An Analysis of Consulting and How It Relates to the Modern Accounting Profession

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Abstract
Consulting has no set definition, so I analyzed what it is, and how it relates to accounting. To discover what this mysterious creature is, I read dozens of books and articles, along with talking to members of the consulting field in public accounting firms and industry. I found that there is a common misconception about what consulting is. This causes ill feelings about consulting to those who have dealt with "consultants" who really weren't acting as true consultants. Consulting ends with the choosing of a recommendation to solve a given problem. A consultant may be retained to oversee the implementation of the recommendation, but only rarely, with management's approval, actually does the implementing. The ill feelings result from incorrect consulting. Improper consulting results when the consultant takes over the decision making and implementation activities, thus taking control away from the true manager. How this relates to accounting is due to the growth of computer involvement in the accounting world. Consultants are necessary to supply the expertise to develop the computer system and recommend the best solution to the system change or problem. The accountant of the future will have to be a cross between a consultant and an accountant.
Consulting...the hottest word in the business community in the 1980's. It was powerful enough to split Arthur Andersen, the largest public accounting firm into two pieces. What is this nebulous creature that sounds so impressive? Who are the "Consultants?" These are questions I will address in the following report. How is Consulting affecting the accounting field, and where is the direction of consulting going? I will summarize what I have found through personal interviews, hours of library research, and general feelings in the accounting field to answer these two questions. I also will cover what makes someone a good consultant, and why there is ill will toward the consulting profession. Much of the information found in this report is not attributable to any one source; the information is a compilation of the dozens books and articles I read during my search to understand consulting.
The growth of consulting in the accounting field is a direct result of the growing number of computer users and the availability of cost effective computing technology. The world before the high speed, smaller personal computers and minicomputers was one basically of manual or large cumbersome mainframe accounting record keeping, compilation, and storage. Now with the modern computing technology, even the smallest of businesses can afford some form of a computer assisted accounting system. This is where the Consultant comes into the picture.

A consultant is a person in a position to have some influence over an individual, a group, or an organization, but who has no direct power to make changes or implement programs.(Block, 1) If a consultant acts in any position where he/she is actually making decisions for the client or implementing any recommendations without the clients consent, then they are no longer acting as a consultant, but rather as a manager.

There are many different types of consultants. Consultants vary depending on the field, the area of expertise, the size of the clients, and the size of the consulting firm. Even though consultants are very diverse.
they generally fall into eleven categories, outlined below. (Kelley, 4)

1) Large Firms. These firms employ more than fifty consultants, and their scope is not only national, but international also. These firms resemble closely the organizational structure of a public accounting firm. The bottom level of consultants are the entry level consultants with 0-4 years experience. Following this group are the supervising consultants with 4-7 years experience. The next in the line of command are the managers with 7-12 years experience. To top off the chain of command are the partners or directors.

2) Medium-sized Firms. These firms also resemble the structure of a public accounting firm, but are more regional in scope, and employ between ten and fifty consultants.

3) Small Firms. These firms employ between two and ten consultants. Twenty to Twenty-five percent of consultants work in small firms, as estimated by Venture Magazine.

4) Individual Practitioners. More than one-half of consulting is performed by individual practitioners.

5) Management Advisory divisions of Certified Public Accounting (CPA) Firms. During the 1980's an
average of six of the "Big Eight" accounting firms were among the top ten consulting firms. Prior to the mid 1970's, there were no "Big Eight" firms in the top ten.

6) Professionals who also do some consulting. Lawyers and CPA's are two good examples of professionals who in the regular course of business may perform some consulting services in their or another area of expertise.

7) Internal Consultants. Internal consultants work within a company dealing with that company's divisions, subsidiaries, acquisitions, and divestitures. Internal Auditors are good examples of what internal consultants do. They work to analyze the strengths and weaknesses of the areas of the company and recommend solutions to the problems found during the course of the audit.

8) University-affiliated Consultants. These are academic professionals who consult on the side to enhance their professional skills, or most likely to supplement their income.

9) Research Firms. Profit or nonprofit, these firms sometimes are in the position of consultants as a result of their research. A marketing research firm who finds a product's packaging is not appealing to the public, may act as a consultant and inform the firm of their product's undesirability, and how to improve the product.
10) Public Agency Consultants. These are usually governmental agencies or service orientated organizations such as the General Accounting Office, or the Service Corps of Retired Executives who provide consulting services to other governmental agencies or businesses.

11) Individuals in between jobs. These are professionals who are in search of new employment, and consult in their professional area until new employment is found.

The consultant is engaged to produce an end product called and intervention.(Block, 3) There are two basic types of interventions:

1) Any change in the line organization of a structural, policy or procedural nature.

2) The result is one person or a group of people in the organization learned something new.

An example of the first type of intervention is if the result of the consulting engagement is a new computer system being implemented in a manual environment at managements direction. The line organization's structure is changing to incorporate the new system, the policies surrounding the capture and recording of accounting data will change to apply to the new computer system, and
obviously, the procedures will change to utilize the computer.

An example of the second type of intervention is the consultant setting up a computer software training session. The Personnel would attend a session at management's direction, and may learn new applications of an existing system, or a completely new software application on an existing system. In this instance, a person, for example the controller, or a group of people, the payroll department, would be learning something new on an existing system, or a more efficient way of doing something.

The main duties of a consultant on an engagement include planning, advising, assisting, and recommending. Many "consultants" are not actually consultants, but rather surrogate managers. These people leave a bad taste in the mouths of business people when the word consultant is mentioned. While speaking to Eileen Burza, Director, Financial Planning and Analysis of Square D Company during an interview, she expressed this displeasure of consultants from an experience she had with a "consultant" who wanted to be a surrogate manager rather than a true consultant. She explained that this person wanted every intervention he generated to be immediately implemented, and he
wished to do the work without the consent or desire of management. Eileen also explained that this consultant was very idealistic in his estimates of the cost savings that would be resultant of the his interventions. He could not understand Square D's hesitation to jump into some costly alterations of existing systems to save astronomical estimates of dollars, when the actual savings after considering the cost of alteration did not warrant the change in the system. When I explained to Eileen my understanding of a true consultant as one who only recommends the interventions, waits for a management decision, and perhaps sets up the implementation of the intervention, but does not implement the interventions without consent, she had a better feeling of consultants. Eileen is not alone. There are many business people who have a bad taste in their mouths about consulting due to bad experiences with "consultants" who are pushy, not technically competent, very unprofessional, and who promise the world of cost savings or efficiency to clients.

The qualities that are most important in a good consultant are listening, objectivity, adventurousness, inquisitiveness, and technical competency. (Bermont) Being a receptive listener is of the utmost importance to a good consultant. He must sit and listen to the client
describe the problem that led to the engaging of the consultant, and to what the client desires to be the intervention. Also the consultant must be inquisitive to collect the information necessary to properly address the situation at hand. The consultan must also combine objectivity and adventurousness to be innovative enough to solve the client's problem without enforcing his (the consultant's) personal beliefs or biases upon the client. Technical competence is necessary to formulate a solution that is appropriate and realistic for the client, and is still cost effective and solves the problem. This all sounds easy on paper, but it takes practice and perfection on the part of the consultant to hone these qualities. A successful consultant is one who can translate his technical knowledge into useful applications for clients, and who can communicate these applications to the client. (Kelley, 23)

There are five basic phases to embarking on a consulting project. (Block, 5)

**Phase 1: Entry and Contracting**

Entry into a consulting engagement takes some planning for the engagement to be successful. The contract to begin consulting, usually an engagement letter, should clearly define the expectations of both the client, and the
consultant regarding the project outcome, fee paying, perhaps a time frame for completion, and any other pertinent facts surrounding the engagement. Consulting is a project where the client and the consultant must work together, versus the consultant being contracted to perform something without any interaction with the client. The contract should outline the working relationship between the client and the consultant. Additionally, the contract should state the problem to be focused on, and the object of the project. Depending on whether the object of the consultation is a business objective, a learning objective, or an organizational development objective will dictate the type of resulting intervention. A business objective will result in a change in the line organization of a structural, policy or procedural nature. (Intervention type number one.) A learning objective will result in one person or a group of people in the organization learning something new. (Intervention type number two.) An organizational development objective is a combination of intervention types one and two. The organizational structure will change how it interacts with different parts of itself, and the people will learn better ways to interact within the new structure.
Some additional things the contract to consult should contain are the kind of information the consultant will search for, the consultants role in the project, the end product, the client involvement, who the results of the consultation will go to, and something about giving feedback to the consultant after the end of the project.

**Phase 2 Data Collection and Diagnosis**

There are many different ways to diagnose and analyze data, but there are far fewer ways to collect data. Data collection is the next step in the consulting cycle. The consultant may collect data through personal interviews, questionnaires, analyzing company documents, observation, and personal experience. Each of these methods has its own strengths and weaknesses and these affect how the data obtained can be used. Observation is easy to use to collect data, but may not be as reliable as analyzing documents. Whereas questionnaires are easily used to question a large number of people, the results may be hard to interpret because the answers may be very diverse, and not very informative if the answerer did not put much thought into answering the questionnaire. The consultant must collect enough and the proper data to understand the presented problem, and any underlying
problems. The problem presented by the client may in
tuality be a symptom of the real problem, and data must 
be obtained to reveal this. After the data is collected, it 
must be analyzed to formulate a solution(s) to the 
problem. This analysis may be in the form of reports, 
tabulations of questionnaires, or any other relevant form. 
The data must also be reduced into a manageable form that 
is useful in the consulting role. Too much data can cloud 
the issue and cause extra time and money to be spent. 
After the data has been cut down into the most useful form, 
it is necessary to summarize it to form a conclusion. The 
conclusion may in fact reveal that there is a need to collect 
different data and explore a different problem than was 
originally anticipated.

Phase 3 Feedback and Decision to Act

Once a solution to the problem has been reached, it 
must be communicated to the client in the form of 
feedback. At the same time the feedback is communicated 
to the client, a recommendation(s) should also be 
presented. The consultation is not complete until a 
decision is made one way or another regarding the 
recommendations. The consultant should allow
management to decide on their own what to do, and when to implement the chosen recommendation.

**Phase 4 Implementation**

The implementation may not involve the consultant at all if management so chooses. But, the consultant may be retained at management's discretion to oversee the implementation. The consultant has the best grasp for the problem in an objective manner, and may be very valuable in implementing the intervention.

**Phase 5 Extension, Recycle or Termination**

As the implementation nears completion, there may be a decision to extend the consulting services to another problem area. Or, if the project is unsuccessful, the consultation may be terminated if there is no equitable solution. In either case, feedback is necessary to prevent unnecessary hard feelings between the client and the consultant, and should leave the doors open for future projects together.

Another major topic I'd like to address in consulting is the resistance by the business community to consultants. I mentioned some ill feelings I encountered with Eileen Burza, but this is a very common feeling for clients. One of
the main factors is the feeling of giving up control. No one wants to admit that they cannot solve their own problems, including the client who engages the consultant. Additionally, the poorly skilled consultants who try to shove management into their solution to a problem create animosity. While speaking with Dave Shimberg, Head Consulting Services (IMCS) Partner at KGN, he stressed the interpersonal skills of a consultant to quell the fears and resistance of the client. Also, a consultant must be authentic in his relations with the client. If the consultant hard sells like a used car salesman, distrust will foster with the client.
Part II

Now that I have outlined what consulting is, and what it entails, I will highlight how it relates to the accounting field. Consulting is the new high growth area of accounting. The other more traditional areas -- auditing, taxes, and accounting services -- have a very slow growth rate due to the saturation of the market for these services. Along with this very high growth rate, comes high profits. These high profits are the reason that Arthur Andersen split its consulting division off into its own entity -- Andersen Consulting. The majority of the partners were auditors, but a very large portion of Andersen's income was coming from consulting activities. It was a case of taxation without representation, only the consultants weren't being taxed, merely grossly underrepresented in the running of Andersen. What prompted the split was some of Andersen's top consulting executives became very fed up with the situation, and left Andersen. To prevent any further losses, Andersen split off the consulting division, thus giving the power to the consultants they deserved, without losing any of the control of the rest of Arthur Andersen. What happened to Andersen should be a very powerful lesson to the other public accounting firms. Times are changing quickly, and the conservative control
of the firms needs to adapt quickly to the new area of accounting -- consulting.

Consulting also presents a large growth area to the small firms and the sole practitioners. There isn't any extra expense to add consulting to the practice, and if done professionally, will be very profitable. Another advantage of consulting for the small firms and sole practitioners is that a consulting job that is quite large can be handled by a single person, whereas an auditing job of the same size may require a staff much larger than the firm or practitioner can handle.

Consulting will continue to grow well into the year 2000. Because technology moves so quickly, and there are so many diverse computer systems, methods of setting up systems and solving problems it takes a professional like a consultant to help the user of the technology to know what they need and how to use it. Consultants not only help with the computer involvement in accounting, but with the complex problems of acquisitions, mergers, foreign operations, and corporate taxes. These areas are growing in importance in the accounting world, and will continue to be areas where an experts opinion will be necessary to achieve the best results.
I foresee that the accountant of the future will no longer be able to be the conservative bean counter of the past, only knowledgeable of accounting. He will need to possess the interpersonal and technical skills of both an accountant and a consultant. Computers will be an integral part of everyday life in accounting, and some expertise will be needed by the accountant in systems and problems solving. The importance of historical data is going to decrease, thus forcing the accountant to be more knowledgeable on forecasting and budgeting; these are much the same skills a consultant must possess.

In the future, the distinction between a consultant and an accountant will narrow, and perhaps one day merge into a hybrid accountant. Currently, computer technology is new to the accounting world, and will need time to assimilate completely into the bedlam of conservatism.
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Reading List


