Original Research Article

Exploring the impact of deglobalisation on international professional service firms: A case study of the Big Four accounting firms in China

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Abstract: This paper explores the strategic implications of deglobalisation for international professional service firms (PSFs), focusing on a case study of the Big Four accounting firms—PwC, EY, Deloitte, and KPMG—in China. As geopolitical tensions rise and economic nationalism intensifies, China has introduced restrictive regulatory frameworks that challenge the autonomy and operations of foreign firms. Through the lenses of Institutional Theory and Resource Dependency Theory, the paper examines how the Big Four navigate institutional pressures, regulatory constraints, and power asymmetries in a highly politicised environment. It argues that localisation strategies, strategic partnerships, and hybrid governance models have emerged as key responses to mitigate risks and maintain market presence. Drawing on recent policy developments, industry reports, and academic literature, the study offers a critical analysis of how global firms recalibrate their strategies in response to China's dual circulation model and evolving business ecosystem. The findings highlight broader implications for multinational PSFs operating in similarly protectionist markets and contribute to the literature on international business strategy and regulatory adaptation.

Keywords: Deglobalisation; Big four; china; Institutional theory; Resource dependency theory

1. Introduction

The decline of globalisation has emerged as a defining force in today's economic landscape. In the post-COVID world, questions surrounding the risks of interdependence among nations have gained prominence, particularly against the backdrop of geopolitical tensions such as the Russia-Ukraine conflict. Major economies are shifting away from overdependence, adopting strategies that prioritise localisation and the decentralisation of production. The ongoing U.S.-China trade war has further intensified this trend, compelling multinationals to reassess their global strategies.

Professional service firms are not able to operate freely in the Chinese market due to the wave of restrictions marking the country's growth towards achieving economic supremacy. It especially influences the Big Four: KPMG, PWC, EY and Deloitte. Restrictive regimes, including mandatory joint venture partnerships with local firms and localisation laws, have set an intricate commercial environment for PSFs in China. For example, the Chinese government has reportedly instructed state-owned companies to phase out contracts with the Big Four accounting, including KPMG and EY. This was one of the many audacious moves that curbed global firms' independence and made them reconsider their strategic focus and operational strategy.

As one of the world's largest economies and an advocate for economic nationalism, China provides a compelling context for examining the impact of deglobalisation on PSFs. The country's regulatory environment highlights how deglobalisation transforms the global-local interface, reshaping the strategic approaches of multinationals. This raises the central research question: How has deglobalisation, particularly in the Chinese market, influenced the strategies and operations of the Big Four accounting firms? This essay focuses on the challenges deglobalisation poses for the Big Four in China and explores their strategic responses. The first part examines the concept of deglobalisation and its relevance to China's regulatory and political environment. The second part analyses the challenges faced by the Big Four through the lenses of Institutional Theory and Resource Dependency Theory. Finally, the essay evaluates the strategies employed by these firms to navigate regulatory constraints and maintain market presence in China's increasingly restrictive environment.

2. Theoretical framework

The strategies adopted by professional service firms (PSFs) to adjust to the pressures of deglobalisation in China can be analysed through the lenses of Institutional Theory[1] and Resource Dependency Theory[2]. These two approaches assist in shedding light on the relationships between global companies and the highly regulated markets.

	Regulative	Normative	Cultural-Cognitive
Basis of compliance	Expedience	Societal Obligation	Taken-for-grantedness Shared understanding
Basis of order	Regulative rules	Binding expectations	Constitutive Schema
Mechanisms	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules Laws Sanctions	Certification Accreditation	Common beliefs Shared logics of action
Basis of legitimacy	Legally sanctioned	Morally governed	Comprehensible Recognisable Culturally supported

Figure 1. Scott's three pillars of institutions.[3]

Institutional Theory, as proposed by Scott[1], identifies three interconnected pillars—regulative, normative, and cognitive—that shape organisational behaviour. The regulative pillar focuses on the formal rules and legal frameworks that govern business operations. In China, this pillar is evident in the strict regulations imposed on foreign firms, such as mandatory joint ventures with local companies. These measures are designed to protect domestic businesses and control the influence of foreign entities in critical sectors[4]. For instance, the Big Four accounting firms must conform to these legal requirements to gain access to the Chinese market, demonstrating the role of government policies in shaping their strategies.

The normative pillar emphasises societal and cultural expectations that influence organisational practices. In China, these expectations are shown through the enforcement of national priorities, such as employing local talents and adhering to compliance standards that align with domestic economic goals. This alignment allows foreign firms to gain social legitimacy, which is essential for operating successfully in a market with strong nationalist tendencies. Finally, the cognitive pillar reflects shared beliefs and social norms that define accepted practices within a specific context. The preference for local services in the Chinese market over foreign alternatives highlights the importance of aligning business strategies with unique cultural dynamics, which differ significantly from the approaches seen in Western markets[1].

While Institutional Theory provides a framework for understanding external pressures, Resource Dependency Theory sheds light on the power dynamics and dependencies that exist between organisations and their external environments. This theory, as explained by Ebers[5], highlights how firms are constrained by their reliance on external resources and the entities that control them. In the Chinese market, the Big Four accounting firms depend heavily on local companies for regulatory compliance and market entry. This dependency limits their operational autonomy and requires them to form strategic collaborations to mitigate resource constraints. Unlike in Western markets, where these firms have greater independence, China's regulatory environment forces them to relinquish significant decision-making authority to local partners, reflecting an imbalance in power dynamics.

The interplay between these theories illustrates how deglobalisation affects multinational firms, particularly in markets like China. Institutional Theory explains the external pressures that require firms to conform to local norms and regulations, while Resource Dependency Theory highlights the strategic adjustments necessary to navigate dependency risks and sustain operations. Together, these frameworks provide a comprehensive understanding of how the Big Four adapt to the challenges of deglobalisation in a highly regulated and culturally distinct environment.

3. Understanding deglobalisation

Deglobalisation, the opposite of globalisation, reflects a decline in integration and interdependence among nations, particularly in trade, investment, and governance. While globalisation has long been a driver of economic growth, recent indicators suggest a reversal, driven by both cyclical and structural factors. This shift is often fuelled by changes in political sentiment and policies promoting deregulation, particularly in post-2008 developed economies. Economic disparities, unemployment, and concerns about the impact of globalisation on local industries have also contributed to this trend.

In China, deglobalisation has progressed rapidly due to regulatory changes restricting foreign-owned firms. For example, the State Council's directive for state companies to cease contracts with Big Four accounting firms reflects a focus on economic nationalism and data control. The COVID-19 pandemic accelerated this process, exposing vulnerabilities in global supply chains and reinforcing arguments for 'reshoring' critical industries to build resilience. Additionally, geopolitical tensions, such as the U.S.-China trade war and the Ukraine conflict, have further fragmented the multilateral trade system, promoting "friend-shoring" strategies that favour sourcing from geopolitical allies.

China's response to deglobalisation combines self-sufficiency with aspirations for global dominance. Central to this strategy is the "dual circulation" policy, which prioritises domestic markets while selectively engaging in international trade and investment which is the external circulation. This policy has transformed export-oriented production centres, such as Zhujiang, into hubs focused on domestic markets. While these measures diversify China's economy, they impose increasing regulatory barriers on foreign businesses, introducing protectionist policies that hinder market access and impact product quality by limiting competition from less established firms.

In addition, the emphasis on self-sufficiency bolsters local competitors, who increasingly adopt international standards and gain favour through government-backed incentives. This intensifies competition and erodes the market differentiation that global firms once. At the same time, the selective engagement in external circulation creates a paradox for PSFs. While opportunities may arise in advising Chinese firms on international expansion, these are often overshadowed by the regulatory and political risks associated with cross-border transactions, where state priorities supersede market dynamics.

More importantly, the dual circulation strategy challenges the traditional business models of PSFs by embedding economic nationalism into market operations[6]. To navigate these constraints, PSFs must adopt localisation strategies that align with state objectives while managing heightened dependencies on domestic partnerships. This dynamic underscore a broader tension within deglobalisation: the rebalancing of global-local priorities forces PSFs to recalibrate their strategies in ways that often dilute their competitive edge. Ultimately, the dual circulation policy serves as both a roadmap for China's economic ambitions and a cautionary tale for global firms seeking to operate within increasingly insular markets[10].

4. The big four accounting firms market dynamics in China

PwC, Deloitte, EY, and KPMG operate in China and are locally referred to as The Big Four. However, the Chinese accounting arena poses a different set of challenges that are bound to develop in response to the local political structure. Owing to this fact, these firms are subjected to the ever-evolving regulatory frameworks and policy structures, which shape their strategy[4].

According to Macve[7], the market for auditing in China is dominated by state control, which hinders foreign investment in China. The regulative government policies suggest otherwise, where international businesses can only operate through partnerships or Joint Ventures. These policies continue to violate critical sectors required to safeguard the interests of domestic firms, ensuring that the complex market structures of China are protected from foreign interference and promoting the idea of recruiting the Big Four firms in a state-controlled environment. Cultural and social expectations' integration into the business sector through the normative pillar is another factor which aggravates issues. The Chinese Communist Party (CCP) is in favour of the employment of local auditors in order to propagate nationalistic ideas, which puts foreign competitors at a disadvantage when bidding for major SOE contracts. Consequently, they promote an idea where, on the rise, foreign companies along with the Big Four seek legitimacy from a market that is overtly nationalistic[8].

Furthermore, favourable policies for local firms have enabled their rapid emergence, posing a competitive threat to the Big Four. State-owned accounting firms enjoy preferential access to SOE audits and major infrastructure projects, reinforcing their market position[7]. This reflects a broader governmental strategy to foster local expertise while reducing reliance on foreign capabilities, aligning with the cognitive pillar of Institutional Theory. Additionally, the adoption of international accounting standards by local firms has intensified competition for the Big Four. These challenges are sharpened by a regulatory environment that subjects foreign firms to heightened scrutiny and compliance requirements. For instance, PwC faced a record fine, was required to close its Guangzhou office, and received a six-month suspension following allegations of misconduct during the Evergrande audit, underscoring the disproportionate penalties imposed on global firms. In contrast, the Chinese domestic accounting firm Dahua received only a monetary fine for failing to identify fraudulent profit inflation during its year-end audit of a listed company. This disparity highlights the unequal treatment of foreign and local firms, revealing a regulatory bias that shields domestic entities while imposing harsher penalties on international firms. Such practices serve to undermine the competitiveness of foreign firms while reinforcing the market dominance of local players, reflecting a deliberate strategy to restructure the auditing industry in favour of national priorities.

Moreover, data sovereignty and cybersecurity laws present significant hurdles for the Big Four. These regulations restrict the flow of critical financial information across international borders, limiting multinational firms' ability to leverage global resources and expertise. Resource Dependency Theory[2] highlights how such constraints compel foreign firms to rely on alliances with local entities, further diminishing their operational autonomy and exposing them to potential state oversight. The CCP's pursuit of a 'Chinese model' often necessitates foreign firms to restructure their governance frameworks to align with state priorities. This alignment is particularly evident in politically sensitive sectors, where national interests frequently supersede market dynamics. For instance, the CCP's active promotion of domestic accounting firms underscores its strategy to curtail foreign competition and fortify control over strategic industries[7]. Recent legislative measures, such as Rule 18 and anti-corruption campaigns, have intensified these pressures by severing foreign firms' access to influential political networks and subjecting them to heightened regulatory scrutiny. These developments exemplify the increasingly restrictive environment for global firms operating in China, reflecting a deliberate effort to reshape the competitive landscape in favour of local players.

Considering these challenges, Institutional Theory offers an insight into the external factors experienced by the Big Four as a result of China's regulatory and cultural factors. The Big Four's strategies and behaviour are informed by this external pressure. On the other hand, Resource Dependency Theory highlights the adjustments needed to manage the dependencies as well as the risks that come with the imbalance. All in all, these theories explain the many variables that the Big Four encounter in the relationship between the political, economic, and cultural forces at play in the local market.

5. Strategic responses discussion

China presents formidable barriers in regulatory and sociopolitical spheres that foreign players such as PwC, Deloitte, EY, and KPMG must penetrate. The regulatory environment in China illustrates the state's strong territorial control over all foreign occupants. Regulatory actions, such as the penalties imposed on PwC during the audit of Evergrande Group, demonstrate the government's willingness to assert sovereignty to protect domestic economic interests. Joint ventures and data localisation requirements are examples of compulsory policies that constrain self-governance and necessitate foreign stakeholders to subordinate large spans of authority to domestic firms. These limitations are consistent with the regulative pillar of the Institutional Theory that describes the intuitive pressures, which are structural resources like legal and government[1]. Because of compliance, they also have had to change their structure.

Apart from legal realities, cultural aspects influence the international setting. Respectively of the focus on self-sustaining identity, it puts the accent on local companies and their ability to maintain economic and political sovereignty. Companies like Deloitte and EY have embedded themselves within local sociocultural ecosystems, engaging in initiatives such as the China International Import Expo to gain legitimacy and reduce pushback from local participants. By acting within the expected behaviour of society, foreign businesses not only acquire legitimacy but also reduce the pushback from the local participants, a concept that fits within the normative pillar of the Institutional Theory. However, getting legitimacy in a hostile political sphere is challenging. The cognitive pillar directs attention to the need for congruence between the practices of the organisation and the social beliefs and expectations[1]. For instance, PwC's "New Equation" strategy, focusing on technology adoption and incorporation of ESG, has been in effect to show support for China's dual-carbon targets and sustainability aspirations, thus maintaining a nexus with the local market. Cognition alignment in contrast targets misperceptions of foreign firms as less congruent with the national focus, thus affecting their operational control and extent of influence.

Resource Dependency Theory highlights the power asymmetries and dependency risks faced by international firms in China. The Big Four have increasingly turned to local resources such as people, partnerships or government backing as regulations to mitigate dependency risks and ensure business continuity. For example, KPMG has worked with local stakeholders on a number of ESG projects, all with a view to achieving certain national priorities and advancing local ESG objectives. However, such partnerships help to diversify power among stakeholders and reduce dependency risk while also enhancing business continuity. The asymmetry of power between the government and foreign companies is oversized, and so is the case for China's regulatory environment. The potential for abuse of such relationships is illustrated by the ability of the government to impose significant penalties and operational limitations, as illustrated by the case of PwC-Evergrande. The Big Four have reacted to these threats by building local assets and people, such as the project undertaken by Deloitte to develop the economy of Hongkou District in Shanghai. Such a stance indicates a tactical repositioning for these firms within the context of asymmetric modes of dominance by embedding in these local economies for greater stability.

The actions of the Big Four also reflect a shift towards hybrid business models that balance global efficiencies with local adaptation. The devolution of authority to local offices has become an important strategy in addressing regulatory and cultural expectations of businesses[9]. For instance, KPMG's focus on having a wider representation and relations with the Chinese community illustrates the company's intention of combining international skills with China's urban architecture. Such efforts lead to increased productivity in an organisation and are also likely to foster a deep sense of the local stakeholders, which corresponds to the actionable and normative aspects of IT. The aim of such regional focus strategies is to address the usual negative factor of global firms, which is excessive centralisation, by bringing in a hybrid of both local and international priorities. High regional hubs set up to support local offices were also accompanied by localisation initiatives. Deloitte seeks to foster economic self-reliance and development in relevant places like digital transformation and low-carbon transitions through using its global network. It should also be noted some answers do not entail further de-localisation. Some companies are reconsidering the costs of staying in China due to increasing regulations. The reluctance on the part of PwC to expand in the financial services market by making major investments, such as establishing a business campus, is becoming the norm owing to the changing environment. These assistants illustrate the difficult decisions global companies have to make in their attempts to operate in China while balancing the associated risks and restrictions that arise from regulatory and political forces.

These strategic responses cannot be isolated to the Chinese market alone. They hold broader implications for how professional service firms navigate similarly restrictive environments worldwide. By investing in localised engagements while maintaining global standards, firms can better address the challenges posed by deglobalisation pressures, ensuring operational resilience across dispersed markets.

6. Conclusion

In conclusion, the trends towards deglobalisation have significantly altered the workings of international professional service firms, notably within restricted areas such as China. The attitude China has been adopting towards economic nationalism through policies such as data localisation laws and protectionism has altered the playing field and put limitations on foreign enterprises and businesses, which require extensive restructuring. The institutional theory helps in comprehending the strategies these firms employ to deal with regulative, normative and cognitive aspects of China's institutional environment. In a politically sensitive context, the firms attempt to comply with local legislation and cultural expectations in order to sustain legitimacy. At the same time, resource dependency theory also notes the increased dependence of firms on local partnerships in order to reduce the risks of dependency and mitigate the adverse power relations with the state.

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