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Management services: challenge and opportunity for the public accounting profession

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THESIS

Management Services:
Challenge and Opportunity
for the
Public Accounting Profession

by
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INTRODUCTION

The purpose of this thesis is to explore the opportunities that so-called management services may present for the public accounting profession.

The public accountant's position with respect to management consulting will be appraised and an inventory will be taken of the rewards and the pitfalls attached to this field of activity which is developing as a new challenge to the profession.

Growing interest in management services

Since the late 1940's an increasing number of editorials and articles on "Management Services" has been published in accounting literature. More and more frequently the topic is being included in the program of accountants' meetings and conventions.

In 1953 President Arthur B. Foye of the American Institute of Accountants appointed a Committee on Management Services by CPAs. The committee's objective was to explore the extent of management services rendered by CPAs and to recommend a procedure for preparing and producing a publication to guide practitioners in this area. This initiative has been followed with similar action by the presidents of several state societies of CPAs.
Except for a pamphlet distributed in September, 1956, to the membership of the American Institute, these committees had not, as of December 1958, made any public announcement regarding their findings. Mixed feelings of optimism and doubt about the desirability of extending professional practice into the management area have caused these committees to proceed with the utmost caution and to evaluate the diverging opinions carefully.

The question, however, is not a new one, nor is the attention that many leading accountants have given to it. As early as April, 1912, an editorial appeared in the Journal of Accountancy under the title "CPA: Doctor of Business"*. It contained the following statement:

... More and more as time goes on the accountant is being consulted, and his advice adopted in the general control of business undertaking. He is beginning to be looked upon as a business physician and his work is extending far and wide in fields which a few years ago would have been considered entirely outside his legitimate sphere of action ...

There is no doubt that since the early days of the profession many accountants have rendered valuable and diversified services to the businessmen who have employed them.

The novel fact is the growing awareness of the profession as a whole, a sort of collective awakening to the consultant possibilities hitherto inadequately explored. A change

* 23, p. 26-27
has occurred also in the way of approaching the problem of management services. Formerly, incursions in this field were oftentimes carried on by accountants in an informal manner. They were frequently limited to oral advice given on specific questions. In the majority of cases, the advice was incidental to other work and did not constitute the purpose of the accountant's intervention. Most often, whether the advice was sought by the client or volunteered by the accountant, each situation was approached individually and its treatment decided upon in the light of the specific circumstances.

With the growing interest in management services manifested by an increasing number of members of the profession, the way of handling these services came to be reconsidered. The traditional approaches and solutions were questioned and attempts made to define acceptable principles and policies that would best meet the needs of business and would be compatible with the standards of the profession. This led to the creation of the committees to which allusion has been made.

Management services defined

In September, 1956, the Committee on Management Services by CPAs created by the American Institute of Accountants distributed a tentative "Classification of Management Services by CPAs"*. In its first pages, the publication acknowledge-
ledges that "the term Management Services when used in connection with the services performed by CPAs is not self-explanatory" and it attempts to delineate the boundaries of the concept.

It is not my intention to engage in a terminological controversy about what should be included or excluded in the definition of management services. At the risk of somewhat broadening the concept, I will use the term as comprising all services to business management which are capable of being performed by public accountants in addition to the following three traditional services performed by them: auditing, bookkeeping service, and preparation of tax returns.

In the course of this paper several concrete examples of management services will be given which will help define the areas these services are apt to encompass.

**Limitation and scope of this study**

Although these additional services are open to all public accountants, whether individual practitioners, small, medium-size or national accounting firms, the question will be approached more particularly from the point of view of the opportunities it presents and the problems it poses for the medium-size public accounting firm.

Inasmuch as there is no generally accepted definition of a medium-size public accounting firm, the concept as
used in this work will encompass all public accounting organizations exclusive of (a) individual practitioners and smaller firms operating with only a few qualified accountants, and (b) a dozen or so larger organizations which offer nationwide or even international service through a number of decentralized offices scattered throughout the country or the world.

Undoubtedly many individual practitioners and small accounting firms will continue to perform management services with competence and success, but these services will of necessity remain less diversified and of lesser scope, and will be kept on a more individual basis which involves fewer organizational problems.

As for the national and international firms, their greater resources in both people and money, the broader basis of their activities, the kind of clientele they usually cater to permit them to engage in consulting work in a unique way. For several years, many of them have actually counseled their clients on a number of business problems, making formal studies and detailed suggestions. Some of these larger firms have set up specialized departments and solved the organizational and training problems involved in rendering such services in a way which the majority of the smaller firms could hardly afford to follow.

Between the major firms organized to offer a variety of management services to the most complex business or-
ganizations and the individual practitioners generally so much engrossed in auditing and tax work that most of them can hardly devote any time to formal counseling work, the medium-size accounting firms occupy a somewhat unique position. Their clientele comprises most of the so-called small businesses which constitute the backbone of the American economy. These innumerable businesses are looking more and more for outside managerial help.

This — and the fact that I am better acquainted with the problems of the medium-size accounting firms — have led me to study the question of management services more particularly from the point of view of these firms.

On the other hand, this work will concern principally those services rendered to manufacturing enterprises which present generally a wider range of problems than the other traditional clients of public accounting firms, such as purely commercial businesses, charitable, educational, or other non-profit institutions, etc. It should, however, be borne in mind that these other clients also offer many opportunities for consulting services.

Division of this study

This paper is divided into five chapters.

Chapter I is devoted to examining the nature of the need for management assistance, particularly among small businesses.
Chapter II studies the sources of management assistance and discusses whether public accounting firms are in a position to provide their clients with the outside help they need.

Chapter III illustrates the kinds of management services an accounting firm can offer.

In chapter IV are analyzed the rewards and pitfalls inherent in the performance of management services by an accounting firm.

Finally, chapter V contains a number of suggestions intended to aid in solving organizational problems posed by the expansion into management services.
CHAPTER I. THE NEED FOR MANAGEMENT ASSISTANCE

It would be vain and futile for a businessman to engage in manufacturing a product for which a market does not exist and cannot be anticipated to develop in the rather near future.

This holds true for services as well as for products. If management does not need outside assistance it is useless to discuss who can help it and how. It is therefore essential to establish clearly whether businessmen need outside help to carry out their management duties successfully.

To contend that they do would amount to a bold and disparaging statement if managing a business were not the complex function it has grown to be.

The time has long gone by when a minimum amount of common sense together with a few years of informal training within the business was all that was needed to take over the management with reasonable chances of success. Rule-of-thumb methods and decisions based solely on intuition have grown as obsolete in running a business as an hour-glass in keeping time. Management has become a subtle art and as its principles, its objectives and its methods are getting better analyzed and defined it is acquiring the status of a science with complex disciplines and multi-shaped techniques.
Evolution of the management function

It is not surprising that, like many other human activities, business management has been carried out at first empirically, on a trial-and-error basis, often by very able and strong-minded individuals. Like the skippers of the early crafts they relied only on their own judgment, they took advice from nobody and held themselves liable to none. They did not rely on instruments to find their way. Their skill and experience guided them, more or less successfully, through the shallows and the reefs. They anticipated storms and winds with more or less luck and planned their route accordingly.

Later, as navigation developed, vessels became better, faster, and bigger. The range of traveled spaces expanded to cover the Seven Seas. The number of ships at sea augmented considerably as did the number of passengers and the volume and value of cargos. Instruments - compass, sea charts, weather reports, radiotelegraph - became the inseparable aids of the modern seafarer. Seamanship became a complex science requiring long study and training.

Man's economic activity has similarly undergone a profound evolution through the ages. Slow at first, and for centuries constrained by social and religious forces, the evolution became more rapid during the Renaissance which saw the birth of business organizations, ancestors of our modern corporations. The pace increased in the second half of the nineteenth century with the growth of industry. But it was not
until the last three or four decades that the character of business management changed completely in an unprecedented revolution brought about by new economic, social, and political factors.

More and faster machines have been placed at the disposal of industry. Output has increased tremendously. New technological developments have continuously made available more productive equipment and improved processes. Operating costs have been reduced and production further increased. Markets have expanded — from within as populations grew and as lower selling prices made more products available to more people; from without owing to the constant pressure to find new openings for the ever growing outputs.

Business enterprises have enlarged. They have expanded geographically. Decentralization has brought them closer to their customers, to the sources of materials, to the labor supply. Vertical and horizontal integration has further increased their size.

To carry out expansion programs the need of capital has grown considerably. Management's own wealth has become insufficient to provide the necessary financial means. Banks, insurance companies, and other credit institutions have supplied additional short and long-term financing. More people have invested their savings — large or small — in other people's enterprises; ownership has been dissociated from man-
agement. Giant corporations have been formed financed largely by the savings of thousands of small investors.

Meanwhile, distances have disappeared: faster and better communications have helped reach more distant markets and made available new sources of materials. Ideas have diffused more rapidly and more unrestrictedly, putting new scientific and technological discoveries at the disposal of more people. Competition has increased and widened. Remoteness from a market no longer means exclusion from it. Numerous foreign products have appeared on markets traditionally competed for by national products only. Conversely the latter have penetrated foreign markets in greater number. Traditional products have lost their long uncontested acceptance and have been replaced by new ones. Customer's acceptance has become an unstable asset. It can be maintained only by constantly watching for fast changing demands, by continuously adapting and improving manufacturing processes and distribution methods. Customers' exigencies have increased. Producing the best available product at the lowest possible cost and distributing it through the most economical channels has become a daily challenge for any business enterprise. Failure to meet this challenge means unmerciful elimination.

Meanwhile, social evolution has brought about a new force with which management has to deal and negotiate - labor has organized. Union leaders have claimed for their fellow
workers a greater share of the wealth they help produce. Workers have won the right to be listened to and the means to enforce their claims. Beside increasing direct compensation, employees have been granted security and other fringe benefits of a wide variety. Working conditions have been improved considerably. Labor costs have risen.

Other political and social factors have markedly influenced business life during the last several decades. Periodic depressions have shaken the economic and social foundations of many countries. Abuses have called for protection of the economically weaker against the unscrupulous. Governments have intervened more and more on the economic scene. They have enacted more and more regulations to keep the economic activity of everyone within limits compatible with the rights of all.

Two World Wars have deeply affected the economy of most countries. In many of them they have generated social and political turmoil. The awakening of national consciousness in underdeveloped countries and their struggle to rid themselves of economic and political dependence from other countries have deeply modified long established trading streams. The split between the West and the East has cut off most economic exchanges between the two blocs. The shock of their irreconcilable ideologies and of widely divergent political ambitions has brought about a climate of mutual sus-
picion and fear. The need for self-defense and military preparedness has led to the armament race and to fantastically huge defense budgets.

To provide governments with the ever growing financial means they needed to carry out their social, economic, and defense roles, heavier and heavier taxes have been levied.

Inflation has been suffered everywhere. Currencies have depreciated. Prices have gone up under the pressure of rising salaries, growing government expenditures, and accelerated circulation of the money supply.

It would be preposterous to expect that such drastic changes in the political, social, and economical environment could have been brought about without affecting business management profoundly. Indeed, the growing complexities of this milieu have greatly modified the function and the practice of management.

**Complexity of present-day management**

Managing a business is no longer an ivory-tower occupation. It requires constant surveillance and forecasting of ever-changing external, as well as internal, factors. The management has continuously to ward off adverse elements and to grasp favorable opportunities as soon as they appear. This requires multitudinous skills and well-rounded experience.

The successful businessman knows his product and
its uses. He has a thorough knowledge of the market and of its fluctuations. He keeps an eye on his competitors, compares their products, and watches their moves. He is acquainted with distribution methods and pricing policies.

He is familiar with the kind of equipment he uses, with the materials and supplies he employs. He keeps posted about the sources, availability, and price fluctuations of these materials and supplies. He knows about plant layout, material handling, and manufacturing processes.

He watches the labor market and is conversant with the labor regulations and the compensation practices which prevail. He knows what skills are required to fill in any of his employees' functions. He is good at selecting and training his men. He is an excellent industrial relations man.

The successful manager knows accounting techniques, inventory and cost control procedures, and internal control practices. He closely follows new developments in taxation; he is able to recognize the present and future tax consequences of the policies he defines and the decisions he makes, and to use the tax laws for greater profits.

He has outstanding financial ability. He anticipates his needs for capital and knows when and how much to borrow, what terms he can afford. He is familiar with business laws, price and wage control legislation, and legal procedures available when his rights are imperiled. He knows where and
how to look for new ideas, new products, new processes which enable him to stay ahead. He is acquainted with a score of other subjects, from insurance to advertising, from office management to psychology.

If he were not conversant with all these matters he would imperil his business dangerously. If he were weak or ignorant in one phase of his manifold duties, if he were to let one of his functions go unheeded, he would jeopardize his enterprise and permit insidious cracks to set in, which may—and often do—develop into wide open gaps.

The sad story of business failures clearly testifies to this. Periodically, Dun & Bradstreet, Inc. compiles statistics of business failures and studies their underlying causes. It is significant that invariably the largest percentage of failures is traced to managerial incompetence and inexperience showing up in the lack or inadequate development of sound policies and procedures*.

In a study released in April, 1958**, Dun & Bradstreet analyzed those business failures reported in 1957 which "involved court proceeding or voluntary action likely to end in loss to creditors". Of some 13,700 such failures, about 80% are traced to incompetence, unbalanced experience, or lack of managerial experience. In this and in other similar studies,

* 56, p. 1
** 10, p. 2 and 12
the following pitfalls are most frequently found:

1. Inadequate records
2. Inaccurate information as to costs
3. Lack of inventory controls
4. Failure to budget expenditures
5. Excessive operating costs
6. Little or no internal control or check
7. Little or no tax planning
8. Faulty purchasing practices
9. Faulty sales policies
10. Insufficient capital
11. Lack of sound and effective credit policies
12. Excessive investment in plant and equipment*.

The number and percentage of failures due to management inability is not surprising when one thinks of the exacting skills required to manage a business successfully. More surprising is the fact that so many business managers fail to realize their shortcomings and to learn from those who have failed. Yet, how can they possibly acquire the diversified knowledge and the various skills, learn the numerous indispensable techniques, keep abreast of the latest developments, and still have some time left for managing their business?

Managing a business: a team work

Obviously, managing a business is not a one-man job. Nobody could ever accumulate the amount of knowledge and find the amount of time necessary to be an outstanding and well-rounded manager; therefore, running a business has become a team work.

* 56, p. I
This is illustrated by the variety of skills, experience and background represented among the top personnel of larger firms. It is dramatically exemplified by the numerous cases of so-called group management or multiple management which are to be found in an increasing number of larger companies. It is evidenced by the wider and wider use which is being made in business management, of methods and techniques borrowed from other sciences, of experts from many different fields: economists, statisticians, lawyers, psychologists, engineers, even physicians and pure scientists.

Complexities of small business management

It may be objected here that all this undoubtedly characterizes big business but that the management of smaller business enterprises - which are being considered more particularly in this paper - is not confronted with problems of comparable complexity. Although this objection appears to have some justification, so-called small businesses operate in the same political, social, and economic environment as larger ones. The internal setup of smaller firms may be less elaborate but they are exposed to the same external forces which they are often in a weaker position to withstand, and their problems are basically the same as those with which big businesses have to cope.

The management of smaller companies has likewise to solve questions such as whether to replace a machine and
when; whether or not to discontinue a line of products that yields an insufficient return; whether to try a new distribution channel; whether to make or to buy a component part; whether to hire one more salesman or to redistribute sales territories; whether to hire more office labor or to mechanize inventory keeping; whether to reinvest all of the profits or to declare a dividend; whether to borrow money or increase the equity capital; and many other similar problems.

The difference is less in the complexity of the problems than in the level at which they are posed. But, obviously, reaching a decision as to whether or not to spend $10,000 may be as crucial for a small firm as examining a proposed expenditure ten or twenty times greater in a larger company.

For smaller firms as for larger ones, never-ending search for improvement is the condition for survival and growth. In this struggle for continuous adaptation and betterment, small businesses are undoubtedly disfavored because their financial means are necessarily smaller. Also, they have little or no access to public markets for capital. Errors and miscalculations are likely to be more costly and more fatal to them as their working capital does not generally provide for buffer funds to absorb the losses. Then too, the impact of Federal taxation severely reduces their ability to plough profits back for improvement and expansion.

Smaller companies cannot afford to undertake costly
research and development projects to keep pace with accelerating technological changes. They cannot keep abreast of larger companies using mass advertising media and large scale promotion campaigns. Yet, except for special cases, they have to cope with sharp competition from big business.

Smaller businesses are often dependent upon a limited number of customers whose exigencies are great. Many are operating marginally and survive only because they confine themselves to providing their customers with non-standard, small-run, or specialized products or services which larger firms, geared to mass production, voluntarily disregard. Some live off subcontracting work they do for larger businesses: those are in a particularly precarious situation, for this surplus work is likely to be cut off at the slightest dip of their customers' activity.

Since the volume of their operations is smaller their need for materials and supplies is more limited and they often obtain less favorable terms from their suppliers. Should a product be in short supply they are unlikely to be given equal treatment with other bigger users of the product.

The relative vulnerability of small business has been preoccupying the government for some time. In May, 1956, a Cabinet Committee on Small Business was appointed for the purpose of "investigating the economic conditions of small business enterprises, of reviewing Federal policies and pro-
grams that affect them, of sifting hundreds of suggestions for governmental action received by the committee and of formulating a constructive program, both legislative and administrative, for expanding the opportunities of small businesses to prosper and grow."*

On the other hand, there is hardly a week when the national press does not publish pleas in favor of small business and comments on the need to provide a more favorable economic climate for them.

However, all too often, the proponents of aid to small business pass in silence over the fact that, while small business is a part of our economy which we wish to maintain because it performs a useful function, it also represents a tremendous amount of waste and inefficiency**. Many small firms should never have been started and many are bound inevitably to fail. If, out of every 100 new enterprises, about 50 go out of business within two years and only about 33 survive by the end of five years, the main reasons are traceable to internal deficiencies rather than related to unfavorable economic climate.

The managerial abilities of smaller businessmen are much more limited and their lack of balanced experience more acute. Oftentimes, the small businessman is a successful sales-

* 61, p. I
** 3, p. 20
Accordingly, he devotes much of his time and efforts to the phase of the business which corresponds to his ability. More often than not the other functions are inadequately performed. The organization is then an unbalanced body with one hyper-trophied limb draining most of its substance to the prejudice of other parts which become atrophied and threaten the life of the whole body.

This dearth of well-rounded experience is probably the heaviest liability of small business. It generates a great deal of their problems and causes most of their fatalities. It is one of the most compelling reasons why small businessmen need managerial assistance to an extent even greater than do larger companies.

**Internal vs. external management assistance**

The most logical way of providing a business enterprise with the diversified talents and skills necessary to manage it successfully, and the most currently resorted to, is obviously the hiring of a number of employees to which fragments of the authority and responsibility of management are delegated. These employees are chosen for their various skills, experience, and background. Each contributes to the attainment of the aims of the business by carrying out the duties assigned to him according to his particular abilities. Together they constitute the management team.
In larger companies the distribution of managerial responsibilities among employees of varied talent and proficiency is carried very far. Experts in a number of fields devote their specialized knowledge on a permanent basis to assisting top management. In many large organizations, work of a purely advisory nature is carried out by a specialized staff distinct from the line authority responsible for turning out decisions into action. Elaborate training programs are set up to broaden the managerial ability of younger and potential executives and to help them use their talents for the greater benefit of the enterprise.

Many smaller businesses are likewise employing a number of executives who pool their time and knowledge and share the duties of management. Undoubtedly many of them are adequately staffed to provide for the essential functions of management.

However, on the whole, help is of necessity hired on a less liberal basis than in bigger firms. Smaller businesses have often more limited financial means and offer fewer opportunities for advancement, which places them at a disadvantage in the competitive search for skilled collaborators. The functions of their personnel are often less specialized. Their employees' authority and responsibility are less appropriately defined and a part of their managers' time and attention is devoted to matters which could be taken care of at lower lev-
Many executives of small businesses are jacks-of-all-trades with little time left for constructive thinking and vital planning.

In many smaller businesses the philosophy of personnel hiring is different. Help is hired more on a "you-can't-attend-to-everything-yourself" basis rather than with a view to bringing in new talents. Some owners of small firms simply cannot delegate part of their authority. Others act as if they had a monopoly of brain power, thus depriving their organizations from the benefit of new ideas and new approaches which never have a chance of being tried out. Some unconsciously impress such a mark on the entire management team and dominate it so much that all independent thinking is banished.

Paradoxically, many of those whose opportunities of finding managerial assistance among their own personnel are more limited, are apt to disregard whatever help their personnel can give them. Too often, they look upon those they employ as mere subordinates whose sole purpose is to execute their commands without trying to think by themselves.

As a striking contrast, those large organizations which maintain an extensive staff of highly skilled executives are availing themselves more and more of the additional assistance of outside experts. The growing prosperity of the so-called management consultants testify to the broader and more pervasive use which is being made of their services.
Their value to business management is ever more widely recognized and their services in ever increasing demand. But, strangely, those who are in greater need of outside help have thus far sought little of it and the business consultants themselves have done little to attract smaller firms.

The case against outside assistance

Many small businessmen have undoubtedly never thought of calling in outsiders to make an independent appraisal of a problem and suggest a solution. Others have thought of it only to dismiss the idea after giving it more or less serious consideration.

Among the reasons most commonly given by those who do not employ outside consultants the following generally prevail.

I. "What can anybody teach me about my business?"
There are businessmen who do not want any advice, who feel they are fully competent to handle any situation which may arise. Several decades ago, this was a commonly prevailing attitude. The growing complexity of the business world has now made such a position rather ludicrous. In fact, those rugged individualists are becoming a vanishing race as most businessmen realize that "flying by the seat of the pants" is a defunct way of running a business.

2. "Our company is different. Our problems are peculiar." This may seem true of most any business enterprise
inasmuch as local environment and human factors differ from one company to another. Those who run a business and are entangled in the every day particulars of its management are apt to think of their problems as unique in some ways. Yet, fundamentally, when reduced to their essentials, most problems are common to many businesses. Consultants who have acquired a well-rounded experience through servicing a number of varied businesses are well aware of it. Often, what appears at first sight as a peculiar predicament turns out to be a common situation once the heart of the problem has been isolated from its shell of gloomy details.

3. "What do I pay my executives for, if I have to call in outsiders to solve our problems?" Obviously, it is the prime responsibility of a company's regular staff to recognize, analyze, and solve most management problems and nobody would suggest that consultants be called to do it in their place. But there are circumstances where the independence of viewpoint, the specialized knowledge, and the comparative judgment of an outside consultant would save both time and money. There are problems which a company's regular staff simply never get around to for lack of time or for a number of other reasons. Several specific situations will be referred to hereafter when reasons for outside assistance are examined.

It should be added here — and this also will be amplified later in this chapter — that outside assistance is no
substitute for sound management. The consultants assist, they do not tell. They suggest solutions, they do not decide. The responsibility for deciding which course of action to take in any specific situation rests with management and this responsibility is not to be alienated to consultants.

4. "I could not afford to hire management consultants."

Naturally the price paid for a service should be in keeping with the value of the service: one should not hire a specialist to do a clerk's job. Simple, routine problems will always be dealt with more inexpensively by the company's regular staff. Only worthwhile problems deserve to be referred to consultants.

Certainly, it may be difficult, at the time when a decision is to be made as to whether or not to hire a consultant, to evaluate the potential results of consulting services. This, however, is a common situation: many management decisions involve a calculated risk, a weighing of tangible and measurable expenditures against intangible and contingent benefits. This is the case whenever an advertising campaign is decided upon, when hiring an executive is being contemplated, and indeed in a score of other instances.

It is, of course, advisable not to deal with a consultant without checking his reputation and integrity. Besides, a reasonable estimate of the anticipated cost of the consulting assignment should be obtained so as to be in a position to
weigh the expenditure against the potential outcome of the work. It may certainly be added that advice given by competent and experienced counselors is often worth much more than the price paid for it.

5. "I got burned once and I certainly don't intend to be burned again."* Some companies have had unsuccessful experiences with consultants. Naturally not all of these are qualified and ethical. Some are fakers and incompetents. Some have oversold their services and made wild claims, "pie in the sky" promises. And there are those who are more concerned with buttering up their clients than with appraising the facts objectively and realistically.

However, failure to satisfy his client is not always to be blamed on the consultant. Not all problems can be solved even by specialists. Besides, there are undoubtedly numerous instances where management deserves the blame: Did they fully cooperate with the consultants? Did they disclose to the consultants everything they should have? Did they expect miracles? Did they give the consultants enough freedom?

Another reason which keeps businessmen away from outside advisers, is generally not uttered. It concerns a mental attitude which is not uncommon among small businessmen. It proceeds from their fear to be criticized, from the dread

* 53, p. I3
of having their shortcomings revealed. They refuse to admit, even to themselves, that the organization they have set up can be improved or to hear comments about the lack of organization which plagues their business. These are akin to those who claim they do not need any advice to run their business and, fortunately, like them they become fewer and fewer.

Meanwhile the proponents of the value of outside managerial assistance grow more and more numerous and the ranks of those who rejoice in having confided some of their problems to the critical analysis of management advisers grow larger and larger.

The value of outside assistance

Although the reasons why businessmen refer to outside consultants are varied and numerous, the motivations which lead them to, and the benefits they derive from, seeking outside advice can be broadly classified as follows:

I. Fresher viewpoint. The consultant who approaches the problem referred to him without being entangled in all their superfluous particulars and without preconceived ideas or prejudices, is more apt to get an objective view of the situation. He is in a better position to see the forest without being distracted by the trees. He is likely to look at the situation from a different angle and may be able to suggest new lines of reasoning, new ways of tackling and solving the problem.
2. Broader viewpoint. The adviser's broad experience in dealing with business problems and the knowledge he has accumulated in helping solve a number of them are placed at the disposal of management. Knowing how others have handled similar situations and being aware of the different degrees of success achieved by the various solutions tried out in analogous cases, the consultant has a vast pool of practical knowledge at his disposal, on which he can draw for the benefit of his clients.

3. Independence. The consultant has no personal interest in seeing one solution adopted rather than another. He is less tempted to be a yes-man to management; the numerous psychological reasons which may lead a company's executive to favor one course of action instead of another do not prejudice his judgment. Businessmen often hire him to check on their own thinking, either when they hope that they are right or when they suspect they may be wrong. When management is divided as to the way of handling a situation or coping with a problem, a consultant is hired to offer an objective and impartial viewpoint.

4. Lack of time. In many cases there are questions which management simply never gets around to from lack of time. Particularly in smaller businesses where management devotes most of its time to attending the most urging matters, less pressing problems are often put aside until it becomes
vital to deal with them. Outside management help in these instances is especially valuable as it permits these matters to be given attention before it is too late and often at lesser expense and effort than if a more serious situation had been allowed to develop.

5. Temporary help. Non-recurring problems, special situations are often referred to outsiders rather than handled by the company's own staff. This frequently avoids permanent additions to the company's payroll and in the final analysis it provides a comparatively inexpensive way of disposing of these problems.

Limitations of outside assistance

Obviously, employing management consultants is not a cure-all. It is not a substitute for sound management and should not be looked upon as a panacea. No matter how competent and skillful, business consultants do not have occult powers and they do not perform miracles. They should not be depended upon too much lest the company's executives fail to develop their own managerial muscles. Like antibiotics they should be used only when necessary lest the corporate body lose its own vitality and its capacity for self-correction.

Another important limitation needs to be emphasized. Responsibility for final decisions rests with management and should not be transferred to the consultant. His work is to analyze, gather the facts, and suggest solutions,
not to tell what to do. He is to report on what he saw and what looks to him as possible answers but not to take over management. Likewise, business executives should not abdicate their power of decision or shuck off their responsibilities even for disagreeable decisions.

It may seem trivial to recall that management's primary duty and raison d'être is to manage, but it is essential that the position of management consulting be clearly understood as a service to, and not as a function of, management. It is only as such that it can and should arouse the interest of public accounting firms.
CHAPTER II. THE PUBLIC ACCOUNTANT AS A MANAGEMENT CONSULTANT

In the last several decades a growing number of factors have contributed to making business management an ever-more demanding function. The nature, the philosophy, and the techniques of management have changed greatly. Business owners and executives have gradually given up their isolationism. They have relied more and more on the cooperation of a diversified staff which has come to comprise an ever-growing number of experts in a wide variety of fields.

Concurrently, the practice of referring management problems to outside specialists has been increasingly adopted by many business firms.

The outside specialists

The members of the legal profession have probably been the first to act as consultants to business management to whom they have provided their specialized knowledge and their legal experience in a number of circumstances: drawing up of partnership agreements, incorporation of a business, litigations, arbitrations, legal proceedings, etc.

Later, another group of outsiders – the accountants – came to be called on increasingly often by business management. When the necessity of keeping regular accounting records as a basis for supporting tax returns and reports to outsiders became more imperative, the accounting profession
started to play a growing part in devising and supervising accounting systems and procedures and in preparing tax returns and management reports. The increasing need for an independent verification of the business transactions and for the expression of an opinion as to the fairness and propriety of financial statements in the interest of stockholders and the public in general, has given public accountants the recognized status of independent specialists in the business community.

The services of these two professional groups—legal and accounting—are so commonly needed that there is hardly a business of any importance which has not used them at one time or another. In fact, most business enterprises have a regularly appointed lawyer and a designated accountant much in the same way as most people have a regular physician.

A number of other specialists have gradually appeared on the business scene. They offer diversified services to management in helping them carry out their duties. Many companies which rely on advertising to make their products known to their prospective clientele retain the services of advertising agencies. Before introducing a new product on the market, they have the opportunity of having a market study made by independent firms. They hire time-and-motion experts before starting the manufacture of new pro-
ducts. They have their insurance coverage reviewed by insurance specialists.

**Business consultants' widening realm of activity**

The number of these outside advisers who place their specialized knowledge and experience at the disposal of business management and the diversity of the services they offer have been growing tremendously in the later decades, in keeping with the increasing complexity of the business world and the growing importance of securing the best competitive advantages. Their ranks now include specialized consultants in engineering, property appraisal, plant layouts, material handling, job evaluation, labor relations, public relations, systems and methods, etc.

Several business consulting firms offer a wide range of advisory services and maintain a regular staff of hundreds of specialists in a wide number of fields. Most of these firms started as engineering consultants and the engineering field has often remained the center around which much of their activity revolves.

Meanwhile, some of these consultants have expanded into other fields and provide assistance of a broader scope and nature. The realm of their activity includes general and financial studies such as (a) business and economic studies of new business ventures to determine their technical and economical feasibility, (b) appraisal of management policies and business objectives, and development of programs for operating a
business more efficiently and more profitably, (c) appraisal of the effectiveness of present organization structure and development of plans for straightening organization and management, (d) general studies to determine important factors and problems affecting operations and earnings*. Several advertise such services as consultation on general financial and accounting problems, comprehensive surveys and installation of cost accounting systems, inventory controls, preparation and review of Federal and State tax returns, determination of tax liabilities under various types of proposed transactions.

In fact, these consulting firms have invaded areas which are closely connected with the traditional fields of activity of the accounting profession.

Public accountants in the management consulting field

Throughout the business world public accountants - more particularly certified public accountants who have a recognized professional status - have come to be widely relied upon to audit financial statements and certify their opinion thereof for dissemination to creditors, security holders and the public in general. They have gained public confidence and approval as independent auditors. Even small businesses which do not seek equity capital through public issue

* I4, p. 7
of stock and closely held family corporations where the everyday operations are under the direct and continuous supervision of the owners, feel the necessity of having their accounting records and their financial statements periodically scrutinized by independent auditors qualified to express a competent opinion as to the propriety of the accounting principles applied in recording the transactions and as to the fairness of the financial statements.

To be in a position to arrive at such an opinion the auditor has to make a comprehensive analysis of the business. He must review its policies, study the procedures followed, evaluate the existing internal control and carry out a number of tests and verifications with respect to the accounting data. During the course of his examination he has almost unlimited access to information about the affairs of his client and the thoroughness of his work depends largely upon how successfully he can identify himself with the business under review and understand the philosophy, the objectives, and the problems of its management.

The nature of the auditing function would seem to confer upon the auditor a unique opportunity to assist management with some of its business problems. Yet, most of the accounting profession has availed itself very little of this opportunity. Many auditors have neglected to volunteer advisory assistance which their clients would have welcomed. Most
have failed to regard themselves as business consultants and to encourage their clients to come to them with their business problems, with the result that in many cases business management has sought elsewhere for advice which their auditors might have given them.

Not all members of the accounting profession have, however, looked indifferently upon the encroachment made by other consultants into fields in which they felt qualified to help management. Several of the larger public accounting firms have gone into management consulting work, some of them in an extensive way. They offer consultation on a wide range of business problems and undertake engagements of a non-accounting as well as an accounting nature. They have specialized personnel in general accounting and cost systems, office management procedures, office and manufacturing layouts, estate planning, wage and hour stabilization, materials control, renegotiation, termination, price control, income planning, reorganization, pension and profit sharing plans, organization charts, machine accounting installation, electronic data processing, etc. These experts are usually accountants but some of them are industrial engineers and other non-accounting specialists.

These larger firms which have gone into advisory work in such an extensive way represent, however, a very small minority of the public accounting world. Public accountants in general and particularly local practitioners and small or
medium-size accounting firms, are not often identified as business consultants.

Yet, many public accountants have undoubtedly done a great amount of advisory work for the benefit of their business clients but little of this has been called "management services". Most consulting work has been done in an unorganized and informal way. Advice has been frequently transmitted orally and has not been properly emphasized. Substantially it has been given as a casual and unplanned outgrowth of auditing and tax work, e.g. when the auditor had noticed a weakness in the internal control setup or an opportunity for tax savings. In the large majority of cases advisory work has not been done by specialized personnel and has been limited to pointing out problems rather than suggesting constructive ways of solving them.

In fact, the emergence of public accountants as business consultants has been retarded by a number of factors and circumstances which have kept business management away from looking upon them as potential business advisers.

Factors limiting the role of public accountants as consultants

Before outlining the case against public accountants' participation in advisory services it must be mentioned that public accounting is a young profession in a state of evolution, still seeking for answers to a number of fundamental questions. A few of its top flight members are way ahead leading
the march toward new horizons while many merely stroll along or even trail far behind. The latter convey unfavorable impressions which reflect on the profession as a whole.

The descriptions and arguments which are presently submitted are not meant to characterize public accounting in general. They are rather illustrative of situations that apply to those practitioners who are so much engrossed in their daily routines that they are unmindful of the real opportunities of serving the business world.

Like most generalizations not all the situations set forth here apply individually to all of those they are intended to describe but many will doubtless recognize themselves in some particulars of the predicaments dealt with hereafter. It is also to be understood that most of the following observations are designed to be more specifically representative of "medium-size public accounting firms" with which this thesis intends to deal more particularly.

Probably the most important barrier to a greater participation of public accountants in the management consulting field is the accountants' failure to take a management view of business affairs. The accountants' outlook of business situations and their approach to business problems differ markedly from management's; their background and education are dissimilar.

The role and responsibility of accountants in the
business world are comparatively recent developments and the shadow of their counterpart of fifty years ago still darkens the image they convey to management. It would probably be an exaggeration to suggest that some businessmen still picture the accountant as a "wizened individual wearing a green eye¬
shade and sleeve garters"* whom they expect to find "perched atop a high stool, counting money or meticulously adding long columns of figures"**. Yet, some businessmen undoubtedly still receive the impression that their auditor is a rather odd person who enjoys writing down figures day after day, an arithme¬
tician who sees to it that figures always come out in balanced columns.

It is not rare even now to see management employ au¬
ditors without being convinced that they perform services com¬mensurate with the fees he is being charged. Once, several years ago, these businessmen thought that it would be appropriate to have their accounts looked over by an outside accountant, or they were perhaps led to call one in at the request of their banker, their partner, or a supplier. Since then, they have peri¬odically seen the auditor in the office next to theirs, iso¬lated in the mysterious sanctuary of accounting, surrounded by books of accounts, cancelled checks and vouchers. Now and then, they have answered some of his questions without really under¬

* 4, p. 14
** 4, p. 14
standing why they were asked. At the auditor's suggestion they have agreed to change the accounting treatment of several items of expenditure. Regularly the auditor has prepared a score of "adjusting entries" to be recorded on the books and he has left carrying a briefcase full of working papers covered with figures and notes. Then, secluded in his office he has drawn up an auditing report which for years has been prepared in the same stereotyped form and sophisticated language. At first, the management had made it a point to read the report from beginning to end but soon they noticed that it never contained anything important which they did not already know and that it presented detailed comments and information which they did not really need. Now they hardly give it more than a glance and they place the report in a file under key for possible (and improbable) future reference.

From time to time management moans at the amount of the bill but they rarely take any action and stay under the vague - and false - impression that they are paying what amounts to some sort of insurance premium for the assurance that the books are properly kept and for the prevention of frauds and errors.

In fact, many auditors are incapable of rendering helpful services to their clients because their approach to financial facts and figures is too narrow. They are overly concerned with rather academic questions of form and presentation, or at least they often convey that impression to man-
agement. However justified auditors are in spending days checking piles of cancelled checks against the entries in the cash disbursement book, no matter how right they are in insisting on changing the classification of an item of expenditure, management will hardly be convinced that they are doing something worthwhile. Many auditors are so much involved in details that most of their clients would not think of calling them in on business problems lest it entail long hours of protracted work.

Besides, public accountants are overconcerned with the past. Their imagination is encrusted in a psychology of book-balancing and historical recording of past results while the interest of businessmen is centered on the future. For businessmen the past is dead and nothing can be done about it except profiting by its lessons. It is not how much a given product has cost which is important for them but rather how much will be incurred or saved if a given action is taken. Recording and analyzing past data is necessary but far less important than seeking to influence future results. Too often the interest of management starts precisely where that of the public accountant ends.

Frequently too, the auditor speaks a language that his client does not know and abides by rigid rules that his client does not understand. Public accountants' conservatism, their quasi-religious faith in accounting principles, their respect for traditional and uniform ways of presenting finan-
cial data - all indispensable standards when the purpose of their work is to express an opinion regarding financial statements in the interest of the public - make it difficult for them to adopt broader viewpoints in engagements that do not involve auditing. Many resent sacrificing unnecessary accuracy for the sake of speediness. Many disfavor giving up customary presentations and choosing other forms which would be more readily understood.

The strict independence which public accountants are urged to maintain in all matters relating to audit engagements further separates them from management and makes it difficult for them to understand and support management's points of view without restriction in matters in which they are expected to place the interest of their clients foremost.

The outlook of many accountants is rather impractical. They think too much of the figures and too little of what the figures represent. They are concerned with the what's and where's rather than the how's and why's. They look too much at written documents, not enough at the physical objects and the people they stand for. They fail too often to sit back and reflect on their clients' operations. Why did Company A make a profit this year while most of the industry was in the red? Why did Company B make a smaller profit than last year? What does it take to make money in this field? What operating information does the management of Company C receive periodically? What information does it really need? Many of these
questions and more of a similar nature never cross the minds of some auditors.  

Often too they have little time to look critically and in a relaxed manner at the statements they have reviewed. The pressure for time is such that an assignment is hardly finished before another has to be started. During the peaks of auditing work a number of assignments are carried out simultaneously as many clients close their books at the same time of the year. Assistants have to be supervised, their work planned and reviewed, directions given to them and later checked to see that they have been properly executed. The client often has the impression that his auditor is an over-worked man who does him a real favor by giving him a few days of his precious time and arranging for the audit and the preparation of the report which will reach him just in time for his stockholders' meeting. When the "busy season" is over a good part of the next fiscal year has gone by and it is often too late to start reviewing the statements and bring to light situations that needed attention.  

Then too, many medium-size public accounting firms have serious personnel problems. The accounting profession, as a whole, does not seem to obtain a fair share of the better brains of the younger generation. Public accounting, in particular, has to compete with the private accounting field for qualified recruits and every year it loses a number of its
best trained men to private industry. Medium-size public ac-
counting offices are furthermore in competition with larger
public accounting firms and in the race for attracting and
keeping qualified personnel are at a marked disadvantage.
The opportunities they can offer to high-calibre recruits
are fewer and their financial means more limited. Some of
them employ inadequately trained personnel, poorly fitted for
public accounting work, lacking in professional background and
education, among whom the turn-over is unusually high. Supervi-
sing the junior members of the staff and seeing to it that
they exercise due professional care in the performance of
their duties create considerable demands on the time and a-
bertness of the firm's better trained men and increase their
responsibilities sometimes beyond a reasonable point.

Even some of their better trained auditors are lit-
tle qualified for rendering management services. The basic
training of a public accountant does not in itself turn him
into a business consultant. His professional education is
normally centered on, and often limited to, subjects directly
related to the techniques of accounting and auditing, supple-
mented by notions of tax and commercial law and completed by
a few years' practical experience in auditing and tax work.
In most states this is still all that is basically needed to
be granted a license to practice as a certified public ac-
countant. Obviously this narrow background is far from cov-
ering the subjects with which a qualified business consultant should be conversant. In fact, a CPA who fulfills only the minimum requirements for admission to the profession has no place in the management consulting field. It requires much additional background, skill, and study to be able to look upon management problems from a broad economic point of view which encompasses their full content of human elements, their manifold short and long-term repercussions and which gives due weight to their implication of intangible values that are not measurable in dollars and cents. Later in this paper, the necessary qualifications for management consulting will be examined and it will be made clear that they far exceed the ability of the average CPA.

The foregoing account of the factors which have prevented the accounting profession — and more particularly medium-size public accounting firms — from playing a significant role as business advisers, suggests that the main cause of this situation lies in the public accountants' failure to wake up to the opportunity and to equip themselves and their firms with the necessary qualifications. They have failed to acquire the complementary knowledge and skills, to broaden their viewpoints, and to accustom themselves to thinking in a practical, businesslike way free from narrow concepts and impractical approaches, and to revise their organizations with a view to making the most qualified of their men available for consulting engagements.
Their failure to take the necessary steps which would place them in a position to render signal services to management is all the more regrettable in that their position in the business world, the nature of the work they are already performing, the sphere in which they operate, and their recognition as a professional group put public accountants in a unique position to advise business management.

Public accountants' titles to management counseling

Public accountants have many natural advantages which place them in a choice position to be called upon by management who seeks help. The more important of these advantages will be examined presently, with special emphasis on the position of medium-size public accounting firms in relation to their manufacturing clients.

(I) The public_accountant: readily_available_adviser

In many companies the public accountant is the only professional outsider who is periodically in contact with management. In many small communities he is the only outside help management has at its disposal. He is often the person most easily reached when a businessman wants an outside opinion regarding one of his problems. Besides, he already knows so much of his clients' business that the clients do not resent telling him more about their troubles and difficulties. Then too, it is not unusual that a degree of intimacy develops between the businessman and his public accountant which facilitates com-
munication and understanding between them and creates a cli-
mate of confidence.

(2) Accounting: nerve center of the business

Because of the significance and role of accounting in business, the public accountant's knowledge and experience in this field places him in a privileged position to serve as a management adviser. Accounting is as old as business itself and one of its inseparable functions. The need for adequately recording income and expenses and for properly measuring financial results has always been present in business and has grown considerably in the last few decades. Accounting has become an indispensable tool of management and the efficient use of this tool is the key to many businessmen's success. It is essential to the effective control and profitable operation of any concern and with the emphasis being increasingly placed on scientific management methods, the role of accounting as a measuring device for evaluating and comparing the anticipated effect on the profit of several courses of action being contemplated, has been enhanced. Accounting has truly become the nerve center of business enterprise.

The public accountant's knowledge of accounting techniques, his familiarity with income and expense recording, and his ability to visualize the repercussions of management decisions in terms of profit and loss, place him in a choice position among business advisers.
(3) Knowledge of taxes

Most business decisions affect the potential profit of the company and have an effect on its assets and liabilities. This, in turn, influences the amount of taxes that will be owed. Now, taxes - Federal, State, and City - represent such an important portion of the cost of doing business that it is essential to determine as accurately as possible the tax consequences of possible courses of action. The analysis of a business problem is incomplete and the conclusions drawn from the analysis may be entirely erroneous and misleading if the tax aspects are ignored. The public accountant's tax knowledge reinforces his position still further as business adviser.

(4) Prior knowledge of the client's business

When confronted with an unusual problem, the management of a company may contemplate consulting an outsider but often dismisses the idea on the ground that it would entail acquainting the adviser with the business, its objectives, its organization, and supplying him with background information regarding past performances. All this requires time which management - particularly in smaller businesses - may not be able to spare and it may increase the consultant's fee beyond the limit of money that management is prepared to spend for securing the outside advice.

This situation is less likely to occur when management contemplates referring a problem to the public accountant.
who is already familiar with many particulars of the business. Through his regular audit work he has already become acquainted with the client's operations. He has reviewed the internal set-up periodically. His contacts with the client's personnel have given him the opportunity to evaluate their abilities and notice their weaknesses. He has in his files information relative to the company's past performances. Often, only a minimum amount of background information has to be given the public accountant before he can intelligently tackle the specific problem referred to him.

(5) Breadth of Knowledge and Experience

As much as any other group of business consultants public accountants have the opportunity to acquire a varied experience of business affairs. Most public accounting firms serve a variety of businesses and medium-size accounting offices have a mixed clientele ranging from home workshop industries to branches of nationally recognized corporations. Day after day their members are involved in business situations and if they have an attentive and curious mind and the least interest in what they observe, they are bound to accumulate an extensive pool of knowledge regarding the way in which businesses are operated. Furthermore the periodical nature of audit engagements gives them a rare opportunity of learning about the results—good or bad—achieved through the course of action chosen in a specific circumstance, while
other groups of consultants may never hear about the outcome of business decisions even when they have cooperated in reaching them.

(6) Professional status and discipline

Unlike most other business consultants, the certified public accountant is a member of a profession that has achieved public recognition and gained public confidence. When he undertakes to render management services, he is subject to all the rules of professional conduct governing his varied activities.

Conversely, most other so-called management consultants do not have to satisfy recognized standards of training. No licensing is required before they can practice as consultants. The great majority of them do not belong to professional societies which maintain ethical standards and have the means to enforce them by disbarment. So far as is known the only professional association in the United States composed exclusively of management consultants is the Association of Consulting Management Engineers which maintains its headquarters at 347 Madison Avenue, New York. It endeavors to raise the level of advisory practice and has adopted a code of ethics. It requires of its members a record of professional success of five years or longer, a reputation for adherence to ethical standards, and professional competence demonstrated by the training and experience of principals and staff*. However,
ever, its membership, restricted to firms having a reasonably broad practice, counts only forty-one* firms among the larger organizations specialized in advisory services.

Although some of these prominent firms offer their services to smaller businesses, most of their activity is devoted to larger business organizations. More narrowly specialized consulting firms and the numerous other management consultants, with which a medium-size public accounting firm is more likely to compete in offering advisory services to its clients, do not have the prestige and professional status of the members of the American Institute of Certified Public Accountants.

The factors and advantages which have just been reviewed place public accountants in an outstanding position for advising business management and it is regrettable that, in spite of this, they have not achieved a recognized status as business consultants. It is, however, not too late and those who are willing to equip themselves and grasp the opportunity which is offered will find management consulting a wide field of challenging and rewarding activity.

* 12
The paramount importance of profit in the operation of a business enterprise is evident: in a capitalistic society profit is the prime objective of business activity, the yardstick of business performance, and the major incentive to private initiative.

Management is, and should be, profit-minded. It is therefore vital for businessmen to measure adequately the profits realized as soon as possible after they are obtained. Equally as important is to forecast the effect on future profits of decisions being made or contemplated.

It is indispensable for businessmen to know how the profits were obtained. How much did the sales amount to? How much was spent to produce or acquire the goods sold and how much was thus left as gross profit? By how much was this decreased for operating expenses? What part of the net profit was paid out as taxes? etc. Management must also know where the profits were obtained. How much did we make in Department A? How profitable was Product B? How did the cost of distributing Product C affect its profitability? etc. All these questions and a score of others need to be answered carefully in order to place management in a position to influence future profits by properly selecting the courses of action that are apt to yield the greatest financial rewards.
This implies the correct determination, classification, understanding, and interpretation of accounting data. Indeed, it has been stated, not without reason, that accounting is one of the most important of management skills. But because its techniques are intricate and exacting it is also one of the least understood and most often misused. All this suggests that public accountants who have made it their specialty to deal with accounting techniques and who have been trained to handle accounting data should find endless possibilities to help management through the competent use of their accounting knowledge.

It is not my intention to enumerate and review all the areas in which opportunities lie for public accountants to render services to business management, nor to list the types of services they are able to handle. Several attempts have been made to illustrate these services and the accounting literature of the past several years contain numerous references to the matter. However, two tentative listings of consulting services which may be offered by public accountants deserve a special mention here.

One is the pamphlet entitled "A Classification of Management Services by CPAs*" to which allusion has been made in the introduction to this paper. This classification was

* 8
prepared by the American Institute of Accountants' special committee created to examine the problems related to the performance of management services by CPAs. The pamphlet, made available to the members of the Institute in September, 1956, devotes seven of its fourteen pages to listing management services under ten major areas of business management:

I. General Management and Administration
2. Finance
3. Production
4. Sales
5. Office Management
6. Purchasing
7. Traffic and Transportation
8. Personnel
9. Research and Development
10. Other Professional Services.

In view of the diffusion the pamphlet has received it is not reproduced here.

Another list of management services by CPAs has been made available to the participants of the Fourth Biennal New England Graduate Accounting Study Conference held at Colby College, Waterville, Maine in September, 1955. The list was used in connection with a lecture delivered by Harold A. Mock, CPA.

The foreword to the list states that it is "intended to cover the more unusual services which the CPA is prepared to handle or is at times called upon to perform. It therefore does not include several of the traditional and commonly recognized services of the public accountant such as auditing, the preparation of income, gift, and estate tax returns, the handling of other tax matters, bookkeeping service, the preparation of unaudited financial statements, advice on matters of accounting procedure, and the preparation of reports to credit agencies, etc."
In spite of the exclusions stated in this foreword and although "it does not attempt to cover problems related to specific industries" and "does not pretend to exhaust the possibilities", this list is substantially more comprehensive than most of those which have appeared in the current professional literature. In view of the limited circulation that the list has had, it is reproduced for reference in the Appendix to this paper.

The content of the two lists that have just been mentioned brings to light the great variety of services which the accounting profession may render to businessmen and the many divergent areas of business management that these services may embrace. Even if these two lists do not exhaust the possibilities that exist for public accountants in the field of advisory assistance to management, they constitute useful checklists for those who contemplate entering the field and want to determine the services they are best competent to handle.

Chapter V will deal more fully with the selection of the types of services to offer. Meanwhile, the balance of the present chapter will exemplify some of the services a medium-size public accounting firm may be able to render to its small and medium-size manufacturing clients. Three examples of such management services will be dealt with and two case histories expounded.
Examples of management services

The following areas of management assistance by public accountants will be reviewed:

1. Helping a new business get started
2. Budgeting
3. "Public controllership".

Helping a new business get started

Everyday throughout the nation new businesses spring up. With high hopes new people start their "own business". For many it is the chance they have long been looking for. For all, it means new opportunities, freedom to use one's own ideas, to be one's own boss. The advantages and pleasures of operating a business of their own enthrall them. It fills them with a sense of independence. It brings them a sensation of pride and an anticipated feeling of satisfaction at seeing the business build up gradually.

They have obtained knowledge of the business through actual experience in it. They feel otherwise qualified and have acquired sufficient training. They have the necessary financial backing or at least they feel they do. Nothing can possibly go wrong. Possible dangers and pitfalls have been investigated but none has been deemed serious enough to imperil the venture. The thought that thrill and excitement may have dimmed some of the threatening reefs that lay ahead, has been dismissed. And they have embarked on the adventure.
The idea alone that overoptimism and overconfidence may be present makes it advisable to seek outside assistance to review the facts on which the decision to start the new business was based.

Unless he is the narrow-minded or obtuse type, the public accountant is often able to provide valuable help in this respect. He has seen many businesses get started and has had the opportunity to watch their first steps. He knows the pitfalls that threaten young businesses. He has seen how successfully the dangers have been averted in some cases and how weaknesses have been allowed to develop into hopeless situations in others.

He can help figure out the amount of starting capital needed under the circumstances contemplated and for several variations of these circumstances. His habit of dealing with business data may suggest to him that some expenses have been overlooked or grossly underestimated. His impartial approach to the problem should happily counterbalance the excessive optimism to which the new businessman is naturally prone.

The public accountant can determine for his client the level of activity necessary to cover all expenses and charges - fixed and variable - under various operating hypotheses, compute the capital needed in each case, as well as the anticipated return on investment. He can thus assist the new
businessman in determining the best possible operating conditions to reach for in keeping with the financial resources available. If the capital required should exceed what the businessman can afford to invest, the public accountant may help him find other sources of financing and if several are available he will point out their relative merits and disadvantages and assist in comparing their respective cost.

The public accountant will furthermore investigate how the capital will be managed. How much of it will be invested in fixed assets? How much inventory will be needed? How much accounts receivable will the company have to carry? Who should get credit and how much? How much should the owner draw as salary? If the volume of business should grow after a few months wouldn't the lack of working capital prevent operating beyond a certain level? The public accountant will make the new businessman think of all these points and define clear-cut policies with respect to a score of management functions. He will make his client anticipate future problems and prepare for their solution, and keep him from being confronted with unexpected situations that might have been anticipated and prevented.

The accountant will devise a system of record-keeping that gives periodical information as to income and expenses, cost of producing and distributing, financial results by line of products, etc. which the businessman needs for measuring
and reviewing past performances critically and planning efficiently for the future.

By sharing with the public accountant, at the very outset of the venture, the problems, objectives, and expectations of his undertaking, the new businessman will place the public accountant in the best possible position to act as a valuable adviser in later years, much in the same way as a family doctor who has helped the children go through the diseases of their infancy and childhood, gets to know their health history so well that his later diagnoses are greatly facilitated and the efficiency of his services considerably increased.

Budgeting

For some reason, budgets are most often associated in the business world with large companies with multi-million dollar plants, a large labor force, nation-wide sales and a complicated internal organization. On the whole, the management of smaller businesses has shown little interest in budgeting, probably for the following two main reasons:

(a) failure to understand budgeting, to realize that simple budgets may be tailor-made to fit the needs of their businesses, and to visualize the tangible advantages that can be derived from using budgets,

(b) lack of the self-discipline needed to define objectives and policies, and to "think ahead".
Budgeting has different meanings for different people. For some, it is a complicated system for guessing the volume of sales that can be expected. For others, it is an estimated cash flow or a projected financial statement. For people more familiar with the notion of budgeting, it is a complete financial plan together with a controlling device to help in bringing the plan into realization.

The financial objective of budgeting makes it a natural field of management service for public accountants. In view of the apathy of small business regarding the use of budgets, public accountants have a rare opportunity to play an outstanding role in educating many of their smaller clients in the merits of budgeting. This, however, will be a long and slow educational task requiring salesmanship, persuasion, enthusiasm and psychology, as well as a practical, down-to-earth approach. It will not suffice that the public accountant convince his clients somewhat academically of the necessity of planning before acting. He must be prepared to demonstrate clearly the tangible benefits that may be derived from budgeting. He must be able to show concretely how budgets will help run the business more efficiently by providing a highly versatile managerial tool that affords:

(a) a thorough analysis of past operations bringing to light the trend of sales, costs, and expenses
(b) a measure to compare actual performance and expectations
(c) a nucleus around which all activity can be co-ordinated
(d) a guide for the most effective use of the resources in men, money, materials, and machinery, at the lowest cost to the business

(e) a means of fixing lines of responsibility among the personnel

(f) a way of reducing losses by carefully considering the expenditures as to their purpose and effects before they are being incurred

(g) a check against too much capital being tied up in some assets while it could be used more efficiently to other ends

(h) a means of recognizing weaknesses before they grow and an opportunity to overcome them before they develop into serious perils.

In devising budgets for small businesses the public accountant can best help by proceeding slowly, step by step. At the beginning, only simple budgets should be undertaken lest the time and effort they require exceed what the business can reasonably afford to spend on budgeting. At first, budgets do not need to be refined; even rough approximations are better than nothing and are valuable criteria in making decisions.

The budgets should always be prepared in collaboration with the people responsible for carrying out the various functions that the budget concerns. This forces them to think about future operations and accustoms them to do advance plan-
ning. The public accountant should not be overly concerned by the executives' tendency to provide for wide margins of safety in the budget figures; he should not prevent them from estimating the expenses liberally and stating the anticipated income conservatively. In the following years, these imperfections will correct themselves in the light of the actual performances. The main objective is to attain full acceptance by the management and by the company staff of the potential uses of the budget. This will be obtained only gradually and precludes reaching for perfection immediately. Refinements should be introduced later and little by little. At the outset, the budgets need not conform to any conventional style. On the contrary, they should be especially adapted to the types of records kept, the qualifications and limitations of the accounting personnel, and the personality of management.

The introduction of budgeting in a small manufacturing firm could be approached as follows. The heart of the budget is normally a projected statement of income and expenses and the first step is to prepare a sales forecast in collaboration with the person responsible for the sales function. A typical reaction to be expected from him is that "in this kind of business it is impossible to forecast the amount of sales that can be obtained in any future periods." It may not be easy to convince him of the contrary. Yet, it is rare that by reference to the sales figures for several recent periods a pattern
can not be found and a trend noticed. Extrapolation of the
tendencies recognized should in most cases provide for dis­
cussion with the management with a view to arriving at a mu­
tually agreed upon estimate of the sales for the period cov­
ered by the budget. If no such agreement is reached it may be
necessary to prepare several operating budgets predicated on
two or three different levels of sales.

The next step is the determination of the fixed ex­
penses. A review of the operating statements for several pre­
vious periods permits the experienced accountant to isolate
and measure the expenses that do not vary in proportion to the
sales. These figures are then amended by discussion with man­
agement to reflect the changes contemplated in the operating
conditions. This part of the operating budget often proves to
be the easiest to determine because the level of the fixed ex­
penses usually has little bearing on the specific responsibi­
ties of any one executive so that the estimation of these ex­
penses is less capable of being distorted by bias and preju­
dice. On the other hand, it is an important part of the oper­
ating budget because the fixed expenses are incurred even if
the business should operate at a fraction only of its normal
capacity.

A further problem is to evaluate the variable ex­
penses that will be incurred to operate at the level or lev­
els of activity anticipated for the period under review. This
also requires an analysis of the operating statements for the several previous years in order to bring to light the nature and degree of relationship between the sales and the expenses that vary according to the volume of sales. The result of this analysis is a good starting point for establishing the variable expense budget in collaboration with the management team.

Once the income, fixed expense, and variable expense budgets are formulated, they are combined into a projected operating statement that reveals the net profit anticipated for the level or levels of operating activity contemplated. Such valuable data as the percentage of net profit on sales and the net return on investment can then be computed. If they are not deemed to be satisfactory, the budgeted figures will have to be reviewed. The sales forecast should then be reconsidered and a study made to determine if and how sales can be increased. The expense budgets should be scrutinized with a view to eliminating non-indispensable items and reducing the estimates wherever feasible. This revision may at times bring to light the necessity for drastic changes before an acceptable budget can be arrived at to serve as a goal toward which the co-ordinated efforts of the entire company staff will be directed.

The operating budget usually extends over a period of one year but its usefulness is greater when it is further
broken down to cover shorter periods, for instance quarters. In businesses where the distribution of the sales throughout the year is not normally affected by seasonal variations, this may be done simply by dividing the budget into four equal parts. In other cases, the public accountant should review the sales figures for the preceding several years and compute seasonal indexes on the basis of which the sales and the variable expenses budgeted can be allocated to each quarter of the year. If it is deemed advisable, the operating budget can also be broken down by lines or categories of products so as to broaden its significance and usefulness.

A flow-of-cash budget may easily be obtained as a by-product of the operating budget. It shows the periods during which portions of the cash balance are expected not to be needed and are thus available for eventual short-term investing, and periods during which the cash balance may fall short of the amount needed and may have to be supplemented by short-term borrowing. It helps planning for the best possible use of the cash available and for appropriate timing of the cash disbursements.

The preparation of budgets as simple as those which have been described should prove invaluable to most small and medium-size businesses and yield returns far greater than the expense involved. Beside providing the key people with an opportunity to work as a team for the elaboration of the budgets and compelling them to "think ahead", it helps define their
share of responsibility in the attainment of the objectives stated. The budgets also serve as a yardstick for measuring actual performance and pointing out major deviations, thus permitting "management by exception."

To medium-size public accounting firms that succeed in arousing their clients' interest in budgeting and that are capable of educating them in the art of using budgets as a management tool, the field of budgeting offers real opportunities for constructive and tangible management services.

"Public controllership"

The expression "public controllership" has appeared several times in the accounting literature of the last few years. The type of service it suggests deserves being mentioned here as an example of advisory work that medium-size public accounting firms may offer advantageously to their manufacturing clients.

In the organizational structure of most business enterprises of a certain size, a management function is to be found which is habitually referred to as controllership. The controller — sometimes called more modestly chief accounting officer — is responsible for assisting management in policy-making, in controlling the operations and in taking the necessary measures for protecting the assets of the business. While the chief executive is the commander of the ship, the control-
ler is the navigator, the one who keeps the charts and informs the commander as to where the ship is, what route it has followed, what speed it is making. He reports on the resistance encountered, the variations from the course, the shallows and reefs to avoid, and he suggests the route to follow in order to reach the destination safely.

This function of guidance, control, and protection is vital to any business organization whatever its size and none could operate efficiently without a minimum of it. Yet, for obvious financial reasons, many small businesses cannot afford to hire the specialized personnel necessary to carry out the tasks that the function implies. Besides, in many cases, these tasks would not require the attention of a full-time controller. To these businesses the public accountant has an opportunity to offer the service of "part-time controllership".

This could be achieved, for instance, by organizing the accounting firm in such a way that one or more of its especially qualified and specifically trained men act as "roving controllers" visiting several clients periodically and providing them with the services of part-time controllers.

The nature and scope of the services that can thus be offered to management are varied and numerous. They would normally include the following type of assistance:

(a) devising and supervising an adequate system of books and records designed to provide for the preparation of period-
ical operating statements

(b) preparing standard journal entries to facilitate the compilation of these operating statements by the regular accounting staff of the client

(c) organizing a system of perpetual inventory that permits easy determination of the inventory figures for interim statement purposes, affords a means of checking the periodical physical inventories, prevents pilfering, and readily supplies information concerning the turn-over of specific items

(d) organizing simple budgets and educating management and staff to use them efficiently

(e) organizing and supervising simple cost accounting procedures

(f) helping define sales policies, determine the most profitable "product mix", develop adequate bases for computing salesmen's commissions, etc.

(g) reviewing credit policies, investigating deviations from established terms of sales, and checking measures taken with a view to collecting overdue balances

(h) advising as to the tax consequences of contemplated transactions.

Case histories

The three examples that have just been cited are only a few cases of management services that can be offered
by public accounting firms to their clients. In order to illustrate more vividly the benefits a manufacturing firm can derive from using the consulting services of public accountants two case histories will be described briefly.

The first case concerns a screw machine products company whose management was so much engrossed in the day-to-day problems of the business that it had failed to recognize a situation that was exerting an unfavorable influence on the profits. The public accountant, called in to investigate, brought the situation to light and helped remedy it. The second case concerns a small foundry that was losing money. The owner consulted a public accountant who, after examining summarily the problem at hand, devised simple cost records and procedures from which a study was made of the profitability of the various types of business handled. The study revealed that the type of work done for one of the customers was so unprofitable that the loss incurred on this portion of the business more than offset the profits obtained from the rest of the activity. Eventually, a solution was found to eliminate the unprofitable orders and increase the overall financial results.

These two cases are based on true situations I have encountered in the course of my public accounting career. Only the names of the two existing companies and a few other details have been withheld.
Case #1. The Carlisle Machined Products Corporation

The company was incorporated several decades ago and had been operating at a profit almost every year ever since. Its business consisted of large runs of small-size screw machine products, mainly component parts for the automobile, instrument, and controlling device industries. Although the field was highly competitive, especially since World War II, the company had succeeded in increasing its share of the business and the number of its repeat orders had been growing steadily.

Bids were being prepared very carefully and were given a great deal of attention by the president himself. Whenever an estimate was made prior to bidding for a part not manufactured previously, the president used to review the computations step by step and ascertain that the price had been properly determined, before he approved the price to be bidden.

The cost of materials was figured by taking into consideration the final weight of the parts, the anticipated waste of material, and the current market price for the steel, brass, or bronze bars that were to be used. A careful study of the operations to be performed was made. The number of parts that could be machined per hour was carefully estimated for each of the operations involved. Predetermined standard machine costs per hour were being used to price the machining costs. A provision for the cost of dies, tools, jigs, etc. was
included and an adequate percentage was added to cover the selling and general expenses based on a conservative estimate of the total volume of sales. A predetermined margin of profit was added to the total.

Whenever an order was obtained and production completed the actual cost of materials and the actual machining time for each operation was compared with the estimates. These comparisons usually revealed that the estimates had been conservative and that, on the whole, the prices quoted were on the safe side. When major discrepancies appeared - which was the exception - proper annotations were made so that future bids for the same item could be more adequate.

Yet, the Carlisle Corporation's annual financial statements almost invariably failed to show a percentage of profit in line with the margin of profit which was being provided for in the prices bidden. For several years, the management had been at a loss finding a satisfactory explanation for this discrepancy. As a last resort, they decided to have an outsider review the procedures followed for preparing the estimates and comparing them with the actual costs incurred.

The public accountant who had audited the books of the company for several years was called in to examine the problem after it became apparent to management that his prior knowledge of the company's operations and records would enable him to carry out the assignment in the best possible con-
ditions of time and expenses. Shortly after being briefed on the objectives of the engagement the accountant started his examination. He selected five orders recently completed and thoroughly reviewed for each of them the procedure followed to arrive at the price quoted. For each of the orders he then compared the estimated cost of materials and of machining time as against the actual performance. He satisfied himself by reference to the actual labor, manufacturing, selling, and general expenses of a recent period that the standard machine costs per hour and the percentages of selling and general expenses used in the estimates were realistic. Before long he noticed that no comparison was being made between the estimated and actual cost of tools and dies.

The company had had its own tool room for several years. The tool room had been organized after it had become apparent that the company could save an appreciable amount of money by making its own tools. An expert tool-maker, a friend of the factory superintendent, had been hired. He had successfully cultivated management's belief that making the tools needed was necessarily less costly than buying them, and he had shortly found himself in charge of a tool-making department that had grown to include several other tool-makers and that was being operated somewhat as a sanctuary. Meanwhile, tool costs were being included in the estimates at their estimated current market price which was assumed to be higher than the actual cost incurred in making them.
The public accountant decided to investigate further the cost of operating the tool room. From the accounting records he isolated the labor and overhead costs applicable to the tool room and eventually he proved that these were greatly in excess of the amounts provided for in the estimates. A further examination revealed that the cost of steel used for tool making was abnormally high because of the relatively small quantities needed. It disclosed a defective storage system and revealed that oftentimes it was impossible to locate tools previously made when they were further needed for a repeat order. Often in these cases new tools and dies were being made while no further tool allowances were being included in the estimates under the assumption that tools and dies were going to be used that had already been paid for by a previous order.

The accountant's findings led management to request that he make recommendations intended to establish control over the cost of operating the tool-making department. A job-order system was inaugurated in the tool-room, together with simple records for allocating the cost of materials used and for keeping track of labor costs. An analysis of overhead costs was made with a view to arriving at a standard overhead rate per hour of direct labor. Meanwhile, adequate facilities were provided for the storage of tools and dies and an appropriate classification system was devised.
Prior to bidding for a specific part, a careful estimate was then made of the cost of making the tools needed. This was in turn compared to the estimated cost of buying the tools. In several cases, estimates were requested from a local tool-making company. (In some instances, orders were eventually placed with them.) After an order was received by the Carlisle Corporation and the tools made, the actual tooling cost was compared with the estimate.

Before long, it was proved that the tool room could be operated with fewer people and two tool room employees were transferred to the production department.

The savings in tool costs for the fiscal year following that in which the reported changes were introduced, were estimated at $9,400 and the discrepancy between budgeted and actual profits had been largely eliminated. The public accountant's work in connection with the survey had taken about two weeks and the fee charged $1,050 (less than 12% of the following year's savings).

Case #2. The Acme Foundry Company, Inc.

The Acme Foundry Company was a small foundry operated by its main stockholder. It had been in existence for over twenty years. Except for the period immediately following World War II and during the Korean War boom it had never shown more than a meager profit although the owner drew only a very moderate salary.
From 1953 to 1956 the rate of activity had been very low and there had been periods during which the furnace was not fired more than two or three times a month. During the year 1956 the foundry's owner was approached by a machinery manufacturer who had recently moved into the neighborhood and was looking for a supplier for a wide variety of castings. Although the Acme Foundry did not quote the lowest price of the three foundries contacted at the time, it was given preference because it had the advantage of proximity and because it agreed to give priority, whenever requested, to the work to be done for the machinery company.

In the succeeding two years, the foundry did an increasing amount of business with the machinery company and in 1957 and 1958 that part of its activity had grown to about 70% of its total sales. Meanwhile, the labor force had grown to comprise, beside the owner himself, six or seven full-time workers (molders, furnace operators, pourers) assisted by several part-time workers called in whenever additional help was needed to handle the parts and the patterns, to prepare and bake the cores, shake the castings from the molds, remove adhering sand and clean the parts. The foundry then normally "poured" twice a week. Yet, despite the increase in the volume of business handled, the foundry had not shown a profit either in 1957 or in 1958 and its owner had not even been able to raise his salary to a reasonable amount.
In 1958, the owner tried to obtain a price increase from the machinery company but he was told that his figures were already higher than his competitors' and he had to give up seeking an increase for fear of losing the business. Besides, the purchasing agent of the machinery company was convinced that the price paid for the castings should enable the foundry to make a fair profit. He suggested to the owner that he should have his books reviewed and he gave him the name of the machinery company's auditor.

This auditor was eventually called in and he proceeded to observe the foundry operations and to make an examination of its operating expenses. He readily noticed that a simple method of allocating labor costs - which represented approximately 50% of the operating expenses - would permit the measuring of the relative profitability of the various segments of the foundry's business. As the nature of the work done for the various customers stayed fairly constant over the year as to size and complexity of the castings made, he decided to make a simple test of profitability by customer rather than by order or by group of parts of similar size or complexity.

He devised a simple system for recording the time spent by the labor force with respect to the work done for each customer. He explained the system thoroughly to the foundry's owner who was to keep the records and he suggested that he would return after two months when enough data would have
been gathered to serve as a basis for a profitability analysis. Meanwhile, in order to permit an allocation of the cost of materials used, each "firing" of the furnace would be numbered and the corresponding number recorded on the copies of the invoices relative to the parts poured from each firing. Rejects would be weighed and a listing of the weights kept, by customer, for each firing.

Two months later, the accountant returned and prepared a statement showing the relative profitability of the business done for each customer during the two months elapsed. This statement is summarized as follows:

<table>
<thead>
<tr>
<th>Customers</th>
<th>Sales $</th>
<th>% of total business</th>
<th>Operating expenses $</th>
<th>Profit before taxes</th>
<th>% of profit on sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery company</td>
<td>10,500</td>
<td>67.7</td>
<td>9,000</td>
<td>1,500</td>
<td>14.3</td>
</tr>
<tr>
<td>Customer A</td>
<td>2,600</td>
<td>16.8</td>
<td>3,720</td>
<td>(1,120)##</td>
<td>(43.1)##</td>
</tr>
<tr>
<td>Other customers</td>
<td>2,400</td>
<td>15.5</td>
<td>2,280</td>
<td>120</td>
<td>5.0</td>
</tr>
<tr>
<td></td>
<td>15,500</td>
<td>100.0</td>
<td>15,000</td>
<td>500</td>
<td>3.2</td>
</tr>
</tbody>
</table>

This analysis brought to light several points of interest:

(a) The business done for the machinery company was very profitable. Profits before taxes represented 14.3% of sales

# including a salary of $100 a week drawn by the owner
## loss
as against an average of 8.26% for the most profitable 27 firms out of 107 foundries analyzed in a study published by Dun & Bradstreet, Inc. for the year 1957.

(b) The business done for the customers grouped under the heading "Other customers" in the summary given above was also fairly profitable. Profits before taxes represented 5% of sales as against a national median of 5.36% according to the abovementioned Dun & Bradstreet study. The analysis further revealed that for none of these customers did the price billed fail to cover at least the out-of-pocket expenses applicable to the work done for each of them.

(c) The business done for customer "A" was very unprofitable. The price billed to him did not even cover the out-of-pocket expenses applicable to this segment of the business. In fact, the loss realized on this part of the foundry's activity was responsible for the poor overall results obtained during the period.

By discussing with the owner, the accountant learned that company "A" was an old customer of the foundry and that its manager was an old personal friend of the foundry's owner. The price billed to company "A" had been established long before and had not been revised ever since. The owner of the foundry had never given his serious attention to this on the ground that the price per pound charged to customer "A" was
about the same as that billed to the machinery company and in view of the relatively small proportion of the business that the work done for company "A" represented. Although he realized that the same price per pound would not yield the same profit from both customers, the foundry manager had failed to realize the wide difference of profitability resulting from the fact that the bulk of his business for the machinery manufacturer was made up of relatively bulky castings while most of the work done for customer "A" consisted of small-size castings, some of which weighed less than one pound.

The accountant suggested that the selling price per pound to company "A" needed to be increased by about 25% to simply cover the out-of-pocket expenses and after further discussion it was decided that:

(a) an increase in the price per pound would be sought immediately from customer "A" on the following basis:

- 35% on castings weighing less than one pound
- 25% on castings weighing from one to four pounds
- 10% on castings weighing over four pounds;

(b) should company "A" not agree to these price increases, the amount of work done for it would be progressively reduced and eventually completely discontinued;

(c) more business would be sought from the "other customers" principally from those who showed the best record of profitability according to the accountant's analysis.
It was further decided that the time-keeping records would be continued, as would the method devised for relating each part cast to the "firing" from which it is drawn and the listing of rejects by customer. It was agreed that periodically - in fact, twice a year - the accountant would be called in to make a similar profitability analysis. Meanwhile, the owner of the foundry asked the accountant to accompany him in his visit to company "A" in order to support his request for price increases by explaining to its manager the results of the profitability analysis made at the foundry.

Eventually, company "A" agreed to a reasonable price increase for some of the castings. They had a review made of the cost of materials and machining relative to a number of small-weight parts which led to the replacement of some of them by forgings and to the redesign of some others. It is worth mentioning that the accountant introduced by the foundry's owner was asked to cooperate in the review of company "A"'s operating costs.

As for the foundry, as a consequence of the changes made in dealing with company "A", it lost a fraction of its business but the elimination of unprofitable orders brought about an improvement in its overall financial results.
It has been shown in a previous chapter that in spite of the limited part taken thus far by public accountants in the field of management services, there is a definite opportunity for them to play a distinguished role in this domain. It has been emphasized that those who are willing to broaden their outlook and to acquire the knowledge and the qualifications required will find in advisory work a rare occasion for widening their sphere of activity.

In the preceding chapter, suggestions have been made as to the nature of the advisory engagements they may handle and a few examples have been given to illustrate how a medium-size public accounting firm can provide managerial assistance to its small manufacturing clients.

It is now pertinent to examine whether it is in the interest of a medium-size public accounting firm to seek engagements of an advisory nature. The comments that have been made earlier in this paper and more especially the arguments that have been developed against an extended participation of public accountants in consulting work suggest that the decision to enter the management service field raises manifold problems and does not go without hazards and pitfalls. On the other hand, expanding into this new area should conceivably yield rewards and benefits.
The accounting firm that contemplates branching out into this new field of opportunities has therefore to weigh carefully the risks involved as against the anticipated rewards, in the light of the specific circumstances that surround and affect its activity.

The purpose of this chapter is to expose the obstacles that have to be reckoned with (section I) and to suggest the benefits that may be obtained from advisory engagements (section II).

Section I. Pitfalls inherent to management consulting work

The problems that public accountants are apt to be confronted with in the performance of advisory engagements may be classified in the following three groups:

I. Problems arising from considerations of professional ethics

2. Problems arising from the need of qualified personnel


Considerations of professional ethics

Difficulties likely to arise in this respect as a result of advisory work undertaken by public accountants, emanate from the following considerations:

a. Absence of rules of professional ethics with respect to advisory work

b. Requirement of competence

c. Principle of independence

d. Prohibition of advertising and solicitation.
One of the distinctive features of a professional group is that its members intend to place service above personal gain*: it is the public's guarantee that they can be trusted to do a good job. This guarantee is all the more indispensable in that the public is normally not in a position to appraise the quality of their work. The so-called professional attitude of doctors, lawyers, certified public accountants, etc. is the pillar of the public confidence they enjoy and the basis of their professional prestige.

Acquiring the professional attitude is, however, not a simple and easy matter. Men are selfish by nature and it takes a great deal of self-discipline and strength of character to subordinate personal interest to public service. It also takes a sure and unbiased judgment to always draw an impartial line between one's interest and that of the public and to reach an equitable verdict in cases where one is both judge and party. That is why most professional groups have adopted rules of ethics that serve as guiding beacons intended to show their members which path they can safely follow and to warn them against situations that may tend to imperil their observance of a true professional attitude. Adherence to the principles is usually enforced by reprimand, suspension or expulsion.

* I, p. 4
Codes of professional ethics develop progressively. New rules of conduct are formulated when conditions change and rules formerly adopted are constantly revised and elaborated. It is not surprising that in the case of a relatively young profession—such as the accounting profession—is some important ethical concepts have not been embodied in the rules as yet. More specifically in the field of management consulting work, many situations may arise with respect to which the code of ethics afford thus far no lead as to what is the recommended attitude or as to what position should be avoided. Unlike in the auditing field where generally accepted standards provide the public accountant with guides in his investigations and protection in the case where the quality of his work should later be challenged, there is as yet no recognized standards to measure the quality of management consulting work.

Until the matter has been further explored and authoritative statements issued regarding the ethical responsibilities of certified public accountants in rendering management services, accounting firms should proceed only with the utmost caution. Existing rules of ethics should obviously be abided by notwithstanding the fact that consulting engage-

# A subcommittee of the American Institute of Certified Public Accountants' committee on professional ethics is now studying the question.
ments were not specifically considered when the rules were formulated. Basic professional standards such as the principles of competence and independence are obviously to be scrupulously preserved and any practice that is capable of impairing the maintenance of a strict professional attitude - like solicitation or advertising - should be carefully avoided. Problems that arise in connection with the observance of these standards are studied later in this section.

Compliance with other recognized rules of professional conduct should not create major difficulties for medium-size public accounting firms expanding into the consulting area. It is, however, worth noting here that Rule Number 3 of Professional Conduct issued by the American Institute states that

... participation in the fees and profits of professional work shall not be allowed directly or indirectly to the laity by a member ...

While there is no authoritative pronouncement on the definition of laity it is probable that a specialist who is not a member of a recognized profession would be considered as a layman and therefore prevented from becoming a partner of a CPA firm. In many cases this will bar CPA firms from using the services of non-accounting specialists to whom they are not permitted to offer the incentive of a partnership agreement. On the other hand, the principle of competence - which shall be dealt with later - bars a professional firm from
employing the services of a specialist if none of the partners is competent to review his work.

It may also be worth mentioning that Rule Number 12 of the same Code of Professional Conduct urges CPAs who cooperate in the preparation of financial forecasts, to take all necessary measures to avoid "leading to the belief that they vouch for the accuracy of the forecasts."

Requirement of competence

It may seem futile to insist on the fact that a public accountant should not undertake an engagement in a field which is unfamiliar to him and which requires knowledge, skills, and experience that he does not possess. Making incursions into areas for which he is not qualified would be unwise and harmful both to his client and to his own professional reputation. Particularly when he enters the field of advisory engagements and holds himself out as a business consultant the public accountant should be most careful not to oversell himself and overreach into areas with which he is not familiar.

Admittedly, the evaluation of one's competence is a subjective matter in which clear-cut formulas will never replace individual judgment and opinion. Each one is to settle the question in the light of his experience and limitations and in case of doubt he should decide in the best interest of his client.
On the other hand, the concept of competence is to be understood and applied discriminately and with due recognition to the specific circumstances that surround the accountant's activity. It is clear, for instance, that to render truly constructive services in the field of budgeting to a company that manufactures a wide range of products sold all over the nation from several plants and warehouses scattered throughout the country, an extensive knowledge of, and a broad experience in, budgeting are indispensable. Undertaking such an engagement without being most eminently qualified would be a major violation of the ethical rule of competence and would unavoidably lead to discrediting the practitioner. However,

"... in the case of smaller clients, and in some communities, services of other professional consultants may not be available readily, or the unimportance or simplicity of the situation may not justify the employment of other advisers. The experienced CPA under such circumstances may be able to give the client effective and valuable service even though he may not have had the training in a particular area. The general point to emphasize is that a CPA should make sure that, under the circumstances, he clearly is qualified to render a particular service before he offers it to the client*."  

Competence is obviously not a static concept. Anybody who has a foundation of knowledge in a particular field and regularly applies that knowledge in his professional activity, is bound to improve his competence in this field continually. Through research, study, and consultation with more

* 8, p. 7. The words "under the circumstances" are italicized in the text.
experienced colleagues he progressively equips himself for the handling of questions that at first were outside of his competence. From a practical point of view, when a public accountant is confronted by a problem with which he is not quite conversant he should, before deciding whether or not to tackle it, ask himself this question: "In the time available, would I be able, through study, research, or consultation, to acquire the knowledge necessary to handle this problem in the best interest of my client?"

The case may arise when the principal of an accounting firm does not have the specific technical training required to handle a business problem but another member of the organization does have the necessary qualifications. In this instance, if the latter is a partner nothing should normally prevent the firm from accepting the engagement. In fact, it is not uncommon that, particularly in the multifarious field of management services, several partners of an accounting firm specialize in various areas of consulting work. If, however, the specialist is not a partner, the rule of competence would bar the firm from undertaking the assignment if none of the partners were qualified to supervise and evaluate his work. To do otherwise would amount to taking unreasonable risks.

Again, the partners' ability to supervise the work done by a subordinate should, however, be appraised discriminatingly. Competence to review all the details of the work is not always indispensable provided that the partner is quali-
fied to judge the reasonableness of the procedures followed and to evaluate the soundness of the conclusions reached and of the suggestions advanced. For instance, in the case of the examination of a financial plan which calls for the use of actuarial techniques that an employee of the firm is competent to handle, the fact that none of the partners is familiar with the mathematical details of the computations would not necessarily preclude their ability to evaluate and check the overall results of the examination.

Obviously, when the partners feel that they are not qualified to handle an engagement they should not hesitate to say so to their client. Nobody is expected to be competent in every field and recognizing one's limitations is anything but belittling. Besides, there is no surer way to lose a client than by yielding to his insistence and accepting an assignment one is not competent of handling well.

Sometimes, a public accountant who feels he should decline an engagement may have the opportunity to recommend another public accountant for the job. Here again, however, difficulties are apt to arise in view of the absence among the accounting profession of an accepted practice of referral like that which exists, for instance, between medical practitioners. More often than not, a medium-size public accounting firm is not too anxious to see a larger firm called in by one of its clients, let alone to suggest that his client refer a
specific, more complicated problem to a larger firm. Much is still to be done to promote a favorable climate of cooperation among accounting practitioners. In fact, a closer cooperation between larger and smaller firms will probably not be obtained before a greater degree of specialization prevails among them and before larger firms that choose to specialize become less interested in remaining also "general practitioners."

Meanwhile, one way for the medium-size accounting firm to minimize the risks - real or imaginary - inherent in referring a client to a larger accounting firm is to cooperate closely with the latter in handling the assignment. This may well be a most satisfactory solution for all concerned. The medium-size firm's inside knowledge of the client's business, of its people and its organization should permit a reduction of the time needed to complete the engagement and therefore minimize the cost of the consulting assignment. On the other hand, collaborating with the staff of the larger accounting firm may provide a most valuable experience for the personnel of the smaller firm.

Principle of independence

Considerable emphasis has been placed in the accounting literature on the subject of independence. In its broad sense of self-reliance that precludes subordination, independence is not peculiar to the public accounting profession. It
is part of the integrity that characterizes any professional group. However, when referred to in conjunction with auditing, independence has come to assume a narrower meaning - that of objectivity and lack of bias.

The stress laid upon the public accountant's independence in this latter sense stems from the consideration that when the auditor expresses an opinion as to the fairness of financial statements, he is responsible not only to his client but also to all third parties who may rely on the audited statements. He has to watch every step he takes and to maintain constantly a delicate balance between his natural desire to please his client and his duty of objectivity to the public.

When public accountants render management services, they should be independent in the sense that their judgment is not subordinated to that of their clients and complete integrity is maintained in all aspects of the assignment. But considerations of public interest are generally foreign to consulting work and the concept of independence in the narrower sense in which it is used in relation to auditing work does not apply per se to management services.

Still, as public accounting firms will often perform consulting work for the very clients they serve as auditors, the question has arisen whether rendering management services to these clients would not jeopardize the firm's independence
as auditor. Again, no definite pronouncement has been made on the subject. Several opinions, however, may be used as a guide, notably the views expressed by the Council of the American Institute of Certified Public Accountants regarding instances in which the auditor performs other services (for instance, bookkeeping or accounting services) for his client. It seems to be the consensus of opinion that, independence being an attitude of the mind, it is not necessarily impaired by the performance of these other services provided the auditor does not dispense with the auditing procedures necessary to his examination of the financial statements and provided that he is not actually engaged in the management of his client's business to the point where he would in fact be auditing his own work.

Therefore, the performance of management services for a client would not by itself bar a public accountant from expressing an independent opinion as to the financial statements of this client, if the consultant confines his advisory services to analyzing data, making factual representations, and advancing suggestions and recommendations for the consideration and approval of management. If he keeps his engagement on a strictly advisory level and avoids being led into making decisions and participating actively in the management of his client's affairs, there should be no reason why he could not, at the same time, safeguard his independence.
as auditor. On the contrary, he would be in a position to arrive at a more informed opinion on the financial statements of his client with more protection to himself.

This view seems to conform to the principle expressed by the Securities and Exchange Commission with regard to the independence of public accountants intending to certify financial statements required to be filed under the Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Company Act of 1940.

Thus far, little is known of the criteria that the Commission will apply to determine whether the public accountant took proper care in serving the client's management "to maintain a clear distinction between giving advice to management, and serving as personal representative of management or owners and making business decisions for them". From opinions expressed in several Accounting Releases** relative to analogous situations one may expect, however, that the Commission will adopt rather stringent criteria to ensure the complete independence of certifying accountants and that, in borderline cases, the accountants are likely to be considered to be not in fact independent.

Accounting firms whose clients are subject to the

* 40 p. 77, citing the 1957 Annual Report of the Securities and Exchange Commission
requirements of the Acts, or may contemplate taking steps that would place them under the obligation of filing financial statements with the Commission should clearly bear in mind that performing major management services for these clients might lead to barring them from certifying the statements filed with the Commission.

Prohibition of advertising and solicitation

Maintaining a proper professional attitude implies the avoidance of situations that may lead to giving the impression that money is one's major concern.

Several rules of professional conduct applicable to the activity of certified public accountants provide them with guidance and encouragement to avoid these situations. The prohibition of advertising and solicitation is one of these rules. Its application to the field of management services should, however, not raise any serious difficulties in view of the numerous opinions issued on the subject. It deserves special mention here only because, in the advisory field, the public accountant may be in competition with other management consultants who do not refrain from widespread advertising of their qualifications and solicitation of new business. Even the Code of Ethics of the Association of Consulting Management Engineers, Inc. - to which allusion has been made earlier - does not prohibit advertising, though its article XII endeavors to raise it to a dignified level by
stipulating:

"We will not advertise our firm, practice, or merits in a self-laudatory manner, or in any other way which gives the impression of being undignified or unprofessional*."

Considerations of professional ethics do not, of course, prevent a public accountant from seeking consulting engagements from his audit clients. There is also no objection to his making known to his personal friends and to other persons with whom he has had professional relations, that he is offering advisory services, and to ask them to recommend him to others.

However, public advertising of the services offered would be in violation of the code of ethics, as would personal communications to clients of other accounting firms. Besides, the most efficacious advertisement is good work and valued counsels are best advertised by satisfied clients.

Problems of personnel

It has been shown earlier that the performance of management services requires skills that are not typical of the average public accountant and that it presupposes a good general experience in business matters, a broad businesslike outlook, as well as a specialized knowledge of the fields in which consulting work is intended to be offered.

* I3, p. 4
It has also been mentioned that medium-size public accounting firms that confine their activity to the traditional areas of auditing and tax work already experience difficulties in hiring competent personnel. The problem is no doubt worsened when a firm has to recruit personnel who possess the unusual talents needed to perform consulting work. The additional difficulties stem from the scarcity of people who have the proper qualifications, from the fact that the better competitive position of private industry and of larger accounting firms continually entices this very type of man to join their staffs, and from the problems involved in the evaluation of the applicants' knowledge and experience.

Another question that requires adequate attention is that of assigning the consulting personnel a proper place in the organization. This must be done in a manner that does not provoke uneasiness between the key people in the auditing, tax and management service departments, whose active and most sincere cooperation is essential to the whole organization.

A further problem arises in connection with the relation of the consulting program to the specific qualifications of the personnel designated to carry it out. This is a dual problem: in formulating the program due consideration must be given to the particular skills of the personnel available and, conversely, in choosing consulting personnel the intended program of management services must be considered.
The continuous training of the consulting staff is another question that needs proper handling. Adequate guidance should be given them in the development of their knowledge and skills. This requires that the principal take time to devise a training program, to consult with the advisory staff as to the most appropriate ways of increasing their usefulness to the firm, and to supervise their progress. It implies that the consulting staff be provided with adequate time and with the proper means and facilities to carry out the development program.

Another stumbling block is the difficulty of supervising the work done by the advisory personnel in view of the greater independence of action that has to be given to the consultants, and because of the particular techniques they may have to apply, with which the principal of the firm may not himself be entirely conversant.

Also to be considered is the fact that advisory work does not lend itself to requiring the same amount of clerical and unskilled help as do auditing or tax work. More often than in auditing work for instance, detailed analyses and compilations of data prepared by the client's staff may be used, with the consequence that management service activities can hardly be looked upon to help solve the problem of keeping junior personnel busy during off-peak seasons. By the same token, on-the-job training of understudies for the advisory function is often difficult to arrange.
The last - but not least - of the personnel problems is the ever present risk of losing to a client the personnel engaged in management services. The consultant's intimate knowledge of the client's problems, his close cooperation with the client's management for the solution of these problems, the client's appreciation of the assistance extended, may lead the client to take the consultant into his own organization. Should a management position become available or should the client feel that some of his problems would be better attended to by a permanent member of his staff, the consultant is in a good position to be offered the job. In many of those cases, even if the accounting firm is willing and able to match the advantages proferred to its employee, for the sake of maintaining good relations with the client, it may be prevented from attempting to convince its employee to stay.

Problems involving psychological and human aspects

One of the major requirements for rendering management services successfully is the ability to work with people. This implies both a likeable personality and a rare sense of psychology. Without the full confidence of his client and the unrestricted cooperation of the client's staff, the consultant - no matter how skillful and talented he may be in the techniques required for analyzing and solving business problems - has little chance of making a real and permanent contribution to the solution of the problems referred to him.
The consultant is not only to study the problems and to suggest what he thinks are suitable solutions; he must also sell the merits of the solutions he proposes. To do so with reasonable chances of success he must be able to evaluate the human repercussions his suggestions are likely to cause. He must fight against habits and routine, against the human reaction to changes, against people's fear of losing their jobs and their anxiety to preserve their place in the organization.

Sometimes, he may be confronted with the problem of showing management that some of his policies are inadequate or that some of his decisions are responsible for the problem at hand. This, of course, takes strength of character, tact, and psychology. At times, the consultant may recognize that his client is so deficient in the art of management that regardless of what he can do to help him, no constructive result may be obtained and he may have to abandon him to his unfortunate situation.

He must not expect to be given credit for all of the improvements he helps obtain. Some of his ideas will be stolen and credited to others. He will find managers reluctant to advertise his success and in time tending toward looking at the betterments as their own reforms. In many cases the consultant's cooperation will be soon forgotten.
Frequently the results of the consultant's work will not be measurable in a tangible way. There may be a long and frustrating lapse of time between the moment a problem is assigned for his analysis and the fruition of the results of his work. At times, these will never be fully enjoyed because of inadequate execution of his recommendations, creeping indifference, or even malicious opposition, and the consultant may end up being imputed the blame for suggesting unworkable solutions.

Often too, especially when he advises smaller business clients, the consultant may need psychology and firmness to avoid being maneuvered into making general policy decisions.

All these dangers and pitfalls should be considered before deciding whether or not to engage in management services. The principal of the accounting firm should analyze his own qualifications—both professional and psychological—realistically. He should make an inventory of his personnel's potentialities and give proper attention to the new organizational problems that his decision would involve. He should assess his clients' advisory needs objectively and determine how he can best meet their needs while minimizing the risks and problems to which he and his firm may be exposed as a result of his expansion into the field of management advisory services.
Section II. Benefits derived from advisory work

After reviewing the dangers and pitfalls with which the public accountant may be confronted in performing management services, there remains to consider the other, and brighter side of the picture, viz. the rewards that consulting work is apt to proffer to those who competently assist business management.

These rewards are both intangible and tangible. They accrue not only to the accounting firm that achieves success in advisory work but to the accounting profession as a whole.

Benefits accruing to the profession as a whole

The accounting profession is but the sum total of all the individual practitioners and accounting firms. Its prestige springs from the individual achievements of its members. Reciprocally, the public confidence enjoyed by the profession reflects upon each one of its members.

The successful practice of consulting work by public accountants enhances the prestige of the accounting profession to which it gives the opportunity:
(a) to increase its usefulness to the business world
(b) to attract more qualified people.

Increasing the accounting profession's usefulness to management

Whether in producing goods or in rendering services, excellence cannot be maintained for long without constantly
introducing new and worthwhile products or services. Conversely, there is no surer way for the accounting profession to lose the professional prestige it has acquired by providing independent and qualified opinions regarding financial statements, than by dwelling in complacency and ignoring new opportunities to serve.

The demand for management services is present; it is growing larger all the time. Many of these services are within the province of public accountants who are thus given an unusual opportunity to expand the range of their activity well beyond the limits of their present contribution to business management. If they do not seize the occasion while it is within their reach others will snatch it. In fact, this is happening already to a certain degree and one sees non-accountant business consultants invading fields that are the traditional domain of accountants.

By engaging resolutely in consulting work and thereby increasing their usefulness to their clients, public accountants will help the whole profession fulfill its mission of public service in a better way. This will augment the prestige of the profession and, in turn, it will bound back and strengthen the prestige of each of its members.

**Attracting more qualified people**

One of the most crucial problems that confront the accounting profession is the shortage of high-calibre personnel.
College graduates are not attracted in sufficient number by public accounting.

Auditing and tax work involve by their very nature a large amount of routine work. The checking of figures, the examination of vouchers, and other similar drudgery have little to attract top flight young men to public accounting, and the perspective of spending several years as a "junior", adding columns of figures and compiling tedious working papers, is enough to dishearten the most patient of them. Besides, even the work of a "senior" auditor often fails to provide the inward satisfaction that is derived from the feeling that one is making a truly constructive contribution to business management. Particularly in the audit engagements of smaller firms, it may too often be felt that the service rendered is hardly worth the fee being charged.

Truly, advisory activity also involves a certain amount of detail work and fastidious gathering of figures, but it offers considerable more leeway and initiative in the determination of the nature and extent of the data to be compiled and it lends itself to a more practical approach than auditing work. Besides, the compilation of data can often be largely prepared by the client's own staff. Then too, analyzing concrete management problems and cooperating to their solution provides a better opportunity to put to practical use one's varied skills and confers a deeper feeling of achievement.
Consulting work, for these reasons, is apt to appeal to, and to attract to the profession, more qualified and ambitious young men. Moreover, the higher fees commanded by advisory engagements should improve the accounting firms' ability to offer these recruits better starting salaries and to advance them more rapidly to higher compensation levels.

Benefits accruing to the consulting firm

Beside the augmented prestige enjoyed by the accounting firm that increases its value to its clients by offering them consulting services and attracts a higher grade of personnel, other more tangible benefits are apt to reward those who engage in management services.

The balance of this chapter deals with these benefits which are being grouped under the following three categories:

(a) better competitive position
(b) higher fees
(c) other benefits.

Better_compétitive_position

Like most any business involved in the production of goods or services, public accounting is subject to competition. In order to survive and progress, accounting practitioners and firms have to strive continuously for more efficient services offered at a reasonable price. Professional standards, however, preclude competition in the price field and leave room
only for competing in the quality and the variety of the services rendered.

Now, the traditional area of auditing work hardly lends itself to qualitative competition, and the preparation of tax returns# necessarily provides only limited room for diversification and increased usefulness, particularly for accounting firms which serve a clientele of small businesses.

Consulting work, on the other hand, presents to all accounting practitioners and firms an unlimited opportunity to broaden the range of their services and offers wide possibilities of specialization and a broad field for qualitative competition.

For a medium-size accounting firm, engaging in management services is a rare means of consolidating its position in the business community, furthering goodwill among its clients, and attracting new ones. Consulting work is an ideal vehicle for reaching small businesses which are not interested in auditing services but many of which would welcome managerial assistance. It may also lead to increased auditing and tax work as satisfied clients may later feel the need for professional tax and audit services.

# in the narrow sense of filling out tax forms on the basis of financial data, audited or not. Admittedly, the field of taxation offers wider opportunities for accounting practitioners and firms which specialize in the handling of tax matters, tax planning, etc. These services, however, would fall into the area of consulting work.
Other benefits

Substituting management services for auditing engagements in those cases where the former type of service is more appropriate to smaller clients' needs, should yield other indirect advantages to the accounting firm in view of the fact that consulting work is not so typically seasonal as audit assignments and allows for more flexibility in the timing of the engagements. This should alleviate the peak of activity usually experienced immediately before and after the year-end and permit a more rational utilization of the personnel throughout the year.

In cases where an accounting firm offers to the same clients both management assistance and auditing services, the performance of the former type of service may facilitate the execution of the latter. The two types of service may at times overlap, as for instance when advisory work involves an appraisal of the internal control or entails a study of the appropriateness of expense distributions. Admittedly, it may not be easy to maintain an adequate co-ordination between the persons or departments responsible for the two kinds of services. However, it should not be impossible to arrange for communications between them and to give the auditor access to the management service files of his audit clients. It should assist him in establishing the audit program and help in determining the scope of the tests to be carried out in certain phases of his
audit work. In any event, in most instances, with a minimum of co-ordination between the two activities the accounting firm should be in a position to arrive at a more informed opinion regarding its clients' operations and financial statements and to issue its report and certificate with more protection to itself.

Another advantage that is worth mentioning may have a particular appeal to some accounting firms to which advisory work may give the opportunity to restrict their clientele to a limited group of selected companies to which they provide first-rate management services performed by a small number of highly qualified people. Accounting firms that would successfully carry out such a program would undoubtedly attain outstanding professional standing and enjoy considerable prestige. Their services would be sought actively and paid for accordingly. Meanwhile, they would free themselves from a number of personnel and organizational problems that confront other firms which confine their activity to offering more common types of accounting services carried out by a larger staff of unequal experience and qualifications.
CHAPTER V. THE APPROACH TO MANAGEMENT SERVICES

After carefully considering the pros and cons of engaging in management services, after appraising the rewards that may be expected and weighing them against the pitfalls to be avoided, the accounting firm has decided to expand into the advisory field. It is now ready to organize for this new activity and finds itself confronted by an array of questions regarding how to approach consulting work.

The present, and last, chapter of this thesis is devoted to examining these problems and making suggestions intended to contribute to their practical solution by a medium-size public accounting firm.

The approach to the performance of management services will be considered from the following two angles:

1. Organizing for consulting work in general
2. Approaching and conducting specific advisory engagements.

Section I. Organizing for consulting work in general

Prior to seeking specific advisory engagements the accounting firm has to make a number of decisions with respect to various matters, viz.:

(a) the nature and scope of the advisory services to be offered
(b) the personnel to be assigned to consulting work
(c) the internal organization
(d) the communication of the additional services offered.
Nature and scope of the advisory services to be offered

The range of advisory services that may be rendered by public accountants to business management is so broad and diversified that it is impossible for a medium-size accounting office to prepare for handling practically any situation that may call for management assistance. Specialization is the only sensible way of handling advisory work competently and successfully.

One of the very first steps is, therefore, to make a selection among the various classes of advisory services and determine the areas in which the firm chooses to center its consulting activity. This choice should be made with reference to the specific needs of the types of clients already served by the firm and to the problems peculiar to the geographical region in which the firm operates and from which additional management service clients would come. Consideration should be given at the same time to the specialized knowledge of the members of the firm who may be assigned to consulting work.

A practical way of stimulating the thinking of the partners and senior staff men and to enroll their cooperation toward a proper selection of the management services in which to engage, is to supply them with a broad listing of consulting engagements - like, for instance, that which is reproduced in the Appendix to this paper - and to request that they suggest the services that could, in their opinion, be offered benefi-
cially to each of their audit and tax clients. Their suggestions can then be used as a basis for further thinking and discussion which should lead to determining the types of advisory work to be sought by the firm.

It is advisable that, at the outset, the firm limit its incursions in the consulting field to a few types of services for which there is a most immediate need among its clients. Later, when the organizational problems are settled satisfactorily, and some experience has been gained as to how to approach the clients, conduct the engagements, report on the findings, etc., expanding and diversifying into a broader range of services can be done with greater assurance and better chances of success.

**Personnel assigned to consulting work**

The successful performance of management services depends so much on the qualifications and ability of the personnel assigned to consulting work that the proper choice of the staff is of paramount importance. It is even more so in a medium-size firm because it usually cannot afford to try out a number of prospects before finding the right men for conducting advisory engagements. In fact, a single wrong choice may be so costly — both dollarwise and in terms of damage to the firm's reputation — that it may lead to abandoning the idea of engaging in management services and preclude a second attempt.
The first step in choosing consulting personnel is to designate one person, usually a partner, under whose responsibility the management service activity is to be placed. In a medium-size firm this may be a most delicate and difficult choice to make. To simply assign any of the partners to organizing and supervising the advisory function, or to automatically place consulting work under the direct responsibility of the senior partner regardless of whether or not he qualifies for the job, is, of course, unsatisfactory. It is equally absurd to designate one of the partners for the mere sake of giving him a sort of promotion or, even worse, to do so with the underlying intention of "side-tracking" him. The selection should rather be predicated upon an objective appraisal of the candidates' personal qualifications for the consulting function as intended to be carried out by the firm. All other considerations should be secondary.

Prospective candidates for the supervisory function - as well as for the consulting staff which may be hired later - should be examined and evaluated thoroughly and objectively. Their qualifications should be appraised by reference to the exacting requisites essential to the performance of efficient management services, which encompass more than technical know-how and experience and extend to the whole personality and background.

The ideal consultant satisfies a whole array of standards:
(a) General cultural education. Aside from developing imagination and logical thinking, the study of a broad range of subjects, like history, geography, mathematics, sciences, philosophy, ancient and modern languages, which characterizes a liberal education, prevents a narrowing of the mind to any one subject and creates interest in a number of areas. It confers a flexibility of mind and an awareness of the many kinds of problems and situations that occur in life. It produces people that are better fitted and more confident. Undoubtedly, imagination, clarity of thought, unbounded interest and curiosity, a broad knowledge of human experience and thought, poise, and self-confidence are priceless assets for successful consulting work.

(b) Scientific orientation of the mind. Advisory work entails accurate observation, gathering of all pertinent facts, and thorough analysis of these facts. It involves painstaking research, organized planning and development, and an infinite attention to details. Empirical procedures and haphazard ways are out of place. Scientific approaches and methods, akin to those which are being successfully applied in the natural sciences, are invaluable tools for exploring and solving management problems as well. This may partially explain why engineers—trained to scientific thinking and procedures—have gained so much ground in the field of management assistance.

(c) Psychology, personality, sociability, maturity. It has been
emphasized earlier that dealing with people is one of the essential ingredients of consulting work. It is therefore important that the consultant understand people and get along with them. He must know how to approach people, how to win their unrestricted cooperation, and how to quell their apprehensions and suspicions. He must know when and how to praise them, how to bring them to recognize their weaknesses and to take steps to overcome them. In brief, he must be interested in people.

(d) **Salesmanship.** The ability of persuading people to change their ways of thinking, to give up established practices, and adopt new methods and approaches, requires an unusual amount of salesmanship. It presupposes excellence in the art of communicating with people and demands that the consultant be a writer and a teacher.

(e) **Broad business education and experience.** A management consultant operating within the framework of an accounting organization should have a substantial accounting education and a mature accounting experience. His business education should have familiarized him with such business subjects as general business administration, marketing, production, finance, industrial relations, etc. He should be acquainted with business law— including taxation, statistics, insurance, business policies, etc. This, of course, does not imply that he should be an expert in all those fields but he should be conversant with all of them. He should also preferably have had some experience in industry
and the opportunity to see business problems from the side of management rather than solely from the angle of an outsider.

Finally, the consultant should be eager to continuously broaden his background and advance constantly in knowledge in the fields related to his consulting activity. In this respect, he should have unlimited potentialities as well as a stern ambition to attain proficiency.

The prospective candidate whose personal qualifications come closest to these ideals is best equipped for rendering appreciated management services to the clients and represents the best risk for the consulting supervisory function.

If this man is already on the firm's staff he has the additional advantage of being known to the clients and familiar with the firm's personnel, its philosophy, and its internal organization. If nobody among the staff satisfies the requirements, it is much wiser to hire a qualified man for the job than to force into it an ill-fitted person merely because he is already a partner or an employee of the firm.

Once designated, the man in charge of management services should be allowed to devote all his time to his new functions and freed from auditing and tax work responsibilities. His sole concern should be to organize, build, and manage the consulting activity, to seek advisory engagements, and in most smaller firms to participate in conducting them.
**Internal organization**

It has been said very appropriately that "the first client of the new management services department is the firm establishing it." Whether or not the new activity is formally set up as a separate department, it poses internal problems of organization. Separate records should be kept for the time spent, and the expenses incurred, in connection with advisory engagements. Separate bills should be rendered, and separate income and expense accounts maintained. Separate files for correspondence, working papers, and reports relating to consulting work should be provided for.

Policy decisions should be made with regard to the question of fees, and a procedure devised for determining the fee to be charged for specific engagements. Normally, the time spent on the assignment should serve as a first basis for determining the fee. Hourly rates should be set for each advisory staff man, taking in consideration (a) the total compensation — salary and bonus — commanded by their experience and background, and by the nature of the services they are qualified to handle, and (b) the fact that a relatively large portion of their time will be devoted to research, reading, and continuing study and therefore will not be directly chargeable to specific assignments. Next, the fee tentatively determined on a time basis should be systematically reviewed, first by the person in

* 32, p. 48
charge of supervising the consulting function, then by another person, for instance the senior partner. The purpose of this review is to take into account several factors that may properly influence the final determination of the charge, viz.: (a) the value of the service rendered (success or failure in solving the problem examined, savings obtained for the client, importance and difficulty of the questions reviewed) (b) the client's ability to pay (c) whether the work was done for a casual or for an established client.

Psychology and professional integrity should help strike a fair balance between unethical overcharging for the engagement and undervaluating the services, thereby losing status in the eyes of the client.

Of the greatest importance in organizing the new consulting activity are the provisions to be made for initiating a program intended to develop the personnel's and the firm's ability to render valuable management services to the clients. The consulting department should have a well thought-out staff-training program providing time, facilities, and means for the supervisory personnel, understudies, and other staff members to develop their knowledge and experience in business subjects. On-the-job training should be applied whenever feasible. The consulting personnel should be encouraged to attend formal courses, study conferences, seminars, work-
shops (like those organized by the American Management Association) to advance their knowledge in appropriate fields. They should be given the opportunity to devote part of their time to reading books, magazines, publications, etc. carefully selected. The firm's management services bookshelf should place at the disposal of the consulting personnel a diversified source of information on management subjects, both of a general nature and of particular interest in the branches of industry in which management service clients operate.

In setting up the consulting department its position in relation to the other departments and its harmonious collaboration with the other segments of the firm should be given adequate thought. Provisions should be made for communication and exchange of information and data between the consulting, audit, and tax departments. There cannot be any rigid divisions between them but open cooperation and mutual understanding and assistance. In this respect, care should be taken, in the interest of internal harmony, not to overrate the new department and its significance to the firm, and to extol its accomplishments to the discouragement of other staff members.

Communication of the additional services offered

The decision of entering the management consulting field should then be made known, and consulting engagements sought. Considerations of professional ethics, which have been referred to earlier in this paper, preclude any wide publicity
being given to the new services. It is, however, perfectly ethical to announce in writing to established clients and to friends that the firm has decided to extend its activity to include services of an advisory nature (of which an exemplary listing can properly be given) and to introduce the person or persons who have been designated to supervise and staff the new department.

However, it usually takes more than a simple announcement in the mail to obtain consulting engagements. These are often the outcome of a time-consuming process that habitually involves two phases:

(a) first, the areas in which a client may need advisory assistance must be recognized and ascertained by the accounting firm

(b) then, the client must be made to realize that he has a problem which needs attention; he must be convinced that outside help would be beneficial and that the accounting firm is qualified to handle the assignment.

The first step requires a review and analysis of the clients in collaboration with the staff people who perform audit and tax work for them. Audit reports and working papers for the last several years should be examined and special attention given to notes, comments, and recommendations relative to matters of internal control, policies, and procedures found to need correction or improvement. The audit supervisor in charge of each client should be invited to give his opinion
as to the client's most pressing management problems and the areas in which the firm could best be of help to him. In most cases, he will also be in a position to supply the consulting staff with valuable information as to the personalities involved (family relationships, rivalries, ambitions) and the organization's structure.

The second phase is best handled through personal contacts with the client, during which the opportunity may arise to discuss some of his business problems, and to suggest how the accounting firm could help him find ways of dealing with them. The rendering of audit reports, of interim statements, of a letter pointing to some new tax developments may provide the opportunity for these contacts and discussions. In other cases, the occasion for suggesting the advisability of special studies or analyses may arise in the course of a casual visit by a partner of the accounting firm. An off-hand remark made at an appropriate time by a member of the staff may sometimes lead to a mutually profitable consulting engagement.

It should be emphasized here that although it is the prime responsibility of the consulting department to seek management service engagements, the cooperation and active support of all the members of the firm should be enlisted. A word from the audit supervisor whom the client has known for years may have more weight than a conference with a consulting staff
man whom the client has never seen before and whose qualities he has not had the opportunity to evaluate yet.

Section II. Approach to specific advisory engagements

All too often, as it has been pointed to earlier, advice given by public accountants has been handled informally, in the course of semi-casual conversations with the clients. Confirmation in writing of advice given has been rather the exception.

This, however, is hardly an appropriate way of dealing with most business problems referred to public accountants for their review and consideration. In fact, informal counseling involves serious dangers and is open to gross inaccuracies and misunderstanding. There is no record of the facts on the basis of which advice has been given, and little or no assurance obtained as to their correctness and completeness. The opinion given and its accompanying qualifications may easily be misinterpreted. The solution suggested is often stated in a manner that lacks precision and does not anticipate some of the practical difficulties encountered later when it is put into effect. On the other hand, most of this informal counseling - part of which has undoubtedly been very valuable to those who have received it - has been actually given away for want of an appropriate basis for billing for the service. Most often, it has been repaid merely in increased goodwill and augmented prestige.
For these reasons, informal counseling should be refrained from whenever possible, especially by accounting firms which have decided to make it a practice to engage in management services. Except in those cases where advice is requested on fairly simple questions that can be handled without engaging in factfinding and research, and where a letter confirming the opinion given may suffice, management consulting should be approached in a more formal manner.

In the interest of both the consultant and his client, every step of the assignment should be planned carefully and approached methodically. In this respect, the following comments and recommendations are intended to serve as guideposts to deal adequately with the various phases of the engagement, viz.:

(a) preplanning of the engagement
(b) execution of the engagement
(c) report writing
(d) assistance in carrying out the recommendations.

Preplanning of the engagement

It should not be necessary to emphasize the fact that the objective of the assignment should be clearly understood by both the client and the consultant. Yet, many advisory engagements have failed to yield satisfaction because of the lack of a precise definition of the problem under study.
Only when a meeting of the minds has been reached in respect to the purpose of the assignment can the consultant decide whether or not he is qualified under the circumstances to handle it. Only then, can he prepare for the engagement in a rational manner and proceed without having to check with the client at every step he makes. It is, furthermore, good practice for the consultant to confirm in writing the objectives and scope of the assignment as mutually agreed upon.

Before the engagement is undertaken, the client should insist on having an estimate made of the approximate fee and expenses he will be charged for the job, so that he can weigh the expected cost of the engagement against the results he anticipates therefrom. On the other hand, the client's previous approval of the cost of the assignment will do much to further the honest cooperation between him and the consultant and will prevent later disagreement as to the amount of the fee. Besides, the preparation of the estimate will give the consultant the opportunity to draw a rough timetable of performance and to discuss it with the client, to determine tentative completion dates, to designate the consulting personnel to be assigned to the job, and to examine with the client what assistance can be obtained on the detail work from the company's own staff. An agreement should also be reached beforehand regarding the frequency of billing. In assignments of long duration it may be desirable to arrange for rendering a bill at the end of each month for the work done during the month.
Before undertaking the assignment the consultant should obtain from his client all pertinent information and insist on being briefed on all aspects of the problem under examination. The client's attitude toward the question under study and his cooperation with the consultant have much to do with the eventual success or failure of the assignment, and the consultant should be able to impress upon the company management that no relevant data should be withheld. He should satisfy himself that management is determined to give him full collaboration and support, and is willing to create an atmosphere of active cooperation. In this respect, it is often desirable that one member of the management team be designated to cooperate with the consultant and to facilitate his access to the data he may want to examine and his introduction to the employees he may wish to question.

**Execution of the assignment**

Much is to be gained if during the assignment the consultant works closely with the company staff at all levels. The members of the client's personnel who are connected with the question under review, and especially those who will have to share the responsibility for carrying out the recommendations adopted as a result of the consulting engagement, should be given the opportunity to collaborate actively with the consultant and to submit data, objections, and views that may contribute to the solution of the problem under study.
The consultant should also have frequent contacts with management and keep him informed of the advancement of his work. If he encounters major obstacles, from the company personnel or otherwise, he should discuss them with management and suggest ways of overcoming them. If his investigations lead him along paths which had not been anticipated and the duration of the engagement is apt to exceed the previsions, the consultant should inform management and obtain his approval before further proceeding.

Throughout the engagement, the public accountant who assists business management in an advisory capacity should exercise great care in confining himself to investigating the facts and pointing out possible solutions, leaving to management the role of deciding what solutions should be adopted. He should strictly avoid "taking over" the management of his client's business or being maneuvered into making policy decisions.

Once his investigations are completed and the consultant has arrived at an opinion as to possible solutions for dealing with the situation referred to him, he should discuss the solutions with management. Using all the resources of his salesmanship, he should present his recommendations forcefully enough to convince management that they are worth considering as a basis for decision.

In expounding his suggestions, the consultant should clearly indicate the limitations entailed. Rarely will the
solution that he proposes be the only one that may exist. It will often be a compromise between the ideal and the practical, and make allowance for the people involved and the circumstances of the case. It may sacrifice refinement to workability and practicability.

At times, the effects of the changes suggested will not be felt immediately but several months may elapse before the results may be obtained. It is important that management be brought to realize this lest it become discouraged and give up prematurely the recommended plan of action. It goes without saying that, for his part, the consultant should be most careful not to make extravagant promises in respect to the time element that may be involved.

Report writing

The recommendations proposed by the consultant should be embodied in a comprehensive report that constitutes a detailed and precise record of the suggestions advanced. The following is a typical outline for such a report:

(a) summary of the purpose of the engagement
(b) approach followed and methods adopted for finding and analyzing the facts
(c) essential facts revealed by the investigations
(d) recommendations suggested for the solution of the problem
(e) limitations and qualifications of the solution proposed
(f) steps suggested for carrying out the recommendations.
A management service report differs from the traditional audit report rendered by public accountants in that it must logically lead to a constructive conclusion to be followed by positive action. It is imperative that it be read and understood by management. It must be clear, concise and practical. Situations and facts already well known to management should be referred to only when necessary and as briefly as possible while attention is centered on the recommendations and conclusions. These should be presented cogently and in a manner that is conducive to their acceptance by management for incorporation in the company's operations.

A step by step account of the measures suggested for putting into effect the recommendations advanced should also be incorporated in the report.

**Assistance in carrying out the recommendations**

The consultant's work is not completed unless he makes sure that management and all the employees concerned understand the purpose of the changes recommended and the role they are to play in the achievement of the ends pursued. Once management has approved the recommendations and decided to put them into effect, the consultant should be prepared to help carry out the program devised for the attainment of the objectives indicated.

In the case of smaller companies, it may be necessary for the consultant to review the details of the plan
with each of the employees responsible for its accomplishment, and to ascertain that he understands perfectly what he is expected to do, how, when, and why. In larger companies, this may entail the preparation of detailed manuals of instructions and procedures. In any event, the consultant has a stake in the thorough understanding and the faithful execution of the program eventually approved by management. Basically sound recommendations often fail to yield the anticipated improvements because of misunderstanding and defective execution of the details of the plan.

Finally, in most cases, the best results will be obtained if the consultant is given the opportunity to follow up the execution of the program he has helped devise.

Many of the foregoing reflections regarding the approach to specific consulting engagements may appear to be mere truisms to those who have been engaged in advisory services for some time. They are intended particularly for public accountants who are novices in the consulting field and may welcome the opportunity to check their views against another's ideas. They are intended also for those who may be tempted to bypass or overlook some of the procedures described until the bitter lessons of experience prove their necessity.

By disciplining himself to approaching consulting engagements carefully and methodically, by conducting these en-
gagements in an atmosphere of open collaboration with the client's management and staff, by formulating constructive suggestions in a clear, unambiguous manner, and by sincerely helping put them into action, the public accountant will undoubtedly increase his opportunities to provide useful services in the advisory field to business management.
CONCLUSION

The purpose of this paper has been to examine the position of public accountants in respect to business consulting and to demonstrate the outstanding role they are called to play in the field of advisory services to business management.

Sound management has always been the key to profitable business activity and inexperienced or unbalanced management the most common cause of business failure.

In the last several decades, the business climate has undergone a profound evolution which has turned management into an increasingly complex function. Running a business nowadays is too exacting a task for any one man; it requires a variety of qualities and skills that nobody can claim to possess. Management must rely more and more on a team of collaborators — within and without the regular staff of the company — and seek their experienced opinion as a basis for sound business decisions.

A new class of management consultants has emerged and the success they have achieved in a short period of time is evidence of their usefulness to business management and proof of the signal services they have rendered.

The accounting profession has undoubtedly participated actively in assisting business management. A number of
its members have occupied key advisory positions on the staff of many companies. Many of these accountants have rendered such valuable services that they have acceded to the highest executive functions.

Public accountants also have placed their specialized knowledge at the disposal of management for many years. But, on the whole, they have done so in a way which did not lead to their identification as management consultants. Many of them have kept away from management advisory engagements and confined themselves in the traditional fields of auditing and preparation of tax returns. Many have endeavored to assist business management as best they could when their opinion was requested in respect to a business problem, but they have refrained from actively seeking consulting assignments. Many have limited their consulting activity to informal advice on questions arising in connection with their auditing and tax work. But few indeed have resolutely entered the field of management services and held themselves out as business consultants.

Meanwhile, as if public accountants needed to be proven that there is a real demand for management services in the very fields which are their province and specialty, other business consultants have been advising management on general financial and accounting problems, installation of accounting systems, and preparation and review of tax returns.
Will public accountants remain indifferent and unmindful of this encroachment into areas which are traditionally theirs? Will they resign themselves to having their activity limited to the somewhat negative role of vouching for the fairness and integrity of financial statements and tax returns? Or will they recognize that the rendering of management services offers them a rare opportunity of improving and broadening their contribution to business management?

The future of the profession depends largely upon the answers to these questions. In Wonderland, Alice stated that, "You have to run fast to stand still." If the profession sinks into complacency and fails to remain alert to constantly improving its usefulness to the business world, it will soon lose ground and jeopardize the prestige it has so remarkably acquired in the few decades of its young existence.

Now is the time for public accountants to decide whether they are to play a prominent role in management services. The field is still wide open, but any further delay and procrastination decrease their chances as other consultants secure their positions.

The decision is one that concerns any public accounting office regardless of the size of its practice, whether operated by an individual practitioner or by a medium-size or a large accounting firm. Public accountants will not be recognized as business advisers before a number of them have engaged successfully in management consulting work.
In this respect, the challenge confronts more particularly the numerous medium-size accounting firms. Their clientele embraces a large proportion of smaller and medium-size businesses many of which are in dire need of management assistance. These businesses have been barely approached yet by other consultants and they present a wide field of opportunity to those who are determined to provide them with competent and constructive services.

This, of course, requires more than a mere decision to offer management services. In fact, it presupposes the removal of the obstacles that have thus far prevented a wider participation of public accountants in the advisory field. Before many public accountants can undertake to perform management services successfully, they must acquire and cultivate the ability to look at business problems from a broader viewpoint. They must accustom themselves to directing their views and their thoughts toward the future rather than be contented with scrutinizing and recording the past. They must be prepared to improve their knowledge of business in general (and of the most important ingredient of business: man) and to develop their skills and experience ever further. Accounting firms that contemplate expanding into consulting work must be determined to assign to advisory engagements the highest-caliber people they can afford on their staff and be ready to encourage and facilitate their continuing development.
There lies the true challenge confronting the accounting profession. It is a problem of people, of attracting and developing the right kind of people. The challenge will be met if, on the one hand, the profession keeps on striving ceaselessly toward increasing its standards and broadening the background required for admission to its ranks and if, on the other hand, public accountants in increasing number are led to seek actively new ways of placing their varied experience at the disposal of business management.

Public accountants willing and qualified to make incursions through the new frontier of management services and to pioneer into the management consulting area, are assured of promising returns. Assuredly, they need to proceed with caution and keep alert to ward off the inevitable dangers and pitfalls threatening those who venture themselves into areas yet little explored. But the rewards are in keeping with the efforts required and the hazards incurred.

Over 450 years ago, Shakespeare wrote that, "Good counselors lack no clients." This is still true today. Those who offer competent advice to business management will indeed lack no clients. Not only will they enjoy the financial rewards and the prestige that accrue to successful professional people, but on them will rebound the increased public confidence the accounting profession will derive from having, with their help, met the most crucial challenge that it now faces.
APPENDIX
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A LIST OF MANAGEMENT SERVICES BY CPAs#
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I. Attending stockholders' meetings to assist in answering questions on financial statements and other accounting matters.

2. Attending meetings of board of directors to advise on accounting matters.

3. Instructing accounting personnel of client in the operation of the accounting system.


5. Designing and installing a general accounting system.

6. Advising client on controllership aspects of management, or acting as temporary part-time controller for a client.

It is not uncommon and not improper for him to serve temporarily in the capacity of controller, the arrangement being treated in every respect as a professional engagement. This may occur, for example, when a business is just getting under way and cannot, for a time, afford the services of a full-time controller, or when a client has lost its controller and the CPA is asked to undertake his principal functions until a successor can be located.

# Distributed at the Fourth Biennial New England Graduate Accounting Study Conference held at Colby College, Waterville, Maine in September, 1955 and used in connection with a lecture delivered by Harold A. Mock, CPA.
7. Advising client on accounting, tax, and other business aspects of contracts. Partnership agreements, capital stock provisions, bond indentures, trust agreements, and many other business contracts often contain features which involve accounting data and concepts in their interpretation and operation. An accountant, from his general business experience and knowledge of similar cases, as well as his technical training, can often make suggestions which will avoid difficulties and misunderstandings in the future.

8. Accumulating trade statistics. A CPA may be selected to receive and analyze confidential and general statistics for trade associations and other business groups.

9. Auditing of circulation statistics. CPAs are sometimes used to verify the circulation statistics of publications which solicit advertising.

10. Checking results of prize competitions.

11. Securing industry figures for comparison with those of client.

12. Assisting in the preparation of reports to stockholders and employees. This include the use of graphic presentation and other visual aids.


14. Determining insolvency. Bankruptcy or receivership proceedings often require a determination of the fact of insolvency.
I5. Calculating the distributions under profit-sharing provisions of contracts with executives or with labor unions.

I6. Assisting in the conduct of labor union elections.

I7. Preparing evidence as to "ability to pay" wage increases in labor union negotiations.

I8. Computing probable cost of guaranteed annual wage agreements and of other "fringe benefits".

I9. Giving expert testimony. Rate cases; contract disputes; suits for damages; tax cases.

20. Assisting attorney in cases having accounting aspects. Appraising accounting records for value as evidence; phrasing questions for examination and cross examination.

21. Calculating losses and preparing insurance claims. Investigating cases of suspected fraud and embezzlement. Determining losses from embezzlement, theft, fire (especially "business interruption" losses), or flood.

22. Advising as to methods of financing or refinancing the business.

23. Arbitrating disputes. As an independent professional man, a CPA may be asked to arbitrate contract and labor disputes, whether or not they relate to accounting matters. Typical problems are: determination of the value of a partner's interest; stockholder "buy or sell" agree-
ments; capital stock valuation; goodwill valuation; computation of royalties; determination of civil liability under contracts.

24. Acting in fiduciary capacity. A CPA is often well qualified to act as an executor, receiver or trustee.

25. Obtaining other experts. The CPA should be prepared to recommend specialists in other fields to his client.

26. Advising as to general business and industry conditions.

27. Preparing fixed asset retirement and depreciation studies.

28. Advising and auditing the accounts of fiduciaries. While much of the work in connection with estates, trusts, bankruptcies, and foundations involves ordinary accounting and auditing problems, there are a number of unique features which justify treating this as a special type of service, and one which requires some specialized knowledge.

29. Assisting in the preparation of reports of internal operations.

30. Designing and modifying internal control procedures. This is in part a phase of accounting system design, but it is a broader problem. It includes the internal organization of personnel, the assignment of duties within the organization, the organization and work of an internal auditing staff, the rotation of certain assignments, the preparation of manuals of procedure, and so on.


The CPA can be expected to know the basic principles of
machine bookkeeping and of the use of the punch-card tabulating equipment, and be able to give the client general advice as to the usefulness of certain types of machines in meeting his needs. He can be useful in assisting the client in evaluating the claims of representatives of various makes of bookkeeping and office machines. As to the more recent developments in electronic accounting, they are so far suitable only for large scale enterprises and the CPA will need some special study and experience before being qualified to give more than general advice to his client.

32. Budgeting and forecasting. The CPA can advise and participate in the preparation of a budget, in the checking of the progress of the budget, and in the interpretation of the results.

33. Advising on cost accounting procedures. In general, CPAs have not in the past paid much attention to the field of cost accounting. Although any CPA should be able to give assistance on the simpler cost accounting problems, extensive work in this area requires special training and experience and borders on or overlaps some of the phases of industrial engineering. Some of the problems are:

a. Factory cost accounting. System design, payroll accounting, inventory control, burden allocation methods, reporting methods.
b. Distribution cost accounting. System design, inventory control, cost allocation to department and function, reporting methods.

c. Special cost studies and analysis of operating statistics. Computing trends and ratios; determining the profitability of territories, outlets, departments, or salesmen; projections and break-even points; comparative costs of alternative production or distribution methods; cost and profitability of proposed new products; cost of expansion into new territories; the use of direct and marginal costing; the development of cost estimating methods; studies of the results of the use of certain advertising media, sales methods, credit policies, collection methods, purchasing methods, and discount policies; calculating the probable effects on operating results of expanding or contracting plant facilities.

34. Advising as to dividend and other financial policies.
Computing working capital and fixed capital requirements as possible reason for retaining earnings in the business.

35. Investigating new businesses for prospective purchasers.
Often in cooperation with engineers and attorneys.

37. Assisting in insurance counseling. Without special training, a CPA can not offer the services of a professional insurance counsellor, but he often is in a position to give impartial advice as to the insurance coverage of a client and as to the various types of insurance which are available. He can often work effectively in this connection in cooperation with an expert in the field.

38. Participation in business organization and reorganization. The CPA can often play an important part, especially in cooperation with bankers and attorneys, in planning the organization or reorganization of a business. In particular, this will involve a knowledge of corporation finance, as well as an awareness of the tax consequences of particular arrangements such as the partnership form as compared with the corporation.

39. Applying governmental regulations to the client's business. This includes wage and hour, price control, rent control, public utility regulation and other such problems. The CPA may represent the client in negotiations with the governmental agency.

40. Assisting in estate planning. The CPA's knowledge of estate, gift and income tax requirements, his contacts with various investment programs, and the like, qualify him to contribute much to the problem of estate planning. Work of this sort will often be in cooperation with an attorney.
41. Advising on pension and other retirement compensation plans. The CPA will often have a broad knowledge of various types of pension and deferred compensation plans and their tax aspects.

42. Serving as a "business doctor". CPAs are often asked to take over the rehabilitation of companies in financial difficulties, and to give advice which will prevent such a situation from arising.

43. Determining and disclosing the effect of price-level changes. Preparation of adjusted financial statements, or portions of them, as supplementary to the regular financial statements. Calculation of replacement requirements. Although well within the competence of the CPA, some study is necessary of statistical methods of making the necessary adjustments.

44. Assisting in the establishment of prices for products and merchandise; determining price lines and price policies. This requires considerable experience in the line of business of the client.

45. Advising on non-accounting management problems. Any CPA is probably qualified to give a limited amount of service on any of these matters, but if at all sizeable, they require special training or the participation of specialists in such fields as industrial engineering, statistics, personnel relations, and market analysis.
The possibilities include:

a. Office administration and equipment.
b. Market analysis for products and services.
c. Departmental organization.
d. Plant layout.
e. Development of production and other operating statistics.
f. Time and motion studies.
g. Job evaluation and merit rating programs.
h. Evaluation of executive functions.
i. Work-load studies.
j. Production planning, scheduling and control.
k. Office space utilization.
l. Plant space utilization.
m. Plant location.
n. Quality control.
o. Personnel selection.
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