The irresistible rise of Andersen Tax

International Tax Review **speaks to Andersen Global Chairman and CEO Mark Vorsatz about the firm's ambitions and the long shadow cast by its predecessor.**

Mark Vorsatz has spent the last few years jetting across continents to cut deals and bring new firms into the Andersen fold. He bought the rights to the Andersen brand for an undisclosed figure in 2014, and fought off a legal challenge from a French firm to claim the title.

Today Andersen Global has more than 2,500 professionals worldwide and a presence in more than 90 locations across the Americas, Europe, Africa and the Middle East. The association has grown at an astonishing pace, adding 80 locations in 51 months. But it's not enough.

"We're still at an infant stage," Vorsatz says. "We're hoping we can replicate that kind of growth over the next three to five years. That would be ideal."

"We need breadth and depth in the market so we can compete on quality," he explains.

Vorsatz started out at Arthur Andersen in 1979. He became a partner in 1987 and ran the firm's wealth management practice for 20 years. Based on the West coast, he was well placed to serve the Silicon Valley elite. He oversaw the firm's tax teams in San Francisco in the 1980s and San Jose in the early 90s.

It all came crashing down in 2002. After the Enron scandal erupted, Arthur Andersen the fifth biggest accounting firm in the world, with a history going back almost 90 years, was liquidated in just 90 days. This gave little time to restart the firm, and its rivals were already picking up the pieces.

"I certainly thought that the world was going to be different after Enron," Vorsatz says. "I spent six months negotiating with private equity firms and other companies in New York. Finally, we reached a deal with HSBC."

Andersen Tax went from 23 partners to 245 partners in 14 years

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At first the new firm was called Wealth and Tax Advisory Services (WTAS) and it was composed of 23 Andersen partners spread across tax practices in six cities: New York, Boston, McLean, West Palm Beach, Los Angeles and San Francisco.

Before the year was out, the EU gave Deloitte the green light to take over the firm's UK business, and the Big 5 became the Big 4. Even so, WTAS managed to retain 92% of Andersen's private clients, but the US firm was still looking to go independent as soon as it could.

"After five and a half years, we negotiated a management buyout and we went off in a completely different direction," Vorsatz says. "We were independent by 2008 and we decided to expand the scope of services to the remit of what you see with the Big 4 firms."

"We're nowhere near the Big 4 in terms of size and scale. The Big 4 are huge as platforms, but our goal is not to achieve that kind of scale," he continues. "Our goal is to maintain a high quality service and we're competing with the Big 4 on that front outside the US."

Just as the world was facing the financial crisis, WTAS was branching out into alternative investments and taking on clients looking to make money in private equity, hedge funds, venture capital and real estate. The firm began to look overseas to new markets in an effort to become an international brand.

One adviser tells *ITR*: "The world needs more independent players who can make a clear separation between tax services and consulting and auditing."

Yet as the new firm was moving away from its own origins in wealth management, it simultaneously moved closer to staking a claim on the legacy of Arthur Andersen. It was time not just for a refocus, but a rebrand as well.

Staying power

The firm made its first moves in the international market in the summer of 2013, signing a deal with Prime Tax in Zürich and then with the French firm STC in Paris. The first step was launching a holding company in Switzerland to use as its launch pad into Europe.

After these breakthrough deals, the firm was able to secure new agreements with Taxperience in the Netherlands and Studio Associato De Vecchi in Milan, Italy. The problem that WTAS ran into was that there was another firm with a similar name and international ambitions: WTS Global. So there had to be a rebrand, one way or another.

"We rebranded as Andersen Tax in 2014 and this has been very helpful, but the idea goes back some way," Vorsatz says. "I was first

approached in 2006 by Duane Kullberg, the CEO of Arthur Andersen from 1979 to 1989, and we met with a number of retired partners and they had clients who wanted to finance a new firm and bring back Andersen."

Kullberg was not the only former Andersen CEO to climb aboard the firm, Lawrie Weinbach and Dave Buchholz joined the board too. Vorsatz calls them "the three amigos". Yet the rebrand was stalled until the firm wanted to expand outside the US.

When the rebrand was announced in September 2014, the decision to take on the Andersen name raised more than a few eyebrows in the business world. Not only was the brand associated with Enron, the case had barely gone cold.

It's also true that the name still had tremendous value in the market. Forbes once ranked Arthur Andersen as the gold standard of accounting firms. Even after the Enron scandal, the Andersen name was still a draw for many tax professionals and corporates around the world.

The cynics saw it as a marketing ploy more than anything else. A former Arthur Andersen client and reality TV star Kevin O'Leary put this argument to Vorsatz at the time.

"I'm a former Arthur Andersen client," O'Leary said in September 2014. "In the days of The Learning Company, we did 35 acquisitions with you… I was sad to see the firm decline, but I'm going to bet that you're doing this for pragmatic marketing reason."

"Nobody's ever heard of your firm before on a national basis. I look at how much BDO is spending trying to get a national brand," he added. "The Andersen name must have hundreds of millions of dollars of brand value to a guy like me, and millions more like me, who spend money on tax and audit services."

It's not just TV personalities saying this either. Professionals in the market have made the same observation. As one adviser tells *ITR*: "Taking the Andersen name is probably a strategy for breaking out of being a boutique."

Vorsatz tells *ITR* that the firm carried out market research to see if the name was still respected. Ever since, Andersen Tax has waged a charm offensive with the press, churning out more than 4,000 articles and reprints. Yet the chairman maintains it's not all about marketing.

"It's about our core values and culture," Vorsatz says. "If you talk to people who were at Andersen, they will tell you that the firm was different."

Many former Arthur Andersen employees echo this sentiment about the old firm. One former Andersen partner has been watching the new firm's progress, but has mixed feelings about the brand making a comeback today.

"The Andersen brand still makes my heart beat faster than others because it was very special working for them," the partner says. "There is still a very big community and many alumni are very proud to have worked for Arthur Andersen."

"The alumni go to the website and see what the substance of the practice is today," they continue. "The problem is the Andersen brand isn't going to instantaneously convey credibility around the world in decades to come."

Many tax professionals say that the firm's future will be decided by how well its leadership transitions. This may be why Vorsatz has made it clear he will be stepping down after completing his final five year term as chairman.

"It takes time to build a global group and develop a strong multinational client base," one adviser says. "But the Andersen name isn't going to mean much to the next generation. It will resonate with the last generation."

Moving forward

Five years after the rebrand, Andersen Tax has extended its presence more than 30 locations in European countries, with the aim of 50 locations. The bar is raised ever higher, and yet the firm is not alone in the global market.

There is a race to establish a truly global tax-only firm. WTS and Taxand are also pitching themselves as tax-only in focus, free from conflicts of interest and global in scale.

"When it comes to any firm that has the ambition to deliver a global tax service with quality people, I wish them well because it's needed," the partner says. "But it's unclear who has the momentum to build and maintain such a firm in the long-term."

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By the end of this year Andersen Global aims to have established a presence in more than 100 locations around the world. The plan is first to consolidate the gains made in Europe, then move on to expanding across Asia in 2019.

"I'm hoping that I'll have completed our global platform by the time I finish my term," Vorsatz says.

"We still have a lot of work to do still in Europe," he explains. "We need to replicate what we did in Iberia."

One recent addition to the association was Portuguese firm CNA – Curado, Noguiera & Associados. Much like Vorsatz, founding partner Teresa Noguiera described the reasons the practice decided to sign the deal.

"Andersen Global shares our commitment to transparency, stewardship, and top-class client service," Noguiera said. "Not only are these values consistent with our own, we also appreciate working with like-minded professionals and understand its benefit to our clients."

When Andersen Tax & Legal expanded its presence in Madrid, the firm's managing partner Jaime Olleros said: "This is a fundamental advance in the strategic plan of the firm, which seeks to implement new technological processes."

The Spanish and Portuguese firms alone include offices in Barcelona, Bilbao, Lisbon, Madrid, Porto, Seville and Valencia. Andersen Tax hopes the strong base established in Spain and Portugal will be a model for its expansion across Europe.

"We need to get critical mass in the UK and Germany," Vorsatz says. "Since June, we've added four cities – Berlin, Cologne, Frankfurt and Leipzig – but we need 250 to 300 or even 500 plus professionals."

So far Andersen Tax has cut deals with two British firms, Mark Davies & Associates and RBC VAT, specialising in wealth manage-

ment and VAT. But this is just a starting point. Partners George McCracken and James Frost are overseeing the UK expansion.

"What we do is essentially the same," Mark Davies tells *ITR*. "We do private client work and all of our clients are non-doms and foreign domiciliaries. That's very attractive to Andersen."

And Roger Bevan, consulting director of RBC VAT, says: "When you're a small firm and you join a big association, you find considerable growth opportunities and your capacity to serve your clients better is strengthened. We wouldn't have signed the agreement if we hadn't been interested in becoming a full member further down the line."

So far, this two-stage approach has worked out well. A third UK-based firm is due to announce a new agreement with Andersen.

"It's a bit like dating," Vorsatz jokes. "Typically, we get a collaborative agreement with a firm that lasts for 18 months."

Learning from the past

The elephant in the room is called Enron. Infamously, Arthur Andersen shredded the documents involved in the massive accounting fraud. The firm was destroyed by the ensuing scandal, and even when the US Supreme Court overturned the conviction in 2005, Andersen was long gone.

Today the name is still associated with Enron and this is one of the reasons why the new firm can't be a replica if the old firm. The focus on tax services over auditing may help prevent the past from repeating itself.

"We don't have an auditing focus and we never will have an auditing focus," Vorsatz stresses. "The regulators want to keep auditing separate from tax in places like the UK, and I think that's where it will go in the US too."

It's often forgotten that Arthur Andersen had been hit by a slew of scandals in the lead up to the Enron scandal. This included a $7 million settlement over fraud allegations over the Waste Management audit, as well as the Sunbeam scandal and the $4 million accounting hole in Styling Technology. But the Enron case was on another scale.

"I do feel that the firm lost its way and that partly led to Enron," Vorsatz says. "I don't think people viewed the Enron scandal as reflective of the true character of Arthur Andersen. It was down to the actions of individuals, who exercised terrible judgement."

"The problem was we evolved into a corporation, meaning that the partners did not have input in decision-making and the decisions were made by a minority," he explains. "That was a problem. The people in charge no longer practiced and served clients."

As Arthur Andersen became a huge global enterprise, the firm developed a parallel pay structure and competition between different wings of the business soon emerged. The sums involved were not minor. By 2000 the firm was making $1 million a week in fees from Enron alone.

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The elephant in the room is called Enron

"These guys want to go back to the glory days. Arthur Andersen was a great firm and it had a great culture, but it wasn't always a completely happy family," the adviser says. "There were problems and internal squabbles, and people would leave to pursue their own projects. It's easy to forget this after more than 15 years."

The adviser is referring to the case of Andersen Consulting, which would later break away and rebrand as Accenture. The source of the conflict was that the consulting wing had become the biggest revenue source, yet its profits were redistributed across the company. The end result was a messy divorce, with Arthur Andersen demanding a $14.5 billion pay-out.

The advantage of a new, tax-only focus is that it may prevent similar conflicts from starting in the first place. Not only is Andersen Tax eager to avoid the structural problems that the old firm developed, Vorsatz wants to ensure that the people at the top don't lose touch.

"In our firm today, we all have shovels," Vorsatz says. "We don't have just one guy with a shovel and three guys watching him dig."

As the firm sets its eyes on Asia, the market will be watching to see if Andersen Tax will be able to shake off the turmoil of the past and establish itself as a truly global firm. If the association can achieve this, it may just fill the shoes of its predecessor.