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CPA MAS

The CPA MANAGEMENT ADVISOR

NEWSLETTER OF THE AICPA DIVISION FOR MANAGEMENT ADVISORY SERVICES

BULLETIN BOARD

LITIGATION SERVICES RECONSIDERED

The MAS Executive Committee has reversed its decision to issue an interpretation of the MAS standards that would place litigation services, including expert witness testimony, under the current Statements on Standards for Management Advisory Services (SSMASs). Its ongoing project to revise the SSMASs will consider how to relate litigation services to the revised standards. In the interim, the general standards in rule 201 of the *Code of Professional Conduct* will continue to apply to litigation services.

The MAS Division's Litigation Services Task Force will recommend that the executive committee appoint a standing subcommittee to develop educational materials and practice aids on litigation services, and monitor events and activities in this growing area of practice.

NEW MAS BROCHURES ISSUED

The AICPA has issued the first four brochures in a new series focusing on business advice (MAS) from CPAs. The brochures address the topics of business loans (890541), business planning (890540), cash management (890543) and computer services (890542). Division members will receive

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CPA CONSULTING GOES GLOBAL

From his Chicago office, Joseph Conlon can pick up the phone and get information from another continent as easily as from another U.S. city. If the need arises, he can put his clients in contact with his counterparts across the ocean, Atlantic or Pacific.

Conlon, a partner at Grant Thornton, is one of a growing number of CPAs aiding companies that have worldwide markets, as well as local companies that want to expand abroad. Strategy and marketing top the list of service areas that need special attention in other countries and cultures.

At Grant Thornton, Conlon explained, the emphasis is on services that help "customer-supplier relationships." The firm offers market analysis of products, analysis of technical regulations and standards and assistance in dealing with foreign customs and duties. Conlon pointed out that except for the last, these services are standard Grant Thornton offerings adapted for a global marketplace.

Laventhol & Horwath's national partner for consulting, David Arnold, echoed Conlon: "We haven't blazed any new service trails. We've pretty much tried to rely on our strengths." Arnold also stressed the need to "structure strategic alliances with large consulting organizations," something he said many firms are doing through mergers or affiliations.

In Europe, Horwath International has traditionally delivered its management consulting services through its British affiliate, Stoy Hayward. To prepare for the economic integration of the European Community in 1992, Laventhol & Horwath (a member firm of Horwath International) has set up Action Center Europe in New York. Its purpose is "aggregating opportunities here in the United States and channeling them through our British people,"

Arnold explained.

One of the Big Six, KPMG Peat Marwick, has employed a similar strategy with a different twist by locating its EC Center in Brussels, the home base of the Common Market. Staffers at the

"Strategy and marketing top the list of service areas that need special attention in other countries and cultures."

center "do nothing but handle requests for information and service regarding the European Community and specifically 1992 issues," according to Barry Mundt, the international management consulting partner. Mundt spends time in both New York and the firm's international headquarters in Amsterdam.

Peat Marwick, showing a strong commitment to globalization, began coordinating its international management consulting process six years ago. In early 1987 Peat Marwick merged with KMG Main Hurdman to form KPMG Peat Marwick, which "clearly has strengthened our management consulting position worldwide," Mundt stated.

The commitment to globalization at
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GLOBAL CONSULTING
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KPMG Peat Marwick remains strong. Its international management consulting committee members—about 10 senior management consulting partners from the larger practices around the world—established an international strategic direction for management consulting three years ago, and they review it annually. Steering groups for various functions (information technology, financial management, human resources) and industries (banking and financial services, government, manufacturing) propose appropriate projects. The international arm of the firm spends between \$1½ and \$2 million a year on developing these projects into “international tool kits,” coupled with software and training, that all member firms can use. One that Mundt developed, SPANS (structured productivity analysis system), evaluates a company’s white-collar activities and targets those worth improving.

Andersen Consulting, another heavy-weight in the field, divides its services into three areas. Strategic Services include strategic planning, organization and management productivity. Systems Integration involves linking the various parts of a company (manufacturing, distribution, accounting and so on) through its automated systems. Change Management prepares clients “for major changes in the way they use information to manage their business,” as David Nellerman, a partner active in management consulting work abroad, described it.

Nellerman endorsed the trend toward “trying to build a bigger global network of offices and providing a more uniform level of service” to clients. He added that opportunities “need to flow in both directions,” not just from the United States but to it as well. And the opportunities aren’t limited to EC 92, though it may seem so at times because it’s received so much publicity. Nellerman, for instance, spends much of his professional time in São Paulo, Brazil, these days.

What about other firms reaching beyond Western Europe? Laventhol & Horwath helps Asian clients with their U.S. investments in real estate, and its Australian affiliate is active in real es-

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: Microcomputer Conference and Exhibition
When: June 3-6, 1990
Where: Marriott World Center, Orlando, Florida

What: CPA’s Role in Litigation
When: July 12-13, 1990
Where: Loews Anatole, Dallas, Texas

AICPA and Ohio State University (614) 442-1316

What: Development of MAS Skills
When: June 11-15, 1990
Where: Ohio State University, Columbus, Ohio

What: Advanced MAS Skills
When: June 18-22, 1990
Where: Ohio State University, Columbus, Ohio

Institute of Management Consultants (212) 697-8262

What: Fundamentals of Management Consulting
When: June 18-20, 1990
Where: Atlanta, Georgia

Organizational Consultants, Inc. (415) 989-6180

What: Consulting for Organizational Effectiveness
When: May 21-23, 1990
Where: San Francisco, California

tate development too. After completing a regional survey of opportunities in Europe a few years ago, Grant Thornton is currently studying Latin America and plans to do the same for Asia. Mundt characterized KPMG Peat Marwick as “truly global,” with projects in the Middle East, Africa and South America as well as Europe, North America and the Far East. He’s even setting up an office in the Soviet Union.

Client size doesn’t create any barri-

ers in management consulting either. Giant Andersen Consulting serves more than just the Fortune 500 through its Enterprise Group, “a special unit that deals with small emerging companies,” Nellerman explained. Grant Thornton and Laventhol & Horwath, both midmarket firms, serve midmarket clients. In this dawning era of globalization, “no one can operate in isolation,” Arnold observed.

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FROM 0 TO 80 MAS CLIENTS: HOW MITCHELL/TITUS DID IT

Many local and smaller CPA firms feel their size limits the types of clients they can attract. This is true to a large extent for audit engagements, but for management advisory services, it may present an unwarranted mental block. Willard Archie, consulting services partner with Mitchell/Titus & Co. (New York City) told attendees at the recent Foundation of Accounting Education's Accounting and Computer Show how his firm of 170 total staff attracted "big clients" and established an MAS group to boot!

GETTING A FIRMWIDE COMMITMENT

Mitchell/Titus's most obvious commitment to MAS was its hiring of Archie at the partner level to develop its consulting services group. Formerly with Arthur Andersen, Archie cites "orientation of audit and accounting staff to the scope of work possible by MAS staff as one of the greatest challenges to getting the group off the ground. Basically, we're talking about a crucial 'internal sales job.'"

Archie established a client service team that includes the audit and tax partner or manager. . . . This step probably accomplished two things: First, it fostered professional harmony, and second, it ensured an exchange of information regarding the firm's consulting services capabilities and its client needs. To maintain that communication, the firm generates a data sheet on new work from existing clients that includes the name of the engagement partner, current work performed, new work arranged, estimated fees and project partner. A similar data sheet is also prepared for new clients. Such documents ensure that "credit" is shared firmwide. Also on initial client meetings, the audit partner or manager accompanies the MAS partner. During such meetings, discussion centers on issues raised by the client services team's evaluation of the client profile; a review of the client needs; and a quantification of the bene-

fits a client could reap from additional services. "A willingness to invest 'unbilled' time with clients to explain what the firm can do for them is vital," says Archie.

He also emphasizes the significance of creating a "what, how and when business development plan." Archie concedes that an initial plan may not have all the t's crossed, "but put something down, even if it's only three to five pages. It provides a road map to keep the firm on course and it allows others in the firm to know what's happening." What was the time lapse between planning and the first MAS engagement in the door? "One day," quipped Archie. But this is perfectly plausible given that the smartest and most obvious move is to start with the firm's existing clients—which is exactly what Mitchell/Titus did.

WHAT CAN YOU DO FOR YOUR CURRENT CLIENTS TOMORROW?

In one instance, Mitchell/Titus provided computer advice to a property development management firm client. Preliminary work is necessary before approaching even current clients, Archie notes. After 16 years in practice, Mitchell/Titus is well aware that some of its clients are formal and require formal approaches. Still others are progressive and open to change and new technology, while some are more conservative and reluctant to embrace innovative technology. These types of insights about current clients enhance a firm's ability to make the right pitch of the right service.

Next, Archie developed a list of po-

tential problems that might provide consulting services opportunities, such as lack of, or inadequate, financial and/or management reports; general difficulties during audits due to inadequacies in client's accounting records; or recent change in management where a new person was brought in to "turn things around." This yielded a "working potential services list" to be tailored to current client profiles. Initially, Archie selected 15 clients but then trimmed that number to fewer than five for immediate aggressive pursuit. This firm also identified service products based on industry (such as real estate), function (financial planning, for example) and technical (such as computer installation).

WHEN TO STAFF UP

The next consideration was the firm's ability to deliver on these services. And the question surfaced regarding whether the firm should get the work or the personnel first. Archie noted that each firm's answer will depend on its own assessment of the real potential for consulting. Use of independent consultants is an option that Mitchell/Titus has exercised. Archie cited as its chief benefit "warm bodies with technical skills." As drawbacks, Archie said, "You'll have to pay them more per diem than staff. Also, when they leave, they take with them the skills honed or acquired during the engagement." (Obviously, firms also run the risk of client defections under such arrangements.) Presently, Mitchell/Titus has an MAS in-house staff of seven.

Mitchell/Titus itself has operated as an outside consultant. On one occasion work evolved through a Mitchell/Titus alumnus presently employed in municipal government. The city's chief CPA firm had insufficient resources for the entire engagement. Mitchell/Titus landed a part of the work and garnered \$200,000 in fees as well as the potential for more work.

GOING AFTER NEW BUSINESS

New business starts with the client-service team mining its business con-

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tacts. The proverbial golf course connection led to one of the firm's first Fortune 500 clients. Mitchell/Titus's managing partner suggested to his golf partner—a VP with a Fortune 500 company—that his firm do some business with his company. Subsequently, Archie contacted the VP and set up a meeting for further discussion on potential services. Additional meetings were held with other company personnel, resulting in a high-level operations review. The firm submitted a proposal that included the résumés of the MAS personnel. Its first project was a PC productivity review.

A what, how and when business development plan provides a road map to keep the firm on course.

Mitchell/Titus also mounted a direct solicitation campaign. It chose a niche within the Fortune 500: pension fund auditing. It sent letters to the CEOs and CFOs of approximately 50 companies with headquarters in its immediate geographic area. The firm currently has approximately 15 Fortune 500 clients.

Archie also recommends getting on the appropriate government bidders' list and participating in more RFPs as additional ways to secure new business. Given that the time frame for this sort of bidding is short, Archie advises firms to standardize their proposals—create boiler plates that can be tailored to specific projects by rearranging the parts. Currently, new business accounts for nearly 75 percent of the firm's MAS engagements.

Although reticent to talk "hard numbers," Archie was willing to say that the MAS group has serviced more than 80 engagements in its first three years; fees per engagement range from \$3,000 to far more than \$200,000; the group is responsible for about 15 percent of the firm's revenues; and its billing rates are "quite comparable to those of the Big Six. We don't see ourselves as competing with firms our own size, but rather for the types of clients the Big Six

pursue."

It may appear to some that much of what Mitchell/Titus has done is "by the book"—develop a business plan, target specific markets and clients within that market, cultivate business and personal contacts, and cross-sell to existing clients. But beneath its deceptively "routine" approach rests a brilliance conceived in high expectations and nurtured by one job after another done well. Success fed itself. Moreover, Mitchell/Titus's notable success underscores that the steps it undertook are available to any firm of any size. Adding big clients to its roster and 15 percent to its bottom line is a potent incentive for any firm to do likewise.

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one set of brochures as a benefit. To order additional brochures (100 copies of one brochure cost \$15.00), call the AICPA Order Department at (800) 334-6961 outside New York or (800) 248-0445 within New York State.

SPECIAL REPORTS PUBLISHED

In March, division members received two MAS Special Reports prepared by the Information Technology Research Subcommittee. *Introduction to Natural Language Processing* describes the development of computer programs that permit a computer to "understand" human language. *Mass Storage Technology* discusses developments in maintaining large volumes of data in information systems.

1990 DIVISION MEETING SCHEDULED

The MAS Division will hold its 1990 meeting on November 9 in the boardroom of the AICPA's New York offices. The meeting format will follow that of last year's successful meeting, with discussion of important MAS issues and reports from MAS committee chairmen, state societies and firm associations. Division members who wish to attend the meeting may do so on a space-available basis by notifying the division in writing. The division meeting does not offer CPE credits.

SUGGESTIONS FROM THE CPA MANAGEMENT ADVISOR

With a nucleus of five practitioners, a CPA firm can develop a broad-scope MAS practice offering almost all the standard CPA management advisory services. Sound farfetched? Not if you recognize that various management advisory services fall into groups that share knowledge and experience in common. This shared foundation reduces the amount of additional learning and experience needed to become proficient in other services in the same group. While other groupings are possible, the five we have in mind are as follows:

1. *Financial Services.* Funding assistance, forecasts, projections, budgets, cash management, valuations, litigation services
2. *Information Services.* Microcomputer systems, management information systems, office automation
3. *Operations Services.* Operational auditing, cost reduction, profit improvement, inventory management
4. *Strategic Services.* Business planning, mergers and acquisitions, product pricing
5. *Organization Services.* Organizational development, process consultation, personnel-related engagements

If your firm has decided to provide a broad scope of MAS, you need five supervisory-level practitioners who will each "claim" one of the five MAS groups and become proficient in it. Each must make a time commitment to achieve expertise by enhancing experience with knowledge, which can come from reading books and articles and attending courses.

Of course, your firm may decide to limit services to fewer than the five areas, or no one may claim an area. But if you already have someone with knowledge and experience in one service within a group, it should be relatively easy to expand into other services in that same group. If your firm wishes to offer services within one group but lacks the basic shared expertise of that group, you'll need to hire someone who has it.

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APPLYING TECHNOLOGY: An Occasional Column

ELECTRONIC HARMONY

If your office communications system is sometimes like a Tower of Babel, with garbled messages and missing memos, consider how Meyners + Company has handled the situation. Using a combination of dial-in dictation, cellular phones, a local area network (LAN) and electronic mail, the firm has embraced technology to improve day-to-day operations and broaden the client services it offers. According to Bruce Malott, one of two partners, "we are documenting things; we are communicating with each other far better than most firms our size."

Meyners + Company, an Albuquerque, N.M., firm with a staff of 21 (17 professionals and paraprofessionals, four administrators) and billings of \$1.4 million, proves that even a small firm can profit from technology. In Malott's opinion the dial-in dictation is invaluable, because it allows a staffer to document conversations and agreements almost immediately after they take place, without forgetting any details. Anyone in the office can access the centralized tape recorder by pushing a few buttons. Other buttons govern commands, such as priority coding for typing. Outside the office, someone using a touch-tone phone, even in a car, can call the office and then dial into the system.

"The LAN makes accounting work easier by letting several people simultaneously access the same material."

Both partners have cars equipped with cellular phones. Malott called the devices "real business tools" because they contribute to efficiency, especially when used in conjunction with the dial-in dictation. Each car phone costs around \$200 a month. The dial-in dictation system cost about \$2,500 when it was installed 2½ years ago.

The LAN is the linchpin of the firm's communications system. It "connects all the employees in the firm, from the receptionist to the partners," Malott explained. Everyone can access all the information stored in a central file server. Take Malott's computerized appointment book as an example. The receptionist as well as his secretary can make changes when needed, and colleagues can check it to determine when he's available. For confidential appointments, the book indicates Malott is busy but doesn't specify with whom.

How does Malott find out about changes? He either calls up his appointment book on his screen, or someone can send him a memo—but not the old-fashioned kind. Any electronic message addressed to Malott will sound a beep on his computer, regardless of what program he's in. If he's not in the office, the computer will store his messages and allow access from other locations through a modem. If documents are filed by client number, Malott can retrieve an entire file at one time.

Both the computerized appointment book and messages are part of an electronic mail program, which includes a personalized telephone directory. Because the directory is electronic, it boasts some unusual bells and whistles. With a modem, it can not only locate and display a phone number on the screen, it can dial it as well. It can also accommodate notes (lengthy, if necessary) on each entry in a separate subsection.

The LAN's usefulness extends beyond electronic mail. "The most important reason we put in a LAN was because we were very concerned with backup of the system," Malott explained.

The firm has designated one person to back up the system twice a day, and it stores the material in an off-site bank vault, transporting it there once a month.

Meyners + Company also uses its LAN for tax planning and write up and

"Meyners + Company likes computers so much that it has 24 for 21 staff members."

time and billing. The LAN makes accounting work easier by letting several people simultaneously access the same material, although only one person can make changes at any given time. Giving the LAN a strong endorsement, Malott said "once you have it, there are lots and lots of benefits you can get from it." He views the firm's \$100,000 investment in the system, made about five years ago, as well worth the cost. He pointed out that if a firm already has existing computers and a printer, it can buy software to link the equipment for as little as \$1,500.

Meyners + Company likes computers so much that it has 24 for 21 staff members. This allows someone to start a job on one PC and then transfer it to an independent workstation to print out, thus freeing up the originating PC for more work.

What if some people at your firm are computerphobic? Malott has this advice. "There's a learning curve commitment. . . . You cannot make a return on an investment without making the investment first. And there is an investment, both in buying the equipment and educating the people. But once you do it, it's great!"

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EDITORIAL

CPA CONSULTING AT THE CROSSROADS

The SEC recently announced a new study to review criteria for auditor independence. Consulting services provided by CPAs will undoubtedly be given close scrutiny. The outcome may shape the future of the profession, because some believe—erroneously, in our opinion—that there is a conflict between the audit and consulting functions.

Business consulting by CPAs is viewed by some in and out of the profession as a nontraditional service. They are wrong. Accountants were serving as business advisors to clients long before audit and tax engagements became the traditional services of CPAs in the United States fifty or so years ago.

However, a major change has taken place, mostly in the last decade. The business consulting services of CPAs are increasingly of a performance nature. Take, for example, valuations and appraisals and systems implementation. Clients in today's complex financial and technological environment, especially smaller clients, need more than advice in order to accomplish desired results.

Some fear that the increased emphasis on CPA consulting services will harm the profession and its primary function

to serve as independent auditors. We disagree. There are many pressures on auditor independence, but the profession has shown throughout its history that it values and maintains its independence. Moreover, if CPAs can competently offer a wide range of business consulting services, the benefit to clients, their customers and the U.S. economy in improved productivity and cost-effectiveness cannot be dismissed.

CPA consulting practices currently include a wide variety of services needed by businesses and other organizations. The CPA consultant is often engaged to perform specific tasks as well as to provide advice. An engagement may begin in an advisory mode (for example, recommending a computer system) and may conclude in a performance mode (for example, implementing the system), or may begin in a performance mode (for

example, establishing a fair market value for a business) and end in an advisory mode (for example, advising the client on an asking price and sales strategy).

The list of business and management consulting services that will benefit a client and that can be provided by CPAs who have acquired the necessary competence is extensive. The appropriate application of broader consulting skills is needed if the CPA is to help clients survive and thrive.

Business consulting has always been a function of the public accountant. It is needed more than ever in today's competitive, worldwide business environment. Most CPA clients are small businesses that generally will not seek out needed business consulting services. Their primary chance to secure them is through regular contact with their CPAs. If the ability of CPAs to respond to client business needs is curtailed instead of encouraged, the public will ultimately be the losers. The MAS Division will work diligently within the profession to make this point clear.

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