

# The Big Four in China: Hegemony and Counter-hegemony in the Development of the Accounting Profession in China

Paul L. Gillis

BA, Western State College  
MS, Colorado State University

A thesis submitted in fulfillment of the requirements for the degree of  
Doctor of Philosophy (PhD)

Macquarie Graduate School of Management  
Macquarie University  
Sydney, Australia

June 2011



# Table of Contents

<b>Table of Contents .....</b>	<b>i</b>
<b>Abstract .....</b>	<b>iii</b>
<b>Acknowledgements .....</b>	<b>iv</b>
<b>Statement of Candidate .....</b>	<b>vi</b>
<b>Abbreviations .....</b>	<b>vii</b>
<b>List of Tables .....</b>	<b>viii</b>
<b>Chapter 1: Introduction .....</b>	<b>1</b>
The Big Four Accounting Firms .....	1
The Opening Up of China and the Accounting Profession .....	3
The Purpose and Significance of this Study .....	6
The Research Question .....	12
Overview of Methodology .....	13
Limitations and Delimitations .....	13
Organization of the Thesis .....	14
<b>Chapter 2: Theoretical Foundations .....</b>	<b>15</b>
Historical Critical Accounting Research .....	15
Alternative Theoretical Foundations for Historical Accounting Research .....	16
Theory of Hegemony .....	18
<b>Chapter 3: Research Design .....</b>	<b>32</b>
Overall Research Design .....	32
Determining the Structure of the Accounting Profession in China .....	34
History of the Big Four in China .....	40
<b>Chapter 4: The Big Four .....</b>	<b>49</b>
The Big Four .....	50
Globalization of the Big Four .....	58
The Big Four in Emerging Markets .....	65
Law Firms .....	72
<b>Chapter 5: Building Foundations .....</b>	<b>74</b>
Accounting Practices in Early China .....	75
War and Revolution .....	81

China Opens to the World .....	82
Tiananmen Square .....	103
<b>Chapter 6: FDI and Capital Markets as Hegemonic Projects.....</b>	<b>105</b>
Foreign Direct Investment .....	106
Joint Venture Accounting Firms.....	108
Development of Capital Markets.....	117
Stock Markets for Chinese Companies.....	122
<b>Chapter 7: Maintaining Hegemony .....</b>	<b>147</b>
The People Dimension.....	148
Member Firms in China.....	159
China and the World Trade Organization.....	171
Competition between the Big Four.....	177
Structure of the Accounting Market in China.....	187
<b>Chapter 8: Counter-hegemony .....</b>	<b>197</b>
Accounting and Auditing Standards.....	198
Licensing of Certified Public Accountants .....	206
Local Firm Reforms.....	207
Mainland Chinese Firms and the H-share Market. ....	225
<b>Chapter 9: Analysis and Conclusions .....</b>	<b>230</b>
How the Big Four Came to Dominate Accounting Markets in China.....	231
Why the Big Four Came to Dominate Accounting Markets in China.....	235
How Have Indigenous Firms Tried to Break the Dominance of the Big Four? .....	248
<b>Chapter 10: Implications and Topics for Further Research .....</b>	<b>252</b>
What the Big Four Needs to Do .....	252
What Local Firms Need to Do.....	255
What Regulators Need to Do .....	261
Further Research Topics .....	264
<b>References.....</b>	<b>268</b>
<b>Appendices.....</b>	<b>305</b>

## **Abstract**

This study is a historical critical analysis of the role of the transnational professional services firms known as the Big Four in the development of the accounting profession in China. China emerged in the early 1980s after decades of seclusion and began an economic transformation that would make it the world's second largest economy by 2010. China did not have an accounting profession after the founding of the People's Republic of China in 1949 until the accounting profession restarted in 1980 as the country opened up to foreign investment. The Big Four, as members of the globalizing transnational capital class came to dominate the accounting profession in China with the support of other members of the transnational capital class including investment bankers, international lawyers, and transnational institutions such as the World Trade Organization. Grounded in Marxist theories of class struggle, particularly in Gramsci's theory of hegemony, this study explores how ideology, expressed as normative roles for independent accountants, enabled the Big Four to dominate the market. Using mixed research methods with archival and interview data, this study finds that the Big Four achieved its dominant position through three hegemonic projects: foreign direct investment, the reform of State-owned enterprises through international capital markets, and the enabling of private enterprise to access international capital markets. This study also explains how indigenous accounting firms followed Dutschke's counter-hegemonic strategy of a "long march through the institutions" that reformed the domestic accounting profession and gave it access to the coercive power to the state to challenge the hegemony of the Big Four. This study finds that the globalization of accounting markets leads to regulatory holes, gaps in the transnational regulation of accounting firms. This study provides recommendations to the Big Four, indigenous firms, and local and transnational regulators.

## Acknowledgements

*Live as if you were to die tomorrow. Learn as if you were to live forever.*

Mahatma Gandhi

---

This project was born following my decision to take early retirement after a 28-year career at PricewaterhouseCoopers. While my golf handicap plunged in the lazy months that followed my retirement, I soon hungered for intellectual stimulation, if only to ward off the early onset of Alzheimer's disease. What began as an interesting hobby has blossomed into a rewarding second career as an academic. I have chosen to experience the full range of academia, including teaching, research, and service. I am thankful to my professors at Macquarie Graduate School of Management, particularly Professors John Croucher, Richard Dunford, and Richard Petty who taught me the fundamentals of academic research. I owe a great debt to Professor Lee Parker of the University of South Australia who taught me how to do qualitative research.

I thank my colleagues at Peking University's Guanghai School of Management who created the perfect environment for me to pursue this study and who welcomed me into their research community. I am particularly indebted to accounting department chairman Wu Liansheng and Deputy Dean Lu Zhengfei for allowing me to serve at this leading institution. I am thankful to many Peking University doctoral students who were always happy to talk with me about my work and to provide helpful criticism. Stacy Chen, a doctoral student who also served as my teaching assistant, helped me to navigate Chinese language databases. Professor Wang Yongmei served as a local advisor to me and was an invaluable resource.

I received great cooperation and financial assistance for this project from the Big Four accounting firms that are the primary subject of the study. I had unprecedented access to data and the valuable insight of many of the people who created the accounting profession in China. A number of organizations funded parts of this research, including the Directorate-General for Trade of the European Commission, Blue Ridge Capital, Capital Group Companies, Dodge & Cox, Fidelity Investments, Janus Funds, and The Trust Company of the West. I am grateful to each of these organizations for their support and insights. None of my supporters influenced the research design or findings.

I could not have found a better supervisor than Richard Petty. During my studies, he served two years as the President of CPA Australia, which gave him an understanding of the

issues presented in this thesis that few academics possess. He always found the time to guide me, and helped me immensely in my journey from the profession to the academy.

Most importantly, I am thankful for the wonderful support of my tiger wife, Grace Tang. Grace is a partner at PricewaterhouseCoopers and was incredibly helpful as a sounding board as the research progressed. She also helped me to gain access to her clients and to her contacts in other firms.

I dedicate this thesis to the thousands of Big Four accountants who built an accounting profession in China. I am blessed with the opportunity to tell their story. They have done remarkable things, and the world is better off for it.

Paul L. Gillis  
Beijing, China  
June 2011

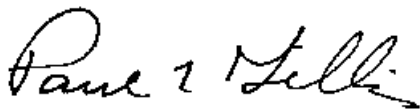
## Statement of Candidate

I certify that the work in this thesis entitled *The Big Four in China: Hegemony and Counter-hegemony in the Development of the Accounting Profession in China* has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree to any other university or institution other than Macquarie University.

I also certify that the thesis is an original piece of research and it has been written by me. Any help and assistance that I have received in my research work and the preparation of the thesis itself have been appropriately acknowledged.

In addition, I certify that all information sources and literature used are indicated in the thesis.

The research presented in this thesis was approved by Macquarie University Ethics Review Committee, reference number: HE26JUN2009-D06632 on 22 September 2009.

A handwritten signature in black ink, appearing to read 'Paul L. Gillis', written in a cursive style.

Paul L. Gillis, Student Number 41172795

Date

26 June 2011



# Abbreviations

ARB	Accounting Research Bulletin
ASBE	Accounting Standards for Business Enterprises
ASE	American Stock Exchange
BEDC	Beijing Economic Development Corporation
CAS	Chinese Accounting Standards
CASB	Chinese Auditing Standards Board
CCER	China Center for Economic Research at Peking University
CEPA	Closer Economic Partnership Arrangement
CICPA	Chinese Institute of Certified Public Accountants
CITIC	China International Trade and Investment Corporation
CPA	Certified Public Accountant
CPC	Communist Party of China
CR	Concentration ratio
CSRC	China Securities Regulatory Commission
DTT	Deloitte Touche Tohmatsu
E&Y	Ernst & Young
EU	European Union
FESCO	Foreign Enterprise Human Resource Services Company
FIN 46	FASB Interpretation No. 46
GAAP	Generally accepted accounting principles
GDP	Gross domestic product
HHI	Herfindahl-Hirschman Index
HKEx	Hong Kong Exchange and Clearing Limited
HKFRS	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
HKSE	Hong Kong Stock Exchange
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICP	Internet content provider
IFRS	International Financial Reporting Standards
IPO	Initial public offering
KWTF	Kwan Wong Tan and Fong
LBM	Lowe, Bingham, and Matthews
MOF	Ministry of Finance
MOFTEC	Ministry of Foreign Trade and Economic Cooperation
NYSE	New York Stock Exchange
PCAOB	Public Company Accounting Oversight Board
PPP	Purchasing power parity
PRC	People's Republic of China
PSF	Professional service firms
PwC	PricewaterhouseCoopers
SOE	State-owned enterprise
SUFE	Shanghai University of Finance and Economics
TR	Touche Ross
U.S.S.R	Union of Soviet Socialist Republics
WFOE	Wholly foreign owned enterprise
WTO	World Trade Organization

## List of Tables

Table 1	Big Four 2009 global statistics.....	50
Table 2	Big Four 2009 global revenue by service line.....	51
Table 3	Audit market shares by audit fees of publicly listed companies in Hong Kong 1988-1992.....	97
Table 4	IPO funds raised in the world in 2009.....	118
Table 5	Global stock market capitalization.....	119
Table 6	Accounting firm market shares on the Shanghai and Shenzhen exchanges.....	123
Table 7	Accounting firm market shares on the Hong Kong Stock Exchange – 2009.....	130
Table 8	Major Chinese SOEs listed on the New York Stock Exchange.....	132
Table 9	Capital raised on Chinese stock exchanges by type of control.....	135
Table 10	Market capitalization of Chinese stock exchanges by type of control.....	136
Table 11	Audit fees of Chinese companies listed on United States exchanges 2009.....	140
Table 12	Big Six Mainland China staffing 1993-1997.....	148
Table 13	Big Four Mainland China staffing 2004-2008 - All firms.....	149
Table 14	Big Four localization by staff level.....	157
Table 15	Forecast Big One operations.....	168
Table 16	Big Four revenue in China, 2002-2009.....	178
Table 17	Market shares of Big Four in China.....	181
Table 18	Big Four market shares in the United States.....	181
Table 19	Ernst &Young Huaming and Ernst &Young Da Hua revenue.....	185
Table 20	Practice names of top 20 accounting firms in China.....	188
Table 21	Top 20 Chinese accounting firms in 2009.....	189
Table 22	Location of Big Four offices in China.....	190
Table 23	China accounting market concentration post WTO.....	191
Table 24	Number of H-Share IPOs from 2005-2009.....	192
Table 25	Number of IPOs on Chinese stock exchanges.....	192
Table 26	Market for dual listed companies.....	193
Table 27	Comparison of Australia, United Kingdom, United States, and China accounting firms	194
Table 28	Global networks in China.....	196
Table 29	Number of Chinese accounting and auditing firms 1992-1997.....	210