and expertise provided come from professionals with deep roots in the community and full professional qualifications in the business practices of that country.

Finally, the leadership which directs Touche Ross International is drawn from all the operating entities, and our Policy Agreement prevents the domination of any one group. Two distinct advantages of this approach accrue to our clients. First, in being served by a truly multinational firm, they benefit from the broad perspective which governs the life of such a firm in matters of quality control,

technical development, and training and selection of personnel. Second, the professionals with whom they work can have a direct and influential role in the management of a worldwide organization. They can be assured that management and professional decisions are not made unilaterally by some far off headquarters operation. Touche Ross International is as much a Middle East firm to the Lebanese businessman as it is a US firm to the American businessman.

How does the central management team established under the new Policy Agreement operate?

All the Touche Ross firms operating under our Policy Agreement are governed by one board of governors. William R. S. Ritchie, managing partner of the UK firm, is chairman and Ian Bell, managing partner of the Canadian firm, is vice-chairman. As managing director and chief executive officer, I work through four key line executives:

- The director of operations, a UK partner, has primary responsibility for our combined international operations. He in turn directs the efforts of four senior regional partners who live and work in their respective regions. The operations of these regional partners are supported by a director of administration and a director of international management consulting. These leaders have been drawn from several of the operating entities.

- The director of development is responsible for extending world coverage as required to serve existing and potential clients and provides for effective communications among the member firms.

- The director of multinational corporate development coordinates the extension of services worldwide.

- The director of professional standards, working through central technical personnel and education staffs and regional technical centers, establishes and enforces the standards of professionalism worldwide.

Touche Ross has offices in most major countries of the free world. Does the Policy Agreement extend to all firms in Touche Ross International?

Major firms of Touche Ross International, which account for more than three-fourths of the total services of the group, are operating entities under the Policy Agreement. It is those firms which were first confronted with the need to build a stronger organizational basis to respond to the

changes going on in the world of international business. The other member firms of Touche Ross International continue to be joined together by a Memorandum of Understanding. That Memorandum of Understanding provides for the coordination of their international auditing, tax, and management consulting services for Touche Ross clients throughout the world, including the interchange of personnel, the pooling of information as to technical and administrative policies and procedures, and the adoption of uniform practices insofar as practicable. This level of coordination permits us all to serve our mutual clients and provides for our identity as an international firm in those countries.

These member firms benefit from many of the development efforts undertaken by those pooling their resources under the Policy Agreement, drawing access to our professional manuals, special training, service coverage, and technical center advisory services. The demands of their practice do not yet require as high a level of commitment to international service, although they, like all firms in the Touche Ross family, are fully staffed, experienced firms in their own national markets. Our Policy Agreement is designed to bring in these firms as operating entities as their individual needs warrant, and we anticipate that several, operating in other world commercial centers, will soon participate.

Do the objectives of Touche Ross International include the worldwide development of uniform standards of professional auditing and financial reporting?

Under the Policy Agreement, the new management organization is charged with the responsibility of developing and maintaining high standards of professional competence and performance in all activities of the operating entities comprising Touche Ross International and in all professional work performed by member firms for Touche Ross clients. This, of course, does not imply that there is only one way to perform an audit or to report the activities of a business enterprise in financial statements. The reporting requirements of the SEC do not correspond with the reporting requirements of companies operating in the European Economic Community. Consolidated statements are not a requirement in many countries, yet audit reports and financial services are still required of professional firms. Our objective is to perform the services required with independence, with objectivity, and with professional skills that distinguish our work.

There are uniform elements of professional quality and a standard of performance which must be met worldwide. A professional practice has four basic resources—people, clients, knowledge, and time. A truly high-quality professional practice must develop and maintain high standards for each of these four resources. Our new organization was developed to enhance our capabilities for accomplishing this objective of uniform quality.

In those four critical areas, what are the uniform standards and guidelines that distinguish a professional practice regardless of its national environment?

People are the most important resource of the firm. A firm that is without adequate people resources cannot maintain a consistently high level of quality performance. There is a worldwide shortage of accountants and it is predictable that the firm that does an outstanding job of attracting, selecting, developing, and training outstanding people will provide outstanding service to its clients. Our objective in Touche Ross International is to selectively recruit from the best sources of talent.

The professional firm may also be judged by the quality of its clients. Throughout Touche Ross International, we pursue a program to develop and maintain a high-quality client base. As a prerequisite to becoming a Touche Ross client, all prospective clients are screened in a process which considers the reputation of the company, its financial condition, its accounting and business practices, its relationship with prior auditors, and its general creditability. Objectivity and independence are primary requirements in each auditor-client relationship and the resources of Touche Ross International, through our professional standards and technical center organization, are active in assurance of this fundamental.

The third key resource is knowledge. Each firm in Touche Ross International develops and maintains its technical capacity and shares its knowledge with others in the group. A professional never stops learning. Through our formal national and international training efforts, we build the technical and management skills of people in Touche Ross International. Our training and development programs and the effective allocation of personnel resources are continuous both within the operating entities and within the member firms. In addition to our training programs, we maintain complete, active, up-to-date libraries; and there is a full exchange of technical manuals and releases, research information, and management com-

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munications. In today's complex multinational environment, no one can possibly know all the answers, and the wise professional makes regular use of all research facilities and data banks available to him.

The last and most elusive resource of the professional is the utilization of his time. In all international engagements, the firm constantly strives to balance and blend the time and experience of its professionals to provide adequately for planning, performing, and controlling the professional procedures and administration. The cohesiveness of an international organization is critical to the effective planning and execution of engagements, and our new management organization greatly strengthens our capacity to serve.

What achievements will Touche Ross International be able to point to in the future as a result of this latest reorganization of its structure?

The primary one will be more qualified people in all of our offices. When you have established a requirement, as we have under our Policy Agreement, that admission of a partner in Melbourne, Manchester, Chicago, or Madrid requires the approval of our board of governors, you are telling each young professional that to become a partner he must have an exposure and an outlook that stretches beyond his national boundary. The result will be a new generation of partners who will think of themselves as part of Touche Ross International, not just of the Canadian firm, the Lebanese firm, or the United States firm. They will seek opportunities to move from one operating entity to another, and the multinational character of our practice will take on a new dimension.

Through the exercise of strong, central leadership, we will be able to focus our resources where they are needed. This means that throughout Touche Ross International, we will be able to grow faster and provide superior service. Each of the operating entities will have the full support of TRI in the development of its territory, and together, we will match our development with the development of multinational business. The steps we are taking now to build an effective professional capacity in Kuwait and Abu Dhabi in the Middle East are an example of the potential for the reallocation of resources to meet our changing international environment. I am very excited about the potential for a truly multinational public accounting firm that can turn both the growth of international trade and a preference for nationalism to its advantage. ▲

EEC—THE CHALLENGE FROM EUROPE

By WILLIAM R. S. RITCHIE,
Chairman, Board of Governors, TRI

When Britain, Ireland, and Denmark joined last year, the European Economic Community—the Common Market—became the most populous market in the developed world. Serving more than 250 million consumers, it is today a bigger market than either the United States or the Soviet Union, and is the world's largest overseas trader.

If the Common Market's size and purchasing power establish it as an economic giant, however, its full potential will not be reached until the nine member states move closer to industrial and financial integration.

Population and overseas trade, in other words, are not everything. Europe, long fragmented into warring nations, has a good distance to go before it can match the United States in output per head, in standard of living, and in sophistication of business methods. The per capita income of Americans is around \$5,000 a year, for example; of Europeans, \$2,500—half as much. In terms of primary energy, another measure of economic strength, the United States uses around 10 tons of coal equivalent a year per head; the EEC only 2 tons—one-fifth as much.

At present, therefore, this still fragile union hardly qualifies for the role of political super-power in which some of its more hot-headed enthusiasts seem to have cast it. Indeed, a measure of modesty is fitting here, for it is only a generation since the countries of western Europe all but destroyed themselves as free people living in reasonably affluent societies.

Anarchy and collapse were prevented in the post-war years by a generous and forward-looking America. The Marshall Plan envisaged the European countries drawing up their own program for revival and then acting in unity. The program should, in General Marshall's own words, be "agreed to by a number, if not all, European nations."

So began the move to western European unity. Belgium, Luxemburg, and the Netherlands formed the first economic union, as the Benelux nations. Together with France, West Germany, and Italy, they set up a common market in coal, steel, iron ore, and scrap in 1952. In 1958, they merged their separate national markets into one trading