Major Business News

PricewaterhouseCoopers to Divide Into Two or More, Under Pressure

By ELIZABETH MACDONALD
Staff Reporter of THE WALL STREET JOURNAL

Accounting and consulting colossus PricewaterhouseCoopers LLP announced plans to break its business into two or more entities, a restructuring triggered by regulatory pressure from the Securities and Exchange Commission over conflicts of interest at the firm.

The restructuring calls for the Big Five company to separate its audit, business-advisory and tax businesses from its lucrative management-consulting practice. The consulting division, along with the firm's outsourcing, corporate-finance and human-resource consulting practices, will be developed into one or more separate businesses. Under the plan, the firm's audit and business-advisory services and tax practice would keep the name PricewaterhouseCoopers; firm executives haven't decided what to call the separate consulting businesses.

The firm said its top executive board has already approved the restructuring. The firm, which operates as a partnership, has 150,000 staffers working in 150 countries.

The drastic move to break up its businesses comes a month after the SEC released an embarrassing report by an independent consultant which showed nearly half of PricewaterhouseCoopers' partners, and numerous employees, owned investments in 2,159 corporate audit clients, in violation of SEC auditor independence rules. They included six top officials responsible for overseeing the auditor-independence rules at the firm. All told, staffers made more than 8,000 infractions of the rules. The revelations have triggered an investigation by the Public Oversight Board, an auditing regulatory panel, into possibly similar conflicts at the other Big Five firms.

And the move comes just a year and a half after Price Waterhouse and Coopers & Lybrand announced its megamerger, which made the combination the world's biggest accounting and consulting firm.

Regulatory pressures have also caused other Big Five firms, such as KPMG and Ernst & Young LLP to restructure their operations. KPMG has incorporated its consulting operation into a separate business called KPMG Consulting LLC, with plans to eventually sell nearly a 20% stake in that entity worth more than $1 billion to Cisco Systems Inc.

Likewise, Ernst & Young is moving to sell its entire management-consulting division to Paris-based Cap Gemini Group SA Both firms plan to retain some equity ownership in these consulting operations.

PricewaterhouseCoopers' chief executive James Schiro said the restructuring will free up the firm's operations "to grow much faster," given that the SEC rules "hinder our ability to grow." PricewaterhouseCoopers posted some
$17 billion in revenues for fiscal 1999, a $2 billion increase over fiscal 1998.

Mr. Schiro also cites the increased ability by the separate consulting business to seek financial partners and joint ventures with public companies such as Sun Microsystems or Cisco. "There's a lot of interest in these businesses," he says. Moreover, the new business would be able to make an initial public offering, which can result in stock options it can use to pursue and retain talent. "These are the things we're assessing," says Mr. Schiro.

When asked whether the audit practice or its partners could then buy an equity stake in the consulting practice if it goes public, initially, Mr. Schiro said, "I think that the audit business will be a stand alone business without cross ownership," and that the firm "is not going to own an equity stake in this separate business." But he says that "not all of those decisions have been made yet," and that the partners, including audit partners, "may buy shares in it" so long as "we're not the auditors of that business." He adds: "I've become an expert on those rules."

Nevertheless, it's unclear whether the SEC will approve any kind of restructuring that allows for the firms or its partners to own equity stakes in the separate consulting businesses. Already, the SEC has raised red flags in a letter to KPMG, noting that selling equity stakes to public companies could present more conflicts, as the firm's corporate audit clients could become investors in these concerns, among other things.

Write to Elizabeth MacDonald at elizabeth.macdonald@wsj.com

URL for this Article:
http://interactive.wsj.com/archive/retrieve.cgi?id=SB950839894237951543.djm

Hyperlinks in this Article:
(1) http://interactive.wsj.com/archive/retrieve.cgi?id=SB950836398319643785.djm
(2) mailto:elizabeth.macdonald@wsj.com

Copyright © 2000 Dow Jones & Company, Inc. All Rights Reserved.

Printing, distribution, and use of this material is governed by your Subscription Agreement and copyright laws.

For information about subscribing, go to http://wsj.com