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Are You a Full-Time Consultant?

H. G. Trentin

Some feel accountants have become too heavily engaged in management services since the War. Not so, says this article. If anything, they have missed many opportunities that were actually their responsibility —

ARE YOU A FULL-TIME CONSULTANT?

by H. G. Trentin

Arthur Andersen & Co.

THERE are some CPAs still who feel somehow uncomfortable and uneasy that their profession has become so heavily involved in management services in the years since the end of World War II, as though such activities were in some way unprofessional and unbecoming.

Ours is a different thesis. Believing as we do that the reasons for such CPA involvement are very real and very compelling, we think that CPAs generally, both in private practice and in industry, have on the average neglected their professional responsibilities and opportunities by becoming too little involved in management services. In the one instance, they have not done the best possible job for their clients; in the other, for their employers.

Let's take the accountant in industry as an example, since his responsibility in the management services area is more clear-cut than is that of the CPA in private practice. The record seems to us to be clear; he has not kept pace with management's needs for services from the financial and accounting sector.

One example (repeated ad infinitum in our experience): The president of a manufacturing company decides that he needs outside assistance in developing an improved management information system and better cost accounting, to service both his marketing and manufacturing people. He calls in his company accountant one sad day and goes through the list of complaints about the cost accounting system: The standards are not constructed in such a way as to support the objectives of a variable budget or direct costing; generally, both marketing people and manufacturing people complain that what they get is too little, too late, and sometimes wrong.

The company accountant, of course, is aware of some of these deficiencies, even though he's convinced the president's recital is exaggerated. He begins to explain to the president that he agrees that the time has come to modernize the system.

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Already too late

The trouble is that he's already too late. Before he has an opportunity to launch into an appeal for the opportunity to change the system, he is hearing from the president that the operating committee has decided to engage outside consultants to review the system and suggest changes.

We do not want to suggest this is a bad thing. There are a variety of reasons for calling in outside consultants and most of them are justified. But all too often we are called in to recommend changes which could and should have been made by the company accountants. The company has had to call in outsiders because of the default of its own people.

By not anticipating the needs of management, they have, to a degree, fallen down on their obligation to management.

The consultants called in from the outside could be from a management consulting firm, or the management services division of a CPA firm, which would usually be the firm that audits the accounts of the company. The company man ordinarily finds it easier to accept the non-CPA firm in the outside consultant role, even though it may become deeply involved with his cost accounting system. The deeper wound is felt when he is superseded by CPAs, people with exactly the same training as himself.

Sign of failure

But perhaps the most striking sign of the failure of the company accountant to serve management needs occurs when his president tells him that he intends to make a start on solving the problems by giving project responsibility, not to an outsider, but to some other company professional: an industrial engineer, a systems man, a data processing specialist, or a bright young MBA. Many successful projects are organized in this way, but each one is a clear sign that the company accountant has somehow failed to keep pace with his responsibiilties.

One further observation that bears on this all-too-common failure: We have found in our experience as consultants that the company image of its own accounting staff is generally quite poor. In discussions with management as to whether their accountants could direct a project to cure existing deficiencies, we all too often hear the staff man described as too technical, too conservative, or else as lacking understanding of business and management problems.

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Our own experience in qualifying as consultants bears out this image problem. On our consulting staff we have accountants and non-accountants; very often our assignment requires men with a non-accounting background. Sometimes the company officer sponsoring us in a client situation where our non-accountants are to be important members of the systems task forces suggests that we emphasize to the president in establishing our qualifications that, even though we are members of an accounting firm, we are from a different division of our firm, a division where many non-accountants are used.

Unfortunately the neglected accountant very often deserves his minor role in important new developments.

Broader horizons

We firmly believe that management deserves better service than it is getting from *many* management accountants; we underscore *many* since there are notable exceptions. Actually, accountants as a class should advance their own cause by doing a better, broader-gauged job. Some have the educational and skill requirements but need a change in objective and outlook. For these, all that is needed is some example of what is possible and encouragement to "get with it." Other accountants may be obsolescent and may need training.

There are many good opportunities for training which should do the job. Universities, the AICPA and state CPA societies, the National Accountants Association all offer training courses. So do such organizations as the American Management Association, the Systems and Procedures Association, etc. Much, too, can be accomplished by home study of the wealth of literature in the field.

Facing the challenge

It is a tragedy that more accountants do not avail themselves of the excellent training material which would equip them to play a dynamic role in modern developments. To illustrate, we would like to recall an experience during a recent talk to a group of some 70 accountants from industry during which we stressed this educational theme. One of the accountants said he did not understand the statement that many accountants were poorly equipped to cope with the new demands on them and said that he was impressed with the educational program of the NAA. Since this was an NAA audience, we suggested that the problem might lie in the fact that members did not take sufficient advantage of their training opportunities and asked permission of the chairman to poll the meeting. We asked how many had taken at least one NAA course; the show of hands indicated about five. We then asked how many had taken more than one course and one hand was raised.

This individual indicated that he had attended two courses.

Selecting personnel

One opportunity the obsolescent accountant should not overlook is that provided by the large number of bright young men emerging from our colleges today. These men, particularly the MBAs from some of our better schools, have excellent technical skills. They lack only the experience and the business knowledge which could be provided them on an accounting staff. Hiring some of these young men, together with some additional education on the top man's part and a change in attitude, is all that it takes to earn a chance to participate in exciting new activities.

At this point it might be well to ask what has changed to cause some accountants to be as inadequate as implied in our previous comments. The initial role of accountants involved record keeping, the furnishing of historical financial information, and a custodial function which guarded against the loss of assets. Business

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men were satisfied to have a record of what happened to the resources of the business and what was left and that there was some assurance that the assets and revenues were audited and subject to prudent controls. As businesses became more complex, business managers required more information for the interpretation of results and deciding future courses of action. They were no longer satisfied with explanations of "what happened" but began to ask "Why did it happen?", "What should have happened?", "What can we expect in the future?", and "How can we make it come out differently?" Shortly after World War II certain developments provided the business manager with the means for answering some of his questions.

Inherent advantages

Actually, accountants as a class should have been the natural heirs to a new role within the business because of their preparation for participation in these new developments, which were:

- Increased emphasis on quantitative analysis for business decisions;
- Greater appreciation of the role of a management information system in business planning and control; and the
- Advent of electronic computers.

Now let's take a look at each of these three developments and where the accountant might fit into the picture.

Quantitative analysis

Most of us are familiar with the story of how mathematicians and operation researchers applied mathematical techniques to the solution of military problems in World War II and then carried these techniques over to the solution of business problems in the postwar period. The operations research approach, simply stated, involves a study of costs and revenues likely to result from alternative decisions. The purpose is to develop systems or models to help the business manager with decisions.

An obvious partnership

The industrial accountant obviously deals with the same elements of costs and revenues and is generally asked by the operations researcher to provide the values needed in his formulas. For example, in the development of an inventory management system, the operations researcher will ask the accountant to provide such things as the cost of placing an order, the cost of carrying inventory, and similar values. Actually, the best result is obtained in operations research studies and solutions when the company accountant and the operations researcher work closely together.

The unprogressive accountant who is either unprepared or not equipped to work with the OR man is left out of the picture. The progressive accountant who winds up as a valued member of the management team generally has learned as much as he can about operations research and mathematics, possibly from courses like "Mathematics for Business Management" offered by the NAA Educational Program. This excellent course offers all that any accountant need know to participate effectively in this area. Probably the progressive accountant will have a young operations research man on his staff so that the accountant's general understanding will be supplemented by proficiency in the application of techniques. With such an arrangement there is no reason why he cannot take the initiative in providing better quantitative analysis for management, rather than wait for the president or some one else in the company to feel the need and request assistance from some other sources.

Summary of techniques

So as to make clear what some of the principal techniques are in this area, we have summarized them below with a brief description:

Probability Statistics—The business man has to make frequent decisions regarding borrowing, plant additions, inventory commitments, and other matters of important financial consequence based on forecasts of sales and alternative options. Such forecasts are most reliable when they are developed through the use of probability statistics applied to a sound analysis of past occurrences.

Correlation Analysis—Every accountant is familiar with the difficult problems involved in separating variable elements of cost from those that are fixed and semivariable. In many of these situations the scatter diagram method of reaching a conclusion is inadequate, and there are now available more sophisticated methods such as the "least squares" technique, which is particularly useful when three or more elements are involved.

For example, such an analysis may permit identification of costs that are fixed and independent of both production level and the number of machine set-ups; costs that are variable with production level but not with machine set-ups; and those that are variable depending on the number of machine set-ups but not on the production level.

Linear Programing—Techniques in this class of approach are extremely useful in arriving at the optimum solution to problems where the business man wants to find the least-cost distribution system in a scattered network of plants, warehouses, and customers. In a situation where he has several plants, many warehouses, and customers spread throughout the country who could be served from different plants and warehouses, the right answer is available only through the use of these techniques. Their application has become relatively simple and inexpensive through the development of standard computer programs which are generally available through computer service bureaus.

Network Diagramming — These techniques have proved to be most valuable in the construction industry but are also useful in many other situations involving interrelationships among many activities needed to complete a project. Again, critical path methods and PERT techniques have become relatively easy and economical to apply because of the availability of computer programs at service bureaus.

Probability statistics

The interested accountant could capture the thrust and possibilities of any of these techniques by working through a few problems or analyses in connection with his study or reading program. To illustrate the applicability of probability statistics in business decision making, we have used on several occasions in the past the following highly simplified example:

Computing saleable output

Consider the problem of a baker who decides how many loaves of bread to produce on a given day of the week, say Friday, on the basis of the number sold on Fridays in the past. An analysis of historical sales may result in the probabilities shown in the following table:

PROBABILITIES OF ACHIEVING VARIOUS LEVELS OF SALES

Probability	Number of Fresh Loaves
1 out of 10	1,500 or more
5 out of 10	1,000 or more
8 out of 10	900 or more
10 out of 10	700 or more

The average number of loaves sold on Fridays was 1,000. The baker also knows that it costs him 32 cents to bake a loaf and that he can sell it for 40 cents as a fresh loaf on the same day but has to reduce the price to 20 cents if it is to be sold as one-day-old bread on the next day. With this information, the baker can now determine what his best course of action would be.

Mathematical analysis would show that he would do best by baking about 975 loaves of bread, even though the first reaction might favor the average of 1,000 loaves. At this level he would have a 60 per cent probability of making the sale of an additional loaf with a profit of 8 cents and a 40 per cent probability of finding himself left with one loaf to be sold the next day at a loss of 12 cents. The "expected value" of the gain ($8¢ \times 60\% = 4.8¢$) would equal the "expected value" of the loss ($12¢ \times 40\% = 4.8¢$).

Information systems

The second major development which has contributed to the new environment in which the accountant must operate is the increasing appeal of management information systems to the business manager. He must make a variety of decisions daily and generally wishes that he had more pertinent and timely information at a reasonable cost. Accordingly, such systems have flourished to help in his planning and control decisions, and any examination of them reveals the very high financial and accounting content.

Typical of the kinds of reports which would be included in a comprehensive system of information would be the following:

Historical reports for planning
Financial and operating budgets
  Long-range
  Short-range
Monthly financial and operating statements
Forecasting and sales order statistics for:
  Sales quotas;
  Salesmen's compensation;
  Purchasing;
  Manufacturing; and
  Shipping
Reports to service various control systems such as:
  Sales forecasting;
  Shipping and warehousing;
  Finished goods replenishment;
  Production control;
  Materials management;
  Manufacturing cost control;
  Personal skills and manning controls; and
  Management incentives.

Because of the need to use personnel from the various functional areas of the business and with various technical skills, we like to organize a management information system development effort in a steering committee and subsidiary task force arrangement under which these persons are assigned to the respective task forces or steering committee as required to accomplish the missions. In this process leaders of the steering committee and of the various task forces must be selected. Here is another point at which the accountant faces the moment of truth as to his influence with management. The progressive accountant should be an important member of these teams and leader of some; if he is not selected for these roles, he has rather clear evidence that his service to management in the past has not been particularly inspiring.

One specific example

We would like to be somewhat more specific on how the accountant could serve a very useful function in management information systems projects. The marketing function is generally regarded by many observers as being beyond the scope of service of the average accountant. However, a close examination will reveal that this is a legitimate field of activity for the accountant and that he would be failing to serve management properly if he did not become involved. Let's try to sketch the development of this notion by describing the marketing function in its broad modern context and how the accountant would fit into this kind of a program.

The marketing concept

It is becoming increasingly common to define marketing operations as having substantially wider scope than merely selling products to consumers. This newer concept begins when the company

1. Interprets the consumers' needs and desires, both qualitatively and quantitatively;
2. Follows through with all the business activities involved in the flow of goods and services from producer to consumer; and
3. Ends with those services necessary to aid the consumer in getting the expected utility from the products he has purchased. Along with this expended scope, the marketing operation has begun to feel the effect of more sophisticated approaches to organization and the uses of quantitative techniques — ideas that have had much wider application in manufacturing. For these reasons the marketing function requires planning and control systems that have been largely neglected by many companies.

> ***Very often the cost of marketing operations exceeds the cost of raw materials and manufacturing. It is also normally true that much less attention is directed to the control and evaluation of marketing operations than is devoted to manufacturing.***

Very often the cost of marketing operations exceeds the cost of raw materials and manufacturing. It is also normally true that much less attention is directed to the control and evaluation of marketing operations than is devoted to manufacturing. This situation arises from the fact that manufacturing is often easier to quantify in terms of units, dollars, budgets, and results and from the fact that manufacturing has fewer mysteries for most members of top management.

The accountant's role

Even more important than the dollar expenditures are the decisions that come from the marketing function. The sales forecast is the starting point for every manpower plan, manufacturing schedule, and inventory plan. Pricing policies directly influence cash flow and capital budgeting. Product planning establishes the basis for growth through new or improved products.

The accountant can play a vital role in serving marketing management by providing or helping to provide the necessary data, documents, systems, and procedures (usually called the Marketing Management Information System) to enable management to establish, execute, and evaluate marketing decisions. The accountant generally should not comment on the quality of these decisions. Because both the experience and responsibility of the accountant are directed to activities other than the marketing function, he should examine only the major aspects of the firm's marketing operations. Even with such a top-level review, it is possible for him to identify significant opportunities for improvement.

His specific contribution

An easy guide to the manner in which the accountant can make his contribution is provided by the information requirements necessary for the effective management of the marketing function. The following outline indicates the nature of such requirements:

Sales forecast

Marketing management should prepare a sales forecast for both short- and long-range time periods. The forecast serves as the basis for production planning, manpower planning, and financial forecasting. Forecasts should be reviewed formally. Each forecast should include:

- Sales by product group or brand;
- Sales by territory;
- Comparison to previous forecast or marketing plan;
- Sales by end-use group or customer classification (for planning purposes).

Sales analysis

Marketing management should be provided with reports that detail where, how, and to whom sales are being made, in order to evaluate the performance of salesmen, promotional efforts, and marketing plans. These reports should show:

- Where sales are made, geographically;

Who is buying, by class of trade, channel of distribution, or end-use category;

Effects of special promotions or price policies;

Comparative statistics on salesmen, territories, or channels of distribution.

Marketing costs

The accountant should provide marketing with the following information to permit effective evaluation and control of marketing costs:

Profitability by product group or brand, package size, territory, and salesman;

Fixed and variable selling expenses by product group or brand, detailed by nature, such as commissions, freight, etc.;

Costs by class of trade or channel of distribution;

Customer profitability; and

Hiring and firing costs for sales personnel.

Marketing management should prepare and be responsible for budgets detailing planned fixed and variable selling costs.

Distribution

Marketing management should budget and control distribution costs through a reporting system that includes:

Policies and results on minimum order quantities and returns;

Outbound freight by channel of distribution and geographic area;

Channel margins and inventory levels;

Warehousing and handling costs; and

Inventory positions of distributors, including stocking policies.

Pricing

Pricing policy should be contained in specific documents that include approval schedules for adequate control. The authority to change prices should be clearly defined as to individual and operative range.

Price reporting should facilitate the following kinds of analysis:

Marginal costs and profits at various price levels;

Historical price/volume relationships; and

Effects of intra-company transfer pricing policies.

Customer service

The marketing function should document the quantitative aspects of customer service policies, i.e., to service all or some percentage of customer requests within a given period of time; to include $X per unit for expected service expenditures, etc. A non-quantitative service policy has no use for cost control and evaluation.

Historical records of the cost of service by model or brand should be available to the marketing function, as well as performance reports on customer service segmented by product and class of customer.

Responsibility reports (general)

Lines of responsibility and authority should be followed by definition of task and control documents. Performance reports should be structured to measure individuals as well as functions for which overall responsibility can be defined.

Competitive intelligence

Procedures should be developed for the collection and evaluation of information concerning the activities of present and potential competitors. A spotty system of occasional memoranda does not suffice for this purpose.

Market plan

The company should have a marketing plan spelling out the current situation, assumptions concerning the future, and goals for each area of marketing activity. The lack of a formal marketing plan suggests a missed opportunity to examine and formulate policy for the company as a whole, rather than for individual pieces.

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a group of top executives (hopefully served by the accountant) selected for this purpose, whose responsibility it is to review and revise the plan at specific times during the year.

Setting exact objectives

The plan should set objectives in quantitative terms that provide the basis for decision making by the various functions of the business. These objectives must be susceptible of measurement as a means of control and evaluation. (An "improved image" is a useless objective unless the measurement technique and basepoint are also specified.)

The plan lays the groundwork for all of the information system requirements already outlined.

The electronic computer

The third important development providing an opportunity for closer involvement by the accountant with management has been the advent on the business scene of the electronic computer. Actually, most business computers immediately after World War II were applied to accounting operations like payrolls, billings, inventory records, and similar applications. Today, although they have continued to be used for this purpose, there is somewhat general agreement that they have a higher payout in applications involving quantitative analysis and management information systems such as those we have discussed in this article. The fact that there has been a recent trend to remove the computer from the financial and accounting jurisdiction, where it was first most frequently found, to an area in the business where management feels all functions would be served to greater advantage is another rather pointed indication that the accountant has not kept pace with his opportunities in this area. This trend is not a sporadic thing but is being recommended in certain major industries by esteemed consultants who say that the non-financial computer needs of the business are not adequately recognized by the accountant.

EDP responsibility

To illustrate this trend, a recently released American Management Association research study (#92) entitled *Organizing For Data Processing* opened with the following paragraph:

> "Will a computer-based information system function differently if the responsibility for it rests with the controller rather than with the operations vice president or a vice president of information systems? Based on findings reported in this study, the answer is that it will. The location of the responsibility for EDP activities has a great deal to do with the nature of that responsibility and the effectiveness with which it is carried out."

The study concludes that the function should report directly to top management.

Why not the accountant?

We feel very strongly that there is no reason why the accountant should default in this area for the following reasons: He is a major user of computer services for his own operations. If he has the type of training and outlook suggested in this article, he is in as good a position as anyone, if not better, to provide computer service to all areas of the business and to management. As a matter of fact, the tendency toward the creation of large data banks which will be accessible on a common basis to all interested functions places increasing stress on the validity of data in the computer system. Some recent experiences have indicated to us that the accountant is best qualified to ensure the integrity of information in such data banks regardless of the departmental source of origination. Accordingly, the accountant who feels that he might be losing ground in his own company might take a look at this aspect of computer plans.

Conclusions

In summary, because of the increasing complexity of business and the problems of the economic and political environment he confronts, the business manager needs better service (1) in the area of timely and pertinent information to help in decisions and (2) in the development of systems which will provide such information in an orderly and useful manner. New techniques and equipment have been developed to meet these needs, and the accountant who will make the effort to prepare himself and take an interest in these developments is probably as well qualified as any other member of the company to play an important part in satisfying management requirements. Accordingly, we suggest that accountants as a class should be striving to reclaim their leading roles on the management team by participating in or spearheading these important new developments in their companies.