Capstone case study

Business

While still successful in it's auditing business, other opportunities arose that allowed for quicker and more dynamic revenue growth.

This strategic shift from auditing only to offering number of other services (automated bookkeeping, information technologies, consulting, corporate staffing) eventually led to a rift within the company, the separation of operations Into two companies under one umbrella, and the eventually severance of those two companies Into two wholly separate corporate entitles.

Once the two companies (Andersen Consulting and Arthur Anderson) split, Arthur Andersen, which was originally the auditing only arm, but had dipped back into the consulting business even though it should not have per it's agreement with AC, went lull force into offering the full range of services. In the quest for the biggest sale and to drive non-audit revenue, managers were compensated based on sales targets instead of performance or quality of work.

This lack of quality control and change In the focus of the business was the beginning of the downward projection of AAA_ The fact that there were changes in all three areas, environmental, strategic and organizational, made it difficult for there to be tight control at AAA and almost made it acceptable to make questionable decisions as long as the clients got what they anted and revenues continued to come in. 2.

Evaluate Andersen's claim that their problems on theEnronaudit were due to a few " bad partners" in the organization.

If you agree with this claim, discuss what you think were the root causes of the problem. It was Ass decision to hire 40 auditors from Enron, then augmented by 1 50 of their own staff, and place them within Enron as it's in house accounting staff. Since the staff was on site at Enron, attended Enron meetings, and made decisions In the best Interest of Enron and not with the Idea of doing quality work, It Is hard to put stock In Ass claim that it was only a few " bad partners".

Also, AAA made the decision to break up it's own Professional Standards Group and re-locate members of that group to local offices.

Once that happen though, their power was usurped and held no water. If they questioned decisions, they were removed. It is up to the company to make decisions that not only help generate business, but protect the company and it's employees from any questionable situations or circumstances where unethical scenarios malign play out. 3. Suppose you were Andersen's managing partner in the early sass's.

Would you have done anything differently than the actual management (assuming you knew only what they did at the time)?

There are a couple of things that I could have done had I been the managing partner for Andersen in the sass's. I think the separation of the consulting business and the accounting business into two companies was actually a good move. The fact that AAA eventually started to offer and go after non-auditing services business with clients was where a mistake was made in my opinion. If I were a partner at AAA I would have trickily enforced the agreement that we would be sticking with auditing business only.

While offering a lower margin than the consulting business, it was a solid foundation and allowed more oversight, tight controls and decreased the likelihood that questionable decisions would be made.

I also would have kept the Professional Standards Group in tact to oversee and review all aspects of the operation. Splitting up the group and assigning individual members to local offices basically neutered their power and allowed for those looking to manipulate the system to do so. 4.

Discuss the relation between what happened at Andersen and multicast principal agent theory. With the Multi-Task Agent Theory, certain tasks are rewarded and other tasks are not, and because of this the non-rewarded tasks suffer from neglect of a decrease in quality. The first time this was an issue is was before the split into two companies, where those driving the consulting and IT business were unhappy with the fact that the auditing side had so much power over the company even though it was not the segment driving the revenue.

After the eventual split into AC and AAA under one umbrella, and then the total split into two separate corporations, with Andersen bringing in business other than auditing was rewarded more than auditing business, to the point that it was expect that managing partners brought in twice as much consulting and other business as it did auditing business, otherwise face penalties or even termination. In all three stages of the company’s history the inequality between the consulting business and the auditing business led to there being a De-emphasis on the auditing segment of the business (both in quality and as a driver of revenue). Discuss the relation between the “

hard" and " soft" elements of a firm's corporate culture in the context of this case. In the case of Andersen, it almost seems as if the changes in the " soft" elements of corporate culture were either directly related to or a side effect of change in the " hard" aspects of the corporate culture. As stated in the case study, during the majority of the company's existence, " tradition was everywhere".

From " soft" elements like the physical design of offices and the way partners dressed and looked to hard elements like the quality control exerted over all aspects AT ten Dustless, tenure were standard all across ten Dora. As changes started to happen in the " hard" culture, like the focus being on driving revenue as opposed to putting out quality work, changes were also seen in the soft aspects of the culture. Managing partners did not dress as sharp, the giants wooden doors of the offices (that seemed to be a metaphor for the strong, sturdy operation of the company) were removed, and a new corporate logo was introduced. . Do you think that the problems at Andersen were unique to them or did they exist at the other big accounting firms? Suppose you were the top partner at one of the other major accounting firms at that time of Andersen's demise.

What action, if any, would you take in response? Explain. As shown when Andersen themselves called into question the practices of one of it's competitors (calling for an investigation), these issues at Andersen are not unique to their company (though it may not happen on as grand of a scale).

If I was the top partner at one of the other major accounting firms at the time of Andersen's demise, I would have immediately either called for an internal investigation of my firm's raciest or volunteered to have my company's practices reviewed by the SEC or another appropriate authority. I would be open with what was found, make any necessary changes to organizational structure or practices, and move forward. I think this would be important because at the time of Andersen's demise, it is likely the credibility of ALL accounting firms was hurt, and I would want there is to be proof that our company was doing things the right way.

. In 2000, the SEC proposed new regulations that would limit consulting work by accounting firms. This proposal was not passed by congress. Do you think the legislators were trying to act in the public interest when they failed to pass this proposal? Explain. Legislators were not acting in the publics best interests; they were bowing to pressure from the auditing industry lobbyists. Steve Same, who spearheaded operations that already lead lawsuits, payouts, bankruptcies and fines, led the charge to oppose the proposal.

At that point it should have been obvious that the right call was passing the proposal.

The fact that different legislation related to the oversight f accounting firms was eventually passed later on in 2002 (the SO) shows that oversight was necessary, but Just needed a spectacular failure like Andersen/Enron to allow legislators to feel comfortable in taking a stand. 8. The American Institute of Spas is the primary professional association for Spas. It has developed a Code of Professional Conduct that sets the standards of conduct for Spas.

People can file complaints about the ethical conduct of a CPA with the CPA, which can levy sanctions and other penalties against its members.

Do you think that he unethical conduct at Andersen (and possibly other accounting firms) was the fault of the CPA for not setting and enforcing higher ethical standard among its members? Explain. I I TNT Ketene CPA NAS a place In setting standards Ana tenets In ten Industry, and has the right to levy sanctions and penalties against it’s members (based on complaints that are filed), they are not a regulatory agency and their reach only extends so far. In reality, being a member organization, if a corporation does not want to deal with or answer to the CPA, they and choose not to be a member.

It ay hurt their reputation, but in the long run the work they do and the clients they have will have a much greater effect of their business than whether or not they are a member of the CPA. While it is nice to have organizations like the CPA and the SEC overlooking the practices of corporations in the industry, it is hard to transfer fault for the unethical behavior of a company away from the company that behaved that was to some member organization or regulatory agency.

It is the organization or agency’s place to set guidelines and respond when corporations do not follow them. The Serbians-Solely Act of 2002 established a new five-person board to oversee financial accounting in publicly traded corporations. The board is appointed by the SEC. Prior to the creation of this board the industry relied primarily on self- regulation through the CPA. Do you think the establishment of the new oversight board was a good idea or should he profession have continued to be self-regulated? I think in practice, a combination of both works.

The industry need to show that it is interested itself in keeping it’s practices on the level and being transparent.

But at the end of the day, you will always find someone who likes to work outside the system. In these cases having the SEC oversight board is a critical tool to keep companies in line that may think they can work the system. Also, having SEC oversight can result in much stiffer penalties for the organization, so it carries and extra layer of deterrent for companies who may think about making questionable decisions. Andersen themselves, in the form of managing partner Leonard Spaces, saw the power of SEC intervention early on (1947).