

# Eastern promise

**Middle East accounting firm Talal Abu-Ghazaleh International is at a crucial stage of development. Sally Roden reports on its growing pains**

IT IS always a novelty to see a non-Big Six accounting firm ranking among the top six firms in any country or region. The scale of the Big Six and their global reputations makes it difficult for other firms to penetrate the top end of the market.

But Talal Abu-Ghazaleh International (TAGI), with more than 30 offices in the Middle East, is a good example of a firm which is competing successfully with the Big Six. Since its inception in 1972 it has succeeded in carving a niche across the Middle East as a major player.

"It has always been the Big Six plus one. We have always been the alternative to the Big Six," said Talal Abu-Ghazaleh, TAGI's chairman and driving force.

But TAGI is now at a major crossroads. It is in the final stages of a restructuring which, it hopes, will propel the firm into a new phase of growth and development. The restructuring process began four years ago and resulted in local partnerships being dissolved and ownership transferred to a holding company.

This has been a laborious process with different strategies applied in each of the legal

jurisdictions. The restructuring abolished local partners and introduced the new title of international partner. There are currently eight core international partners who are shareholders in the holding company.

TAGI, as the holding company, owns all the Middle East business of Talal, the individual, and Talal Abu-Ghazaleh & Company, the accounting firm.

Those who were partners in local practices became principals. They can still share in the profits, but they do not have a financial stake in the holding company. The principals' salaries are based on performance. They get a fixed salary, a percentage of the profits of the local office, and a cut of the profits of the holding company.

The latter percentage is calculated using a complicated points system. Five categories are considered: fee income growth and profitability; technical standards; administrative efficiency; image in the local market; and the social and political presence of a partner.

Abu-Ghazaleh believes the new structure gives the firm a keen competitive edge. "We think this is going to give us tremendous strength because we are moving as one firm. When we make a decision we do not have to get the approval of the local partners, as we did in the past ... they are not as small-minded as they used to be," he explained.

Some local partners refused to participate in the new structure and left, while others did not like the change in status. Some principals still use the title 'partner' on the grounds that they are partners in profit.

"In the new structure the title of partner is a title of position. It just indicates how high you are. In our new philosophy the title partner means you are the highest executive in the firm. Partners understand that," said Abu-Ghazaleh.

Investment will be the key to making the new structure work.

He said the firm will invest 10 percent of its total fee income in training and technical developments each year. Investment has been on hold since the restructuring programme began four years ago.

Abu-Ghazaleh forecasts that fee income growth will once again reach 50 percent, as in the early 1970s. "There is a similar mood now; everyone feels we are starting again." The firm expects to sustain this growth for a few years before settling down to around 20 percent. Estimates of TAGI's fee income range between \$30 million and \$40 million.

Another aspect of the restructuring involved the merging of TAGI's accounting and consulting practices, at a time when other networks are splitting the two. Abu-Ghazaleh, who trained in Kuwait with the then Arthur Andersen representative, Saba & Co, believes that the merger makes sense.

Previously, the two TAGI units had been in competition with each other. Abu-Ghazaleh said the merger will solve that problem. "It is now one firm. You cannot compete because you are living on each other. Everybody has to work for the interest of everybody."

For legal purposes, the firm has retained two separate units: Talal Abu-Ghazaleh & Company certified public accountants, and Abu-Ghazaleh Consulting. But, in practice, the two units share costs and operate as one profit pool.

With the internal reorganisation almost complete, TAGI could be set to spread its wings. The group's management committee is studying the possibility of appointing member firms outside the Arab world. Its targets are Asia and Africa, but expansion of the network is unlikely to happen until the next century.

Alternatively, it may choose to linkup with another international network. Until April 1995, TAGI was a member of Grant Thornton International (GTI). But, according to Abu-Ghazaleh, the link with GTI ended because the network wanted a greater commitment from TAGI.

"They wanted their name on all the member firms. We were not willing to consider changing the name of the firm to 'Grant Thornton' and, therefore, we had to take a decision on how committed we were."

Abu-Ghazaleh ruled out any link with the Big Six. "The Big Six do not want to have relationships, they want to acquire. That option is not under consideration."

However, a link with one of the second-tier networks is a very real possibility. "We are talking to five of them to see how interested in us they are. We also want to have a relationship which will endure so that we don't run into a similar situation where they tell us they want a full marriage."

Abu-Ghazaleh said referral work is not crucial to TAGI, as it currently represents a small part of its business. "In our part of the world the major part of the business is locally based. The home auditor of any foreign company will use its own representative. We often get some of that work for one reason or another, but that's marginal." ♦

---

*'When we make a decision we do not have to get the approval of the local partners, as we did in the past ...'*

---