EO Specialization Department: Expanded horizons, added dimension

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TIME. There's never enough of it for most of us. In broad terms, the accounting profession is as concerned with time as it is with numbers. In an environment where cost inevitably is a determining factor in any business or professional relationship, the question of efficiency cannot be ignored. In simplest terms, efficiency can be said to be the ability to do the best job possible in the least amount of time—and time is the yardstick we use in determining client charges.

The efficient management of time and resources (including people), one of the marked characteristics of every technically oriented society, especially in the past several decades, has hastened the move toward specialization. This trend has had, and continues to have, a major impact on the very fundamentals of the accounting profession.
He who gains time gains everything.
Benjamin Disraeli, Tancred

In accounting the problem has been not only to keep up with certain technological developments—the growing use of electronic data processing is perhaps the easiest to point to—but to meet the challenge of the vast proliferation of regulations and changing requirements of the Financial Accounting Standards Board, the Securities and Exchange Commission and the American Institute of CPAs that affect the profession and the profession’s relationship with its clients. Without at least some degree of specialization, the burden would long since have become intolerable.

To a large international accounting firm such as Haskins & Sells, recognition came early that future growth demanded specialization. As America moved into the fourth decade of the twentieth century, well before the subject of specialization became a fashionable topic of discussion, tax was becoming firmly established as a recognized and accepted specialty in the Firm.

Since that time other specialties have been established. Both small and growing business services and management advisory services reflect the Firm’s awareness that there is a client need and that our ability to provide these specialties is to our own benefit as well as that of the client. Needless to say, auditing, the cornerstone of the profession and the Firm, is today as much of a specialized service as are the others.

By the beginning of the 1960s it was quite apparent that the need for specialization was not only here to stay but would continue to grow. Even more important, it had become obvious that the problem had to be studied from new perspectives. Many industries had themselves become so complex that there was a need for specialists who were familiar with the specific auditing, tax and MAS problems of, for example, the insurance industry and for others with a solid grounding in the real estate industry, or the banking industry, or in brokerage. Here again, efficiency, better resource management, was the key if we were to provide quality services while maintaining reasonable fee schedules.

As a consequence, in 1963 the late Casper Apple, then partner in charge of our Newark office, transferred to Executive Office to spearhead a new effort that would put the Firm’s industry-specialization program on a more formalized basis. His initial efforts were devoted to establishing an industry-coordinator program, with H&S people expert in various industries named to provide technical support to any practice office that might need their assistance. Following Mr. Apple’s retirement, responsibility for the specialization program passed to Clayton Bullock and later to Russell Tipton, both now retired.

In 1976, when the Specialization Department was brought into the Client Services Coordination Group of Executive Office, J. William Stewart, Jr., partner in charge of that group, asked Kennard W. Webster to take charge of the specialization program.

Ken Webster is a man preoccupied with time, efficiency and resource management and their relationships, perhaps in part because of his strong background in management advisory services.

Ken, whose studies were interrupted by the Second World War, during which he served as a Marine Corps pilot in the Pacific, entered public accounting with a firm in Rochester, New York after receiving a degree in business administration from Niagara University. He later resigned to specialize in management consulting.

He joined Haskins & Sells in New York in 1957, was admitted as a partner in 1962, and three years later moved to Philadelphia to start a new MAS region with its headquarters there. In 1969 he transferred to Los Angeles as western area director for management advisory services, the position he held until being named partner in charge of specialization.

No Abstract Concept

“We’re talking about productivity,” Ken points out, “getting the maximum value for an investment in time, effort and costs. This is no abstract concept; it has become an overriding fact of life for the public accounting profession.”

Ken is blunt about the need for specialization. “I don’t think we could maintain a leadership position in the profession if we did not have a strong corps of specialists and if we do not continue to work toward the development of an even stronger group of specialists.
The time is long past when we could serve as large and diversified a group of clients as we have with no more than what might be termed generalists. This obviously does not mean that there is no place for the generalist. Medicine has room for the general practitioner as well as the orthopedist, internist and pediatrician. In accounting, though, we are really talking about a definition of terms. Is an auditor a generalist or a specialist? Is a member of our tax group a generalist or a specialist? For example, a person can be a generalist in taxes but a specialist in savings and loan tax peculiarities. I think it's reasonable to say that we're largely a Firm of specialists, with some of our people having a higher degree of expertise in certain concentrated areas. The fundamental question is how current and expert you can expect an individual to be in how broad an area. There always are limits to individual capability.

"What's really important, however, is to understand the specialization program in terms of how it enables us to serve our clients better. In effect, this means approaching the question from the perspective of degree of specialization or, perhaps more accurately, levels of specialization and expertise in a given area or areas. What is equally important is to organize the specialist effort with sufficient formality and administrative sanction so that clients and nonclients alike can appreciate what we have to offer."

**Emphasis on Four Activities**

Ken places heavy emphasis on four key activities: formalizing the qualifying structure for specialists; identifying H&S professionals who qualify as specialists, who are becoming specialists and who want to become specialists; improving the flow of communication with our practice offices so that all partners can locate a needed specialist quickly; and, finally, improving the technical tools and reference material available in the practice office.

"Our basic philosophy or position is simple enough," he said. "Any H&S professional, be that person in tax, accounting and auditing, SBS or MAS, may also be particularly well informed about an industry or a functional area. Sometimes this is as a result of heavy experience on engagements. While the 'hands-on' experience is vital, we usually find that those individuals who become outstanding specialists also have or develop a strong personal interest in that industry or area of business."

It is perhaps both the joy and the burden of specialization that the more a particular industry or area is studied, the more opportunities for an ever-narrowing focus you find. It is as if a man walking a road came to a fork. Choosing one branch he continues on, coming to another fork, and making another choice, with this being repeated at frequent intervals. Each choice involves a different path, with a differing landscape, but each separate path is part of the whole.

The makeup of the Firm's clientele, as well as the nature of the profession, necessitated the development of functional specialization to complement industry specialization.

The role of functional specialization is "to encourage and provide competence in depth in specific technical areas. The areas selected for concentration can originate from a variety of sources, such as accounting theory and practice (cost accounting), a governmental regulation (ERISA), an operational area in a client enterprise (production planning), or a technique used in conducting our practice (statistical sampling)."

"It's probably easier for the layman to understand the role of and the need for an industry specialist," Ken pointed out. "After all, the operations of an insurance company are clearly different from those of a public utility or a large and growing agribusiness. Each industry has its peculiar problems and methods of operation that the public accountant must be familiar with."

"Manufacturing—which represents about a third of the Firm's practice—probably provides the simplest illustration of the need for the functional specialist. A furniture manufacturer does not necessarily see himself very differently from the maker of television sets or the producer of hand tools. He considers his industry to be manufacturing. And from the point of view of the public accountant, manufacturing—specific products aside—is essentially one industry sector. To put it another way, the end product isn't as relevant to us as public accountants as are the methods of operation. I'm not trying to say that there are no differences between, for example, a manufacturer of heavy farm equipment and the manufacturer of cosmetics. But what we do have to remember is that different types of manufacturers can be approached—from the public accounting point of view—as a group. In manufacturing the commonalities are more important than the dissimilarities."

"Consequently, we've grouped our functional specialties to deal with those areas that cross industry lines. Some of the functional specialties we have in accounting and auditing are government-contract accounting, LIFO inventories, bankruptcies and actuarial techniques. In tax we have specialties ranging from corporate acquisitions, organizations and reorganizations, and community property taxation to ESOPs (employee stock option plans), foreign tax shelters, and environmental impact. MAS includes specialties such as financial models, EDP operating software, inventory management, product-line profitability, and employee benefits."

**A Need for Strict Standards**

The question of maintaining strict standards for the qualifying of the Firm's specialists is one of key importance to Ken Webster. The number of professionals is too large, the distance between many H&S offices too great to permit reliance on individual acquaintanceship as a gauge of specialized knowledge.

"You have a question of credibility," he points out. "You simply can't maintain your credibility with a client unless the specialist working with him is expert in that field. Remember, the client is a specialist, an expert in his field.
professional relationship can exist only if our specialist and the client are on essentially equal levels of knowledge about and background in the industry in question. Internal credibility is just as important; a uniform system of accreditation establishes objective, consistently applied standards to define a specialist’s qualifications.

The standards for approving an H&S specialist concentrate on two major areas: general knowledge of the industry, and technical experience and proficiency. General knowledge of an industry is defined as including “a basic understanding of its purpose or role in the marketplace, economic climate, organization characteristics, terminology, industry regulations, governmental controls, legal climate and operating problems peculiar to industry activities.” It is specifically pointed out that this degree of general knowledge must be sufficient to permit the specialist to converse freely at the principal executive level in all areas, such as production, marketing and finance.

At Least Five Years of Experience

In the area of technical experience and proficiency, experience in an industry is considered the attribute that most distinguishes a professional as a specialist. Although H&S recognizes that experience requirements vary with the industry and with areas of professional service, at least five years of exposure to an industry is generally required for qualification as a specialist. And this exposure must be to a number of companies in a given industry, simply because not every company operates in exactly the same manner. Industry-related academic credentials and extensive self-study can shorten the field experience required. “Obviously there is room for judgment,” Ken observed.

In addition to his or her extensive knowledge of an industry, the specialist must also be proficient in basic professional skills in one or more of the four major service areas—tax, accounting and auditing, small and growing business services and management advisory services.

A strict review procedure ensures that H&S professionals seeking to become specialists have the proper credentials.

“Anyone to be designated as a specialist must complete a detailed qualifying form in which he or she gives a history of education, professional background and specific experience and training in the industry,” Ken said. “That form is reviewed first by the partner in charge of the office, then by the national industry coordinator for that industry and finally by the service area (Audit, Tax, SBS and MAS) coordinator. As of the turn of the year, more than 460 people—mostly partners and managers—qualified as industry specialists.

Having a large corps of specialists is important, but making information about them readily available at all levels of the Firm’s operations is equally vital, Ken believes. “Knowing who a specialist is and where he is located invites economy and efficiency in the performance of our services to clients,” he said.

Computerized Industry Rosters

At the present time, for example, each practice office has a computerized industry roster listing the name of the specialist, his or her industry of specialty and service area (A&A, Tax, SBS or MAS). In addition, professional personnel who have not yet qualified as specialists but who are working toward that goal are listed. These latter individuals are categorized as having more than three years of exposure to the industry, having three years or less, or as showing a specific interest in a particular industry.

“One of the major advantages of the practice-office industry roster is that it shows the partner in charge and others in the office the extent of their specialist strength,” Ken said. “Thus if a need arises for someone with specific knowledge of an industry, a glance at the roster tells them if a qualified person is available right in that office.” Because the client mix of every office is different, PICs tailor their own internal industry-specialization program.

In addition to the practice-office roster, all regional partners in charge and Executive Office group heads receive comprehensive national industry rosters giving the location of the specialists in all our offices.

In actual practice, each industry group (or sector if organized on a broader scale) is controlled by a formal structure that is responsible for overseeing all national activities of specialists in that group. As an example, the Finance Sector—Insurance Industry Group includes insurance companies in the life, accident and health, hospital and medical, fire, marine and casualty, surety and title areas, as well as insurance carriers and insurance agents and brokers.

Frank A. Bruni, partner in charge of our Hartford office, is national industry director (NID) for the Insurance Industry Group. The role of NID, essentially an administrative position, also has strong marketing responsibilities. Each NID not only has outstanding credentials as a specialist, but has achieved a high degree of visibility and a strong, generally recognized reputation in his industry sector. Frank also serves as chairman of the six-man national industry committee for the insurance industry made up of Daniel Bailey (New York), Dean Jones (Los Angeles), Leon McElvany (Dallas), Donald Morchower (New York) and Jerry Pinkerton (Dallas).

Dan Bailey also serves as national industry accounting and auditing coordinator for insurance, while Leon McElvany is national industry coordinator for tax and Don Morchower serves in the same capacity for MAS. The coordinator’s role is designed to make available the strongest technical support where and when it may be needed.

Establish Guidelines and Priorities

All industry accounting and auditing coordinators must be approved by Ken Stringer, EO partner in charge of Accounting and Auditing, and are under his group’s supervision.
"The overall functioning of each industry committee," Ken Webster said, "is intended to establish guidelines and priorities for expanding the practice, to promote the efficient use of specialists' services, to monitor the operations of the group, and to suggest methods for improvement. We also ensure that one member of each committee is a partner in charge of a practice office so that the practice-office viewpoint is represented."

As an additional move to pinpoint the Firm's strength in the broad area of specialization, all industry groups are categorized on a response-level basis.

"We refer to it as a response level because we have divided the groups on the basis of our need to support various levels of specialized service," according to Ken. "This approach is more important than it might seem at first glance, in large part because it can play a key role in the future of our practice as well as what we do today.

"The specialist is already solidly established in the overall practice of the Firm—as he is in the public accounting profession. I don't think it's possible to predict today the eventual influence of the specialist on the profession, but there's no doubt that it will grow, and grow substantially, in the future.

"There are simply too many factors," Ken continued, "pointing to the need for an increasing degree of specialization in the years ahead. We expect to continue to provide the highest quality of services to our clients—and to do it with maximum efficiency. This demands continued enhancement of our specialization effort.

"The response-level approach allows us to see where our specialization effort stands now in relation to our clients, and also to target those industry areas where we feel substantial expansion is taking place or will take place. Thus, when we identify a growth-industry sector, we can take immediate steps to begin to expand our corps of specialists in that sector so that we will have the people we need in the future. After all, it takes years of education, training and experience to become a professional accountant. It takes additional years of experience, education and training—looking at these elements in a broader context—to qualify a professional accountant as a specialist.

"We often talk of the team approach at Haskins & Sells," Ken said. "The increased emphasis on specialization is a reflection of our team philosophy, of our recognition that the end result benefits the client by providing the highest quality of services with maximum efficiency.

"We want to encourage our people to become acknowledged specialists, not only because it benefits the Firm and our clients but because it adds another dimension to their own professional credentials, to their personal lives. Specialists become specialists because of a deep interest in an area, and by combining and interrelating this interest with their professional activities. It's a great combination."