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The CPA MANAGEMENT ADVISOR

NEWSLETTER OF THE AICPA DIVISION FOR MANAGEMENT ADVISORY SERVICES

BULLETIN BOARD

COMMISSIONS AND CONTINGENT FEES

The Federal Trade Commission staff and the AICPA have reached a preliminary agreement that the AICPA will no longer prohibit members from accepting commissions and contingent fees in engagements for nonattest clients. The preliminary order was published in an early April issue of the *Federal Register*. This action marks the beginning of a 60-day comment period before the FTC makes a final decision.

Under the terms of the agreement, AICPA members will be able to do the following when attest clients are *not* involved: (1) Accept disclosed commissions on products recommended to clients in addition to or in lieu of professional fees; (2) accept a referral fee or pay a referral fee to obtain a client; (3) make fees contingent on achieving agreed-upon results for clients. State accountancy boards may still ban commissions and contingent fees within their jurisdictions.

The consent order also affects other matters. It will permit Institute members to solicit clients by any means so long as their statements are not false, misleading or deceptive. In addition, they may use advertisements that include self-laudatory statements and endorsements provided all the information is truthful. They may also use trade names. (See Commentary on page 2.)

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THE OUTLOOK FOR MAINFRAMES AND MINICOMPUTERS

Are mainframes and minicomputers the dinosaurs of the computing industry, destined to succumb to the onslaught of microcomputers? No, because while they may be large, they're adaptable too. They serve needs and perform functions that microcomputers can't do, or can't do as well. "There's always going to be a place for mainframes and minicomputers," according to Mike Harnish of Crowe, Chizek and Company in Grand Rapids, Michigan.

Because of the capacity of their input/output (I/O) channels, mainframes and minis can process large amounts of data quickly. But the I/O channels of microcomputers, Harnish said, "are simply not fast enough, wide enough or enough in number to handle the big-time processing requirements of many businesses. The need to perform serious 'data-crunching'... severely outstrips the design of microcomputers."

Mainframes and minis outperform micros in networks as well. As Herbert Schechter of Laventhol & Horwath in Minneapolis explained, "the computer, operating system, software and peripherals all work together as an integrated system. There are too many variables with microcomputers." Compatibility, in particular, can be a problem. For example, in a network composed of IBM computers and clones, the clones may not be able to read the software designed for IBM. Users also have an easier time accessing data from the centralized storage of a mainframe- or minicomputer-based network than from a microcomputer network's file server.

Software availability is another important consideration. A larger and more sophisticated choice of business applications exists for mainframes and minis than for microcomputers. A related factor, updating, also weighs in on the side of larger systems. It is "more difficult and tedious to update

the system when the update must be applied concurrently to all of the user nodes instead of a more centralized mini or mainframe," Harnish pointed out.

What's the final verdict? "There is no single computer or class of computer that is right for everyone or every business setting," in Harnish's opinion. "Micros have a great role to play as personal computers and business computers in the smaller business setting," he added. And Schechter, as if finishing Harnish's thought, said "when businesses get to a certain size, they need a large computer."

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Members of the AICPA Division for Management Advisory Services recently received copies of MAS Technical Consulting Practice Aid 10: *EDP Engagement: Implementation of Data Processing Systems Using Mainframes or Minicomputers.*

COMMENTARY

MAS, along with personal financial planning, is one of the primary areas of current CPA practice that the FTC consent decree may affect. Will MAS practitioners want to use commissions and contingent fees for nonattest clients?

Assuming the state in which a CPA practices permits such forms of compensation, there are other things to consider. For example, many practitioners will not accept commissions or contingent fees because they believe CPAs should be independent and objective. Others believe that in work involving computer system selection and implementation, clients want expertise rather than objectivity. If a CPA becomes more knowledgeable about a few vendors' products through arrangements with vendors, and the arrangements do not add to implementation costs, clients may see no problem as long as the selected system works successfully. In fact, they may see advantages because such arrangements can reduce implementation costs.

Contingent fees could open many doors to MAS practitioners. But CPA firms will need to be very sure of what they are doing or significant write-offs may result. Firms that agree to accept contingent fees may fare better by adapting the value billing concept. The CPA and the client can agree on a base fee, as well as incremental fees linked to pre-established goals and criteria to measure results.

COURSES AND CONFERENCES

Members interested in the programs described below should contact the sponsoring organizations for additional information. The courses and conferences of other organizations have not been evaluated to determine their quality or the extent to which they qualify for continuing professional education credit.

AICPA (800) 242-7269

What: The CPA's Role in Litigation Support Services
When: July 10–11, 1989
Where: Westin Hotel, Boston, Massachusetts

AICPA and Ohio State University (641) 292-4230

What: Development of MAS Skills
When: June 12–16, 1989
Where: Ohio State University, Columbus, Ohio

What: Advanced MAS Skills
When: June 19–23, 1989
Where: Ohio State University, Columbus, Ohio

Institute of Management Consultants (212) 697-9693

What: Fundamentals of Management Consulting
When: August 7–9, 1989
Where: Chauncey Conference Center, Princeton, New Jersey

Management Design Associates (303) 721-1223

What: (1) Partner Advisory Skills Development Program (40 hours)
 (2) CPAs as General Business Consultants (16 hours)
 (3) Microcomputer Hardware/Software Update (8 hours)
When: Various dates
Where: Various locations

Organizational Consultants, Inc. (415) 989-6189

What: Consulting for Organizational Effectiveness
When: September 11–13, 1989
Where: Washington, D.C.

Which kinds of clients will contingent fees attract? Those who need evidence that the fee for an MAS engagement will be an investment rather than an expense. Such clients may prefer a contingency fee, with or without a base fee, over the standard

CPA fee based on billable hours.

The potential pitfall for MAS practitioners will be in establishing and meeting the criteria to measure results. Disagreements with clients in this area are likely.

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GET STARTED IN MAS BY SPECIALIZING

By developing an industry or function consulting specialty, accountants can begin to build a much-in-demand consulting practice that can command higher fees than traditional services.

LOWELL V. GETZ

The smaller practitioner obviously cannot supply a broad scope of consulting services like the large national or regional accounting firms. Yet many clients and potential clients are interested in specialized consulting services provided by smaller firms. A small specialized firm can frequently accomplish more in less time than larger firms because specialized knowledge can be brought to bear immediately with less time needed to acquaint staff with the industry or area of specialization. Clients appreciate this.

Developing specialized competence in management consulting is a difficult and time-consuming task, but the rewards are considerable for the smaller practitioner who wishes to compete with larger accounting firms and others involved in management consulting.

A smaller firm interested in this area can concentrate in some aspect of management consulting—either a functional specialty or an industry specialty. *Functional specialists*, such as those in strategic planning, computer consulting, business start-ups, or litigation support, can work in several fields. However, many tend to limit their practices to the few industries with which they are most familiar. *Industry specialists*, on the other hand, tend to concentrate on a particular industry, such as retailing, restaurants, attorneys, banking or health care services. These kinds of specialists develop knowledge of how a particular business should operate profitably and can analyze a business in a particular industry or assist someone to enter the industry.

Here are some guidelines for choosing and developing an MAS specialty.

SELECTING AN AREA

There are several areas of consulting where even the smaller practice can be successful: computer consulting, per-

sonal financial planning and litigation support services. There are many sources for gaining expertise in these specialties through study courses, seminars, specialty organizations and other training methods. Of course, there is also a formidable amount of competition in these specialties, both from other accounting firms and from non-accounting specialists. Therefore, you need to evaluate the competition before entering these markets.

Choosing a less well-known specialty requires a review of your background, interests, strengths, and weaknesses. For example, if you have experience in private industry, or your public accounting background has tended toward a specialization, that is a place to start. Analyze your skills and those of your firm, and select the area that seems to be most logical. The specialization must, of course, fill a need in the marketplace; there must be sufficient prospects to make it viable.

Be creative in your thinking. Most likely your market will be smaller to medium-size companies spread over a geographical area beyond the region you are presently serving. You also need to position yourself to differentiate these services from the general accounting services rendered by others. You may need to hire a research firm to study the market for you. In any event, a great deal of planning is necessary to evaluate the market and develop a business plan.

For example, say an industry specialization seems like the logical choice. While most accountants would tend toward areas of financial consulting in this industry, you should not overlook other related areas, such as strategic planning, benefit plans analysis, operations planning, and location studies.

Companies within the industry have different needs, and a smaller practitioner cannot serve them all. Start-up situations, emerging companies, stagnant organizations, and companies in financial trouble all require different consulting skills. The breadth of coverage of the industry specialization will depend on your capabilities and resources.

DEVELOPING EXPERTISE

The usual method for developing expertise in a specialty is to study, take courses, attend seminars, and read everything you can find on the subject. Develop contacts within the industry and subscribe to trade publications so that you are in touch with what is going on in the industry. This requires a considerable investment of time and money and must be incorporated in your budgeting.

Another way to build expertise is to search out the trade associations and groups serving the industry or functional specialization. For example, if your intent is to serve one of the professions, you will find them organized much like accountants. There are local, state, and national groups within the major professional association, and other associations for special interest groups. Your public library can assist you in locating these associations, and you will generally find several in your area of interest. You then need to study the differences in these associations and talk to members. Since there is a very limited need for outsiders to participate in these associations, you may have to search to find one that might welcome your participation.

You must then be prepared to "pay your dues" by participating at the local level first. Most associations have "associate" or "affiliate" memberships for people who have an interest in their

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work but who do not actually provide the goods or services. Even if such memberships are not available, you can still find ways to participate. Write articles on financial matters for the local chapter newsletter. Most of these newsletters welcome articles on finance concerning their members. Offer to assist with committee work and volunteer for jobs that no one else wants, such as writing minutes for committee meetings and researching specific issues.

If you lack direct experience working in the industry or functional specialty, the next best thing is to hire someone who does or to establish a joint venture with a noncompeting consultant. For example, explore possibilities with university professors who consult on the side. As your specialty involvement grows and your circle of acquaintances expands, this will be easier to do.

As you increase your activities at the local level you may be asked to speak on topics in your area of expertise. Take advantage of these opportunities and never turn down an offer to speak. As long as you keep current on industry or functional specialty matters and never stop reading, people will be interested in what you have to say.

Besides writing and speaking, another way of marketing your specialty is to participate in association activities. Attend as many regional and national conferences as your budget will allow, and be active in the work of the association. You must have a genuine interest in promoting the good of your chosen field, and it will show. If your only interest is in the fees to be generated, that will show too.

MARKETING

Specialization forces you to think in terms of a market beyond your own geographical area. The narrower the specialty, the fewer clients there are in your immediate area to serve. You must be prepared to expand your marketing effort beyond your local environment and also be prepared to travel. The costs and drawbacks of marketing and travel should be considered in your planning.

What about the prohibitions against specialization contained in state ethics laws? While you cannot overtly "promote" your specialty, there are ways of demonstrating expertise through your work and marketing efforts which eventually establish your reputation in the selected field.

ESTABLISHING CREDENTIALS

Consulting activities create momentum. The more successful projects you complete the more you will be asked to do. If a difficulty arises that may lead to a dissatisfied client, it is important to resolve the conflict quickly, and without regard to fault or cost, for the sake of your reputation. A dissatisfied client can do great harm to your reputation, since even the largest industries can be like closed communities. Word travels fast, and people only hear one side of a controversy.

One way to build a reputation as a specialist is to decline work that is outside your area of concentration. Referring business to others can be painful, particularly to a newcomer to consulting, but it can build your practice in the long run. By establishing a network of referral sources and referring work to another (noncompeting) consultant, you will gain through reciprocal referrals. You will also be obtaining the best

"You must be prepared to expand your marketing effort beyond your local environment and also be prepared to travel."

possible consulting services for the client. Building a network of referral sources you trust and who trust you takes considerable time and effort.

Begin by meeting other consultants specializing in your field of interest. These consultants will usually be attending the conferences, and many will be ex-employees from the industry who are renewing acquaintances. Others may be university professors or consultants from other organizations. You will meet the same people at these conferences each year. Over time you will learn of each other's capabilities and reputations, and almost imperceptibly you will become part of their referral network, and they will become part of yours.

As you become more involved in industry association work you will be asked to take on more assignments. Eventually you will come to the attention of national headquarters. Participation at the national level will bring

you exposure far beyond what you could do for yourself, even with the most expensive advertising campaign. There is substantial cost for this involvement, including the time commitment and expenses for attending meetings. Over time it pays off when you are asked to speak and write for the association as well as undertake consulting assignments on a fee basis. All the while, of course, you are working for individual companies that are members of the association.

ESTABLISHING BILLING RATES

Billing rates for consulting services should be high because of the non-repetitive nature of project work. Each job must be sold individually. Also, particularly with smaller and less sophisticated clients who are not used to hiring consultants, there is a certain amount of time that cannot be billed.

Many consultants think that as prices are lowered, the firm can sell more work. While this may be true in certain highly competitive areas, for the bulk of consulting services it is not. People generally do not look for the lowest-priced consultant any more than they would look for the lowest-priced surgeon.

People buy consulting services because they *perceive* that the consultant can help them. It is only after the conclusion of the assignment that they know whether they made the proper selection. Price usually does not enter into the selection process, as long as it is within reason. In fact, striving for a reputation as an outstanding, but expensive, consultant in your specialty may be one way to plan.

If you are well-connected in the industry or functional specialty, it is not too difficult to find out what other consultants are charging. Of course you need to develop your rates based on your own direct costs and overhead, but the billing rate needs to be compared with others and adjusted where necessary to place your firm in the spectrum where you wish to compete.

In conclusion, there are many rewards for practitioners who are willing to devote time and energy to specialization in a field of consulting.

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Lowell V. Getz, CPA, MBA, is a sole practitioner who limits his practice to financial consulting for architectural and engineering firms. He is located in Houston, Texas.

BIG EIGHT ASSESS CPA EDUCATION

In a business world “more dynamic and complex than ever before, ...[with] advancing technology, proliferating regulations, globalization of commerce and complex transactions,” simple numbers crunching is not enough. So say the Big Eight accounting firms in their recently published joint study, *Perspectives on Education: Capabilities for Success in the Accounting Profession*. They have concluded that certified public accountants need a broad array of skills and knowledge to best serve their clients, and educational requirements should reflect this new sensibility.

The skill requirements for CPAs seem to be leaning more in the direction of those used in providing management advisory services. For example, the study says that “individuals seeking to be successful in the diverse world of public accounting must be able to use creative problem-solving skills in a consultative process” and “must be able to solve diverse and unstructured problems in unfamiliar settings...to comprehend an unfocused set of facts; identify and, if possible, anticipate problems; and find acceptable solutions.”

The study cites three general areas in which CPAs need expertise. Good

“...certified public accountants need a broad array of skills and knowledge to best serve their clients...”

communication skills will enable practitioners to make effective written and oral presentations. *Intellectual skills*, such as judgment and problem-solving, are critical. And as managers, CPAs will need the *interpersonal skills* of organizing and delegating tasks, motivating others and resolving conflicts.

Formal, technical education needs revamping. Teaching methods should

allow students to experience the kinds of work patterns, such as team efforts, that they will encounter when they join firms. Some other new teaching approaches include seminars, simulations, extended written assignments and case analyses. “Creative use of in-

formation technology will be essential,” according to the heads of the Big Eight firms.

In addition to auditing and accounting knowledge, general knowledge—in the form of history and current economic, political and social forces—is a basic requirement. The same holds true for organizational and business knowledge.

The Big Eight CPA firms have pledged up to \$4 million over five years to achieve their goals through “development of a stimulating and relevant curricula.” They hope to create a renaissance CPA for the challenging times ahead.

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MANAGEMENT CONSULTING ASSOCIATIONS MERGE

The Association of Management Consulting Firms (ACME) and the Institute of Management Consultants (IMC) plan to merge and form the Council of Consulting Organizations, Inc. (CCO). Both ACME and IMC will continue to function as operating units of CCO, with ACME concentrating on firms and IMC on individuals. IMC will retain its responsibility to accredit its members as certified management consultants (CMCs). Several MAS practitioners will serve with other consultants as officers and directors of CCO.

ACME now has 53 member firms, including the Big Eight CPA firms, which were invited to join in 1984. The IMC has approximately 2,200 individual members. Of these, about 30 percent are MAS practitioners with CPA firms. The AICPA Division for MAS has 5,000 individual members, representing over 3,500 CPA firms.

Because non-CPA MAS practitioners cannot currently join the Institute’s Division for MAS, many of the larger CPA firms encourage these individuals to become CMCs through membership in IMC. A number of CPAs are also CMCs.

Two other professional management consulting organizations, the Society for Professional Management Consultants (SPMC) and the Associa-

tion of Management Consultants (AMC), previously merged into the IMC. Now the consolidation of ACME and IMC as CCO has created an organization that will play a major role in management consulting as it grows. It and the Institute’s Division for MAS will establish professional standards for their respective members. In the past the three organizations joined forces to promote enhanced education for management consulting at colleges and universities.

The director of the Institute’s MAS Division has maintained a cordial working relationship with his counterparts at ACME and IMC and will continue to do so now that they are components of CCO.

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SUGGESTIONS FROM THE CPA MANAGEMENT ADVISOR

Even if a picture may not be worth a thousand words, it can make things easier to understand. For MAS practitioners, charting is a vital tool in understanding how a client's organization works and how it can be improved.

Very few organizations, except perhaps the largest, have flowcharts. Process flowcharts showing current work flows are often a revelation to clients, and provide a strong incentive to simplify and streamline operations. Organization charts are a little trickier. Sometimes clients don't want to pinpoint responsibilities for fear of finding that multiple executives claim responsibility for some activities while no one claims responsibility for others. But that is the most important reason for having an organization chart—to get organized!

Does anyone on your MAS staff prepare charts? If not, you're missing a basic MAS tool. You can hire charting expertise, but it's a good idea to provide such training for all MAS personnel. It will help them get the picture more quickly when they need to learn about a client's operations or organization. If you don't think so, let them chart your firm!

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PUBLICATIONS REVIEW

Guide to Profitable Microcomputer Consulting by Sheldon Needle, Computer Training Services, Inc., 5900 Tudor Lane, Rockville, Maryland 20852, 1988, 163 pages (paperback), \$75.00.

Should CPAs provide computer consulting? In *Guide to Profitable Microcomputer Consulting*, Sheldon Needle says the answer is yes because of client need and the pressure of competition. Focusing specifically on CPAs, the book leads readers through the process of developing a microcomputer consulting practice. While it does not provide a step-by-step approach to performing a consulting engagement, it does touch on everything from marketing to system implementation. It provides CPAs with useful information to make decisions about developing a *profitable* computer consulting practice.

The book addresses several important issues. A pivotal one is the degree of specialization a CPA needs in computer consulting to achieve success. For those worried about pitfalls, particularly the increased liability that adds some risk to computer consulting, Needle devotes an entire chapter to potential problems. He discusses the need to evaluate clients before accepting engagements and the importance of establishing realistic

client expectations.

Needle, the president of Computer Services, Inc., has created this book by recounting what he and others have learned as consultants to CPA firms and businesses. He cites contributors to the book, but their contributions are in the form of quotations and experiences rather than individually written chapters or sections.

One such contributor maintains that the CPA is "taking on the role of a business problem solver and not just a walking hardware/software encyclopedia" when serving as a microcomputer consultant. "The goal here" he says, "is to clearly understand business, management and accounting systems and to solve problems in that environment. Thus the CPA can be an *orchestrator*, pulling together technical specialists without being an expert himself as long as he understands the issues." Using this definition, any CPA can help clients in this challenging area of practice.

This book, with seven appendices that include sample engagement/proposal letters, checklists, reports, advertisements, seminar materials and a list of periodicals, can ease a CPA's entrance into the microcomputer consulting field.

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