

An Evaluation of Technical Efficiencies for the Top 100 Public Accounting Firms in China

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Abstract

This paper investigates the effect of a China's government policy, which forces a public accounting firm to enhance its production scale, technical efficiency and economies of scale. We apply and estimate a standard input distance frontier using data on the top 100 Chinese accounting firms covering 2008-2009. We find that the larger the firm size is, the more technically efficient it is, thus justifying policy enforcement. Furthermore, economies of scale prevail in the top 100 accounting firms and are not exhausted, supporting that these firms keep extending their production scale to reduce their long-run average costs. Empirical results reveal that larger accounting firms have more competitive advantage.

Keywords: Chinese public accounting firms, technical efficiency, economies of scale, merger and acquisition.

1. Introduction

The economic reforms and opening up in China over the last 20 years have not only generated enormous economic growth for the country, but also boosted its influence in the world. China's economic development has become extremely vital to balancing the global economy, especially after the recent global financial crisis. With rapid economic growth, China's capital market is also expanding at a skyrocketing speed. Certified public accountant (CPA) firms that play a key role in the formation of the domestic capital market have also enjoyed nearly two-digit annual growth in operating revenue over the period 2002-2009.

According to the Chinese Institute of Certified Public Accountants (CICPA), the operating revenue of the top 100 accounting firms in China amounted to 4.43 billion RMB in 2002, but exceeded 206.1 billion RMB by 2009, or a huge growth of 47 times over the time period. However, this huge increase was mainly contributed and enjoyed by the top four leading international accounting firms (henceforth, Big Four), which dominate China's audit and assurance market. In a bid to rectify this situation, the government adopted several measures to increase the business scale and global competitiveness of local CPA