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# **THE PROFESSIONS' ROLE IN PROFIT IMPROVEMENT**

*by Robert D. Niemeyer  
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*Presented before the 1971  
Southwest Management  
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## **INTRODUCTION**

These remarks are addressed to the CPA as a business advisor – an improver of operations and profits. Much of what will be said will be in the frame of reference of the public accounting profession. The same comments apply to the CPA in industry, because he, too, has a unique background and expertise that makes his role essential as advisor in his company. I plan to demonstrate that the CPA has a unique contribution to make in this role of business advisor and to convince you that if the CPA is not accepting this role and fulfilling it to the maximum, he is really not doing the job of which he is capable and which is expected of him.

## **HISTORY**

The theme of this meeting and the subject of my talk can be summarized in a few words:

[The accountant] must not only recognize business conditions, but prescribe remedies . . . devise systems and methods by which his clients' affairs may be kept in wholesome, vigorous working activity . . . , he must be able to install such a system and such methods, and train the staff of the concern for which it is devised to cooperate in reaching results in profits which will insure business success.

Robert D. Niemeyer, 1971? No, Charles W. Haskins, 1904, in his book on accounting education requirements.

This means that this subject is not a new one and that perhaps we can get the right perspective if we first cover some history before considering the present and the future of the CPA as an advisor to business. When you look back you find that business advice has been the primary function of the profession since its founding. For example:

In 1744, Mr. Chalmers, accountant to the City of Edinburgh, “was employed to prepare a Table of Interest . . . and a plan for the keeping of the books of the fund for widows and orphans” (this also has a social tinge that would be popular today).

In Britain, Richard Brown in 1904 wrote, “It is not unlikely in years to come, the consulting accountant, freed from the cares of general practice, may have as well defined a place in our profession as the consulting physician has in that of medicine.”

Professional accountants not only wrote about this responsibility – they put it into action. For example:

In the 1890’s, Messrs. Haskins & Sells developed an accounting system for the U.S. government.

In 1910, Marwick Mitchell & Co. performed a survey for the Westinghouse Electric Manufacturing Co. at its East Pittsburgh Plant. The scope of the survey included an organizational review and studies of the cost and general accounting systems, the production method, and premium pay systems. (Recommendations included the use of a Hollerith punched card system.)

After World War I, management problems accelerated with the increasing complexity of business and rising tax rates. To be competitive, business organizations had to obtain the best professional advice available. Professional accountants with such competence were available to provide assistance of this nature. It was during this period that the organization that is now the American Institute of Certified Public Accountants was founded. Its goals were the development of a profession having:

1. Bodies of specialized knowledge
2. Formal educational processes
3. Standards governing admission
4. A code of ethics
5. A recognized status indicated by a license
6. A public interest in the work that the practioners perform
7. Recognition by the Institute of a social obligation

During this period educational groups also recognized the role of the CPA as a business advisor and the public need for his professional competence. In

1926 a number of papers were presented at the Ninth Annual Meeting of the American Association of University Instruction in Accounting. The common theme was the increasing importance of the accountant in both public and private practice. James L. McKinsey, of the University of Chicago (and later of McKinsey and Co.), recognized that the volume of operations had become so large and complex that a specialist in organization and finance was needed; namely, a controller. He further indicated that the controller "expects the public accountant to interpret the data he presents and to offer suggestions and advice based on the sound experience" of the latter. In his opinion "the public accountant has been forced to take an increasing interest in management matters and to broaden the scope of his activities."

During the thirties, the Securities and Exchange Act and the formation of the SEC were the basis for a significantly increased (and attractive) activity in the attest function of the professional accountant. These actions greatly increased the demand for professional services, increased the size of many firms, and to a great extent, overshadowed the importance of the CPA as a business advisor.

I believe, however, that the pendulum is beginning to swing in the other direction. Business has become larger and more complex at an increasingly greater rate. Competition is keen and the company with good business practices and management techniques is the one that is surviving and prospering. These developments in the last 10 to 20 years have greatly increased the need, both internally and externally, for capable people who can successfully select, adapt, and install modern management techniques. The use of management consultants has increased tremendously and a number of firms in this field have become prominent.

The CPA, both within industry and in public practice, has had this need thrust upon him — and some are responding. The company expects its controller to do more than keep the numbers. The company expects its accounting firm to do more than attest to the financial statements. Which brings us to where we are today.

## **PRESENT**

In looking at the present, let's look a little further at the statement that industry expects the CPA to be a business advisor. Why is this so? There are a number of reasons:

The CPA's professional independence, objectivity, and integrity are well-

known characteristics, being at the core of the financial statement attest function. These qualities are essential for effective consulting.

The typical educational curriculum that a CPA must fulfill today, as well as the content of the uniform CPA examination, are oriented toward a broad body of knowledge encompassing many branches of accounting theory and practice, auditing, taxation, business law, data processing, and the use of data in managerial decision-making. The CPA is trained and experienced in the exercise of analytical skills and problem solving.

The CPA operates within the framework of a profession with ethical and technical standards and a requirement for social responsibility.

The CPA, by reason of his membership in national and state professional societies, has demonstrated a willingness and ability to meet the ethical and technical standards of the profession.

The CPA, through his continuing relationship with a client, knows the Company's operations, objectives, management, and other factors necessary to provide sound business advice. The CPA, therefore, is the most logical person from outside the Company to provide this service.

In recognition of these facts, the profession has been recognizing management advisory service as an increasingly important part of its practice. This has happened in both small and large CPA firms (I think, however, that most small firms have always recognized this need). It is also happening in the profession as a whole. Some of the evidences of this recognition of the importance of management advisory services are:

The publication of AICPA Statements Nos. 1, 2, and 3 regarding the nature and scope of management advisory services, competency required for MAS, and the role in performing MAS. These documents form the basis for a professional management consulting practice and should direct the trend of MAS for many years to come.

The publication of MAS Guidelines Nos. 1 and 2: No. 1 outlining good practices for the conduct of an engagement and No. 2 outlining good practices for documentation of MAS engagement activities.

The establishment of an MAS division in the AICPA and the designation of the MAS committee as a senior committee.

Coverage of MAS aspects of practice in the new draft of the professional code of ethics.

The establishment of an MAS standards committee to develop standards for MAS practice. This committee has already developed a standards framework which elaborates on the broad aspects of MAS practice defined in Statements Nos. 1, 2, and 3.

Increasing MAS activities in many state societies of CPA's — that is, in meetings such as this.

Recognition of the need to give a form of membership in AICPA and state societies to members of other disciplines active in MAS with CPA firms. These people are an integral part of our profession, subject to the same high standards, and with a significant contribution to make. In this discussion, when I refer to the CPA as an advisor, I naturally include this group.

I could go on but I think these examples illustrate what is going on today.

## **FUTURE**

What about the future? There are a number of current actions that should have an impact on the future of the role of the CPA as a business advisor.

First, there is a significant change in the field of management consulting. Many firms are going public. Others are being acquired by corporations predominately in other fields of activity. There is a fresh attempt to establish management consulting as a profession. This yet has to be proved successful. This means that increasingly the CPA is the only one in a position to provide business advice in a professional environment. These factors increase the importance of his becoming fully prepared to fill this role.

Then there are changes generally that can be foreseen that will have an impact on the CPA's practice. For example:

Increased complexity in all areas of practice — audit taxes, and MAS.

Increased use of more advanced management techniques — that is, advanced management information systems concepts and more use of modeling.

Increased use of electronic data processing — that is, mini-computers, time sharing, service bureaus, and facilities management. These developments bring EDP within the reach of all types and sizes of businesses and have implications from an auditing and advisory standpoint.

Increased use of EDP software — which implies a definition of the CPA's role in building (for certain types of users), evaluating, and modifying EDP

software.

Increased use of long-range and other types of planning – which implies a role for the CPA in advising on approaches, assisting in the development of forecasts, and perhaps even attesting to company developed forecasts.

Emphasis on new areas of social concern, such as ecology, that require the CPA's professional attention.

Increased importance of the governmental and service organization fields, with emphasis on cost effectiveness and use of more advanced management techniques.

What will the effect of these and related factors be on the CPA, his areas of competence and nature of his activities? Some things seem evident:

There will be a need for each area of practice to become more dependent on others, as all aspects of practice become more sophisticated. In other words, it will become increasingly difficult for one man to be all things to all people.

There will be an increasing need to keep up with changing technology, emphasizing the importance of personal technical development and specialized knowledge.

There will be a less detailed, more sophisticated approach to auditing.

The technology of MAS will become more important to clients and the role of the CPA as advisor should expand. MAS technology also will be an important element in competence in other areas of practice, particularly auditing.

There will, therefore, be a necessity for the CPA to continue to develop the MAS aspects of practice if he is to meet clients' needs. The same conclusion pertains to the controller in industry. He must be oriented to the advanced areas of management techniques if he is to adequately serve his company.

## CONCLUSION

I think you can tell by these remarks that I am bullish on the role of the CPA as a business advisor. When you look at the facts and measure the activities that surround us, to me it seems inevitable that the requirement is there and that the CPA is in the best position to meet that need. The result, of course, is up to him. Other men have had opportunities throughout history

and have failed to recognize them or to meet the challenge. I sincerely hope our profession will have the vision and the courage to respond to these challenges. The evidence of some positive action is currently present but the future belongs to and must be met by each of us as an individual. I personally hope that each of you is successful in meeting the challenge. ●