ARTHUR ANDERSEN: CHALLENGING THE STATUS QUO

by

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'From an inauspicious beginning has grown a truly great accounting organization, ranking foremost among the leading firms of the world as to character and reputation, known internationally, possessing a most imposing list of clients, operating in every state of the union and, through its foreign representatives, in principal countries abroad. This tremendous growth and development is an achievement without parallel in the history of the accounting profession' [1, p. 61].

These glowing remarks were made in 1938 by Charles Jones, managing partner, at the twenty-fifth anniversary party of Arthur Andersen & Company. In twenty-five short years, Arthur Andersen built an accounting empire. But how did he do it? The answer is simple, but the effort was not. Challenging the status quo was Arthur Andersen's trademark. Repeatedly, he pioneered new ways of serving his clients, training his employees and growing his company. For thirty-four years Andersen committed himself to excellence. With his keen intelligence, ambition and mid-American work ethic, Arthur Andersen built his accounting firm into one of the largest and most successful in the world. "From its modest beginnings as Andersen, DeLany & Co. to its present international stature, The Arthur Andersen Worldwide Organization has marched to the beat of a different drummer" [1, Foreword]. This paper presents the story of Arthur Andersen and how he built "'a different kind of firm'" [1, p. 12].

ARTHUR ANDERSEN
THE ACCOUNTANT AND EDUCATOR

John and Mary Andersen, immigrants from Norway and Denmark, respectively, settled in Illinois in 1882. Three years later, in 1885, Arthur Andersen was born. Arthur and his seven siblings became orphaned at a young age due to the premature deaths of their parents. Just after his father died in 1901, Arthur Andersen began his career at age sixteen by working as a mail-boy for Fraser & Chalmers Manufacturing Company. William Chalmers provided the financial and moral support Arthur needed to work during the day and to attend high school in the evenings. By 1903, Arthur had received his high school diploma and by 1906, Arthur had been promoted from the mail-boy to the assistant to the controller of Fraser and Chalmers [1, p. 5].

Emma Barnes Arnold became Arthur's bride in 1906. A year later, much to Emma's dismay, Andersen joined Price Waterhouse & Co. (PW) as a temporary staff person making $25.00 a week, a considerable reduction from the $6,000 per year salary offered to him at Fraser & Chalmers [1, p. 5].

It was in 1908 when Andersen enrolled in the Northwestern University School of Commerce where he quickly earned his Bachelor of Business Administration degree. That same year, Arthur received his Certified Public Accountant certificate from the State of Illinois [3, p. vii]. "At 23, he was the youngest CPA in Illinois and one of only about 2,200 CPAs in the country" [1, p. 5]. The following year, Northwestern invited Andersen to teach some night classes while he worked at PW during the day.

Two years later, in 1911, Andersen moved to Milwaukee to accept a controller position with Schlitz Brewing Company. When Arthur later organized his own accounting firm, Schlitz became one of his first clients [2, p. 4]. The move to Milwaukee added a 180-mile round trip commute to Northwestern each day for Andersen. By 1912, at age 27, Andersen became assistant professor and head of the department of accounting at Northwestern [3, p. vii]. To Andersen, this was the most stressful time of his life – juggling controller work by day and academics by night [2, p. 6].

Andersen diligently developed accounting course materials, which he later had published in 1917 under the title, *Complete Accounting Course*. "The text gained broad recognition as one of the most comprehensive in the then-developing field of accounting education" [1, p. 6]. By age 28, Andersen had made a name for himself in accounting both in business and academia.

ARTHUR ANDERSEN THE PARTNER

In 1913, Andersen left his controller position to concentrate on academia and to open his own accounting office in Chicago with his partner, Clarence DeLany. Both Andersen and DeLany were alumni of Price Waterhouse & Company [2, p. 8]. Andersen, DeLany & Co. commenced business on December 1, 1913 as a result of a $4,000 purchase of The Audit Company of Illinois [1, p. 7]. "DeLany was more of a bookkeeper but he was useful to Arthur Andersen at the time but he soon got rid of him" [2, p .212]. Despite the pressures of opening a new accounting firm, Andersen continued as chair of the accounting department at Northwestern for nearly ten more years.

During this period of time, the United States Congress passed the first significant federal income tax laws, creating "'a highly profitable nightmare'" for public accountants [1, p. 7]. For the first time, wealthy individuals and successful businesses had to maintain accurate accounting records, and Arthur Andersen was on hand to help them. In addition to Arthur Andersen and Clarence DeLany, the small accounting firm consisted of seven staff persons and a secretary/bookkeeper [1, p. 7]. In 1915, Andersen expanded his practice by opening a second office in Milwaukee [1, p. 13].

Andersen wanted his staff to be comprised of bright, aggressive young people who were as interested in the operations of a business as in the practice of accounting. He wanted people who understood financial information and how to use it to make management decisions to increase growth in a business. One of

Andersen's greatest assets was the ability to select and hire people who were really needed to develop the firm [2, p. 8]. Oddly enough, however, at that time Andersen's firm had neither an accountant nor an auditor on staff [1, p. 7].

Andersen, DeLany & Co. was not large enough to allow specializing by each member. Each member went wherever they were sent and many times the assignments would require them to be gone four or five months. This was true of all the members. It was common to travel throughout all of Texas and Oklahoma and go from one accounting assignment to another [2, p. 6-7].

From the beginning, Andersen, DeLany & Co. held itself out as different from its competitors. "Arthur Andersen relished a challenge . . . the tougher the better. Usually, he and his brash young firm rose magnificently to the occasion" [1, p. 32]. Merely reporting the numbers taken from company records was not enough for Andersen. An auditor's obligation to the public and the client goes beyond that [1, p. 108]. Rather than focusing on the traditional auditing and tax services, Andersen concentrated on business consultation; his vision for the company focused on quality and value of services offered and rendered. Andersen had a profound belief that Certified Public Accountants had two duties, one was to provide the highest professional services to the client, and the other was to act with serious social responsibility [3, p. vii]. "'Think straight/talk straight'" was the approach to clients that Andersen instilled in his personnel from day one, an approach that remains the hallmark of The Arthur Andersen Worldwide Organization today [1, p. 12].

To offer services beyond the ordinary tax and auditing services expected of accounting firms, an industrial engineering group was created within the firm in 1918 to investigate the strengths and weaknesses of a company's financial and management position, and to offer services to correct the weaknesses. That same year, Clarence DeLany left the partnership to pursue other interests. The firm's name then changed to Arthur Andersen & Co.

By the end of the decade, Arthur Andersen & Co. had grown from $45,400 in billings in its first year, 1913, to $188,000 in 1919 [1,

p. 20]. By 1920, billings grew to $322,000 [1, p. 18]. Arthur Andersen had successfully established a unique accounting firm that was braced to meet the challenges of a growing profession.

ARTHUR ANDERSEN THE RECRUITER

Andersen's love of teaching continued and by 1915, he was promoted to a full professorship at Northwestern in addition to his position as department chair. In his unique position as educator and businessman, Andersen was the first to begin recruiting the brightest accounting students to work for his firm. This was revolutionary, particularly since college graduates commanded higher salaries than accounting firms were accustomed to paying at that time [1, p. 13]. Before World War II, it was customary to temporarily hire inexperienced junior accountants only for the busy season. But just prior to the war, Andersen challenged the status quo and initiated his university recruiting efforts [2, p. 43]. Andersen was able to hand pick top graduates who shared in his vision of serving many types of businesses. Andersen built his "'different kind of firm'" by hiring a different kind of staff-person. Instead of hiring graduates of bookkeeping and commercial schools, he hired top accounting graduates from colleges and universities [1, p. 13].

Andersen was a very ambitious man who had the uncanny ability to hand-pick new employees he wanted to develop [2, p. 6, 9]. As one recruit, Paul K. Knight, recalls, "[Mr. Andersen instructed us to] look behind the figures to ascertain the factors that contribute to the operating results and form a business judgment as to how to improve the good factors and eliminate the bad" [3, p. 13]. Using "people who would dig for 'the facts behind the figures,'" Andersen wanted to build "'a different kind of firm,'" one that "understood business operations as well as it understood accounting techniques" [1, Foreword]. Andersen gave the graduates a full-time job and gave them centralized, uniform, in-house training to start their careers with the firm [2, p. 44-45]. This in-house training program became responsible for about 50% of the growth of the firm [2, p. 48]. These recruits all had the so-called "mid-western work ethic," just like Andersen himself [1, p. 13]. As Andersen stated,

> "An accountant cannot remain merely a high-grade technician if he is to occupy his rightful place in the field of modern business. . . . The thoroughly trained accountant of the future must have a sound understanding of the principles of economics, of finance and of organization, which are the three fundamental factors underlying any successful business" [3, p. 42].

Sound business common sense is what Andersen was after in his recruits [3, p. 43]. Hiring the best minds from colleges and universities was and still is the firm's secret to success.

ARTHUR ANDERSEN THE MAN

Arthur Andersen was a keen businessman, but he had a reputation of being tough with people who violated his principles [2, p. 2]. His management style was "often autocratic and sometimes arbitrary" [1, p. 92]. "He was extremely strict in his views, but he was also a man that you could argue with" [2, p. 13]. Those who knew him learned quickly of Andersen's "very high ego" and his determination. "He had a lot of ego but he was also very realistic" [2, p. 8]. As the firm grew, some employees left the firm because they were gaining leadership roles in the firm and "Andersen would not tolerate anyone to be higher in reputation or more versed in the Firm's affairs than himself " [2, p. 23]. Others thought Andersen was a "great guy" who welcomed new ideas, "except that he wanted them all his and that was all right with everybody in the Firm" [2, p. 224].

Arthur Andersen kept tight control of the company. According to Leonard Spacek, Andersen's successor, "Even to the day of his death, he owned and took 50% of the Firm's profits and the remaining 50% was distributed among the partners" [2, p. 9]. Andersen was very careful about company expenditures. According to Spacek, "When you spent a dollar, fifty cents came out of his pocket" because he owned half of the interest in the firm [2, p. 278].

At the same time Andersen established his recruiting program, accounting educators were striving to establish some degree of organization in their teaching profession. In December 1915, Andersen met with other educators in Washington, D.C. where they founded an association that ultimately became known as the American Association of University Instructors in Accounting. "The primary purpose of the new organization was 'to advance the course of instruction in accounting' -- a goal very dear to Andersen's heart" [1 p. 19].

Andersen subscribed to the philosophy that business decisions must be made that would result in the greatest good for the greatest number [3, p. 224]. Throughout his career, Andersen emphasized his belief in strong professional and community service. One factor important to the growth of Andersen's firm was the philosophy that every branch office had to become an active, productive and social member of the community [2, p. 122]. Speaking to a college graduating class in 1941, Andersen said: "Those of us who ultimately move into positions of leadership ... do not belong to ourselves but, rather, to those whom we endeavor to serve. There is a humanitarian compulsion to success'" [1, p. 188].

In 1918-19, Andersen served as President of the Illinois Society of Certified Public Accountants. He was also a member of several committees of the American Institute of Accountants, including the Form and Administration of Income Tax Laws Committee and the Committee on the Definition of Earned Surplus. For some time, Andersen served as chairman of the Illinois Board of Certified Public Accounting Examiners. He was also an active member of the Chamber of Commerce. His years of service earned him charter membership in the American Association of University Instructors in Accounting, which later changed its name to the American Accounting Association. Numerous colleges, including Northwestern, bestowed upon him honorary degrees, and six years after his death Ohio State University inducted him into the Accounting Hall of Fame [3, p. vii-viii].

Honesty and integrity became the trademarks of Andersen and his accounting firm. The company grew in prestige and character because of Andersen's high standards. Andersen had a reputation as a hard-nosed accountant and a stickler for finding and representing the true financial facts. He was also a stickler for hard work. These characteristics soon infiltrated his firm as co-workers adopted his style and methods [1, p. 15].

In 1916, Walter H. Andersen, Arthur's younger brother, joined the firm. His task was to assist Arthur in preparing lectures to be given at Northwestern on the growing new federal laws governing taxes and public accounting [1, p. 17]. Walter did the commercial accounting work while others in the firm focused on utilities [2, p. 23]. The lecture series helped to establish the firm's reputation as an expert in federal tax legislation [1, p. 18]. According to Leonard Spacek, a long-time employee of Arthur Andersen & Co., "Walter Andersen was a very capable person. ... Very capable person but also independent, just like his brother, and they got in a fight. ... Arthur Andersen ordered him out of the office, ordered him out of the Firm and they didn't speak for the rest of their lives" [2, p. 23]. Arthur Andersen has been described as "real stubborn," "candid," "blunt," and "contentious" [1, p. 45]. According to Leonard Spacek, "It was a clash of strong wills and bright minds that led to Walter Andersen's departure from the firm in 1932" [1, p. 45].

Andersen's brother was not the only victim of Arthur's ego and strong will. "From the early 1930s until his death, Arthur Andersen agonized over the choice of a successor. From time to time, he knighted a number of partners as his management heir, but none of them was with the firm when Andersen died" [1, p. 77]. One of his first designees was John Jirgal who joined the firm in 1920. But as soon as Jirgal began getting public recognition, Andersen would have none of Jirgal. As one partner recalls,

'Arthur was not one to stand in the shade, and he was too obstinate to move . . . so what he did with Jirgal was move the tree. He banished John to New York, reduced his authority, wrote him off as a potential successor—and eventually cost the firm one of its very best partners. It was tragic all the way around' [1, p. 77].

Unfortunately for Arthur's brother, Walter, John Jirgal, and many others, Andersen never reconciled with them. "For all his virtues, Andersen was known to nurse long-lived grudges against anyone he thought was disloyal to him" [1, p. 77]. If crossed, Andersen would instruct partners to avoid contact and never again speak to the partner who quarreled with Arthur [1, p. 79].

Arthur Andersen was also known for his prompt, straightforward way of speaking and for correcting errors the firm made in the audit process. One notable instance occurred when the firm's audit failed to discover a $190,000 cash shortage that did not reconcile with the cash shown on the account books. Receiving word of the discrepancy, Arthur traveled to Ohio to visit with the client's president. At the close of the meeting, Arthur filled out a check and handed it to his client stating that the auditors "'should save you money, not cost you money. I hope this will compensate you for our shortcomings'" [1, p. 32].

Andersen was equally straightforward and relentless in his demand that the accounting profession establish uniform principles and definitions for itself rather than relying on the government to do it. This conviction lead to the beginnings of what is known today as the Committee on Professional Standards, known as the Committee on Technique in 1929.

For Andersen, centralized management was the order of the day. Andersen vowed that his firm, regardless of its size, would "'act as one firm and speak with one voice.'" [1, p. 35]. This philosophy remains part of the unique culture of The Arthur Andersen Worldwide Organization today.

ARTHUR ANDERSEN THE RETIRED PROFESSOR

It was not until 1922 when Andersen finally gave up teaching to focus his full attention on his growing firm. Retiring from teaching was not easy for Andersen, but his love for teaching gave way to poor health. As Andersen stated, giving up teaching was "'one of the greatest disappointments of my life. . . . It seems unfortunate that . . . some of us who are willing to render unselfish service should be handicapped by physical limitations'" [1, p. 42].

When he resigned his faculty position at Northwestern University, he donated all subsequent royalties on his book, *Complete Accounting Course,* to the university, a gift of over $1 million dollars in today's value. Coming from a man who was known to "squeeze a dollar until the eagle screamed," this was an uncommonly generous gift (1, p. 31).

Andersen left an indelible legacy in the accounting education field. Prior to his arrival on the scene, accounting courses were treated as merely bookkeeping course. Andersen contributed fundamental changes that have shaped accounting education into what it is today, stressing the use of accounting as a business decision-making function. At Northwestern, Andersen expanded the curriculum from three courses to fifteen in just thirteen short years, from 1909 to 1922 [1, p. 31]. He shook up the accounting profession by insisting on uniform accounting standards and definitions. "With considerable justification, the accounting establishment viewed Arthur Andersen & Co. from its earliest years as a burr under the saddle of the profession" [1, p. 33].

Retiring from teaching did not mean that Andersen's allegiance to Northwestern ended. To the contrary, Arthur was elected to serve on the Board of Trustees for six years beginning in 1927 [1, p. 42] and ultimately, he became president of the board in 1930 and served in that capacity through 1932 [1, p. 32, 42]. Northwestern presented Arthur with an honorary doctor degree in 1941 and in 1979, Arthur Andersen Hall was dedicated on the Northwestern campus [1, p. 32].

Although Andersen retired from professional teaching, he was still a professor at heart. By the late 1920s, he was inspiring those in his firm with his passion for education. To increase the knowledge base of the senior staff persons in his Chicago office, Andersen created an in-house training program. Subsequently, educational training programs were initiated in all Arthur Andersen & Co. offices national-wide "to assure uniform training of personnel and uniform procedures in performing audits" [1, p. 32].

ARTHUR ANDERSEN THE COMPANY

One of the largest periods of growth for Arthur Andersen & Co. occurred in just one year when revenues increased 77% from $188,000 in 1919 to $332,000 in 1920 [1, p. 24]. The firm expanded to New York and California, becoming a competitive national firm as the age of mass production arrived in the 1920s. Offices were opened in Kansas City, Los Angeles and San Francisco. With the onslaught of mergers, the investment banking industry turned to public accounting firms to help identify good and bad risks.

The firm soon gained a reputation as the best one to hire if you were on the buying side of a deal but the worst if you were selling. Either way, investment bankers came to recognize, Arthur Andersen & Co. would make a thorough investigation, provide a warts-and-all summary of the salient factors and call the shots just as the investigators saw them [1, p. 26].

Investigative analysis and business advising services provided the foundations upon which Arthur Andersen & Co. grew. As Andersen stated in a speech before a regional meeting of the American Institute of Accountants in November 1925:

> 'In the last decade businessmen have learned that the accountant is more than a compiler of figures and a detector of defalcations. . . .The businessman has found that advice from an accounting viewpoint may have a high cash value in the form of taxes saved or refunded, war contracts liquidated [and] in recapitalizations and refinancings effected advantageously. . . .

In filling the function of advisor or consultant to management, the accountant is thus entering fields of investigative work which mark a distinctive advance over the earlier conceptions of the scope of his service and which deal with the broad aspects of business as a whole ... .

It is in bringing a balanced view to bear upon the problems of the undertaking and in assisting management in matters of business analysis that the accountant will have his greatest opportunities for service. . . .' [1, p. 29].

Andersen's point of view was not shared by everyone in the accounting profession. Of note was George O. May of Price Waterhouse, who conservatively believed that the auditor should do nothing but audit. He was a man who appeared to always take the opposite side of every argument with Arthur Andersen [1, p. 29].

There were many public accounting firms that experienced success in the decade of the roaring 1920s, and Arthur Andersen & Co. was no exception. In Andersen's case, growth was extraordinary. At the beginning of the decade the firm had only "two partners, 54 employees, two offices and annual fees of $322,000 . . . By the end of the decade, the firm had seven partners, more than 400 employees, seven offices and annual fees of more than $2 million" [1, p. 36]. Then came the Great Depression.

In spite of some ups and downs, the firm's financial investigations practice kept its stronghold until the stock market crashed in 1929 when business merger activity ended. With the following Depression, that segment of Arthur Andersen & Co. waned and did not regain momentum until the economy regained stability in the 1940s-50s [1, p. 30].

In spite of the Depression, nearly 39 million people attended the Chicago World's Fair in 1933-34, which proved to be a profitable success even in those troubled times. Chicago hired Arthur Andersen & Co. to establish internal controls over the cash flow generated by the Exposition. Andersen was never one to turn his back on an opportunity, even a long shot. For Arthur Andersen & Co. and the city of Chicago, the World's Fair proved to be a shot in the arm [1, p. 40].

Never having been afflicted with business myopia, Andersen looked toward the future and foresaw the need for a national and, eventually, an international practice. He wanted to create a firm that could serve it's client companies' needs anywhere in the world. As early as the 1920s, Andersen's rejection of the status quo and his vision of one strong international firm began to grow [1, p. 43]. Andersen's philosophy was "one firm, one voice," which meant the firm must maintain a single organizational structure and act globally as one firm speaking with a unified voice. This also meant that all partners, regardless of nationality, would have an equal voice in partnership matters [1, p. 102]. National boundaries would not interfere with Andersen's one-firm philosophy [1, p. 106].

Given his vision, Andersen did not want to expand his firm through mergers and acquisitions. Rather, he felt that expansion should be from within the firm [1, p. 111]. He concluded this from his experience with The Audit Company of Illinois. That merger resulted in acquiring staff that did not live up to Andersen's standards. As a result, every member of the acquired staff had to be replaced [1, p. 101]. To achieve such a worldwide organization, Andersen felt that the overseas offices had to be staffed with personnel trained in the United States and imbued with the Andersen culture [1, p. 99].

Although the Depression delayed his vision, it never extinguished it. Arthur Andersen & Co. would eventually expand globally, beginning in 1933, with a working agreement with McAuliffe, Davis & Hope, which had offices throughout Europe and Asia. Unfortunately, the war in Europe postponed expansion plans on the continent, but later, through other affiliations, Arthur Andersen & Co. expanded to South America, Australia and Canada [1, p. 43]. As the company expanded, each office was treated as a part of the whole firm rather than an independent operation loosely tied to the larger organization [1, p. 187]. The company had "embraced internationalism as a way of life, moving into more and more countries to serve the needs of expansionist client companies. In the 1960s, the firm hung out its shingle in 51 new locations, and 31 of those were in cities outside the United States" [1, p. 117]. By 1988, the firm grew to over 21,000 personnel. Of the 2,000 partners, 616 are from countries other than the United States [1, p. 106].

To maintain a strong national and international practice, Andersen once again challenged the status quo. Sharing his concerns for what he believed to be the low level of quality personnel throughout the profession, Andersen stated at the 1938 partners' meeting:

> 'Far too many wholly unprepared men are allowed to sit for CPA examinations. To raise quality, this calls for two moves by the profession. ... [First,

> higher education must provide] broader cultural education for accountants, leaving it to the accounting firms to equip new accountants with the technical tools they need. ... Second, there should be a statutory requirement for candidates to earn an undergraduate degree before sitting for the state CPA examination' [1, p. 44].

Andersen was ahead of his time and resistance to his position was evidenced nation-wide. After a decade of debate, on January 1, 1938, the New York Society of Certified Public Accountants began requiring college degrees of CPA candidates before they could sit for the state examination. However, by 1945, the American Institute of Accountants was still trying to promote the requirement that all CPA candidates should at least have a high school diploma. As late as 1968, college degrees were required in only 27 states [1, p. 44].

The turmoil of the Great Depression effected most businesses, including Arthur Andersen & Co. By 1932, revenues fell below $1.5 million [1, p. 48]. Short-term plans had to be adjusted to assure long-term survival for the Andersen accounting firm and its clients [1, p. 49]. But by 1937, economic recovery appeared on the horizon as Andersen revenues climbed to over $2 million [1, p. 53].

Despite the financial squeeze during the Depression, Arthur Andersen worked incessantly for positive, uniform change within the profession. He also did not hesitate to take radical steps to take care of his own employees. In 1934, when an Andersen employee fainted at his desk from exhaustion, Andersen instructed the office manager, to "'come to my office on Monday morning with some sort of plan for paying overtime and cutting out this fainting in the halls from overwork and weariness'" [1, p. 55]. This was a radical idea for the early 1930s, or anytime for that matter, since overtime pay had never been offered to an employee of any accounting firm before. Vilas Johnson, Arthur's son-in-law and office manager, explained, "'It was simply unheard of in the profession. You worked on a fixed salary irrespective of the hours you worked, and overtime was normal, especially during the busy season'" [1, p. 55]. Although Andersen kept a close eye on every dollar spent, he knew that his people were his most valuable asset. When Johnson reminded Andersen that no competitor paid overtime, "Andersen responded: 'Well, it's about time they did'" [1, p. 56]. Once again, Andersen challenged the status quo and initiated the five-day work week with overtime pay in the accounting profession, even though he himself often worked seven days a week. In 1938, Congress passed the Wage and Hour Law that codified many of the voluntary policies that Andersen had already adopted [1, p. 56].

Although Andersen understood the value of his employees, "the fact is that he was not always warm, patient and open-hearted in dealing with employees" [1, p. 56]. According to Leonard Spacek, Andersen's subsequent successor,

"He was a stern, no-nonsense man who focused entirely on business and did not mix easily with others—not even his partners. He could verbally take the hide off a manager or partner one day and not even remember it the next. But for all that, he was constantly lecturing the rest of us on the importance of hiring the best people, giving them the best training and treating them as important members of the firm. He really believed that!" [1, p. 56].

Andersen's keen business sense made him a pioneer, but the hard part of being a pioneer is that there are no trails to follow. Andersen simply had to blaze his own. Another way he did this was by organizing each office "along industry lines that conformed with the local client mix" [1, p. 58]. Andersen recognized the ever increasing role government was playing in business and Andersen prepared his partners and managers for it through his "'industry competence program'" [1, p. 58]. Those with experience in a particular industry were instructed to create detailed "industry reference binders" which contained "a brief history of each industry, an analysis of it's current condition, a summary of key business issues and a listing of special accounting, tax and regulatory concerns" [1, p. 58]. Of particular significance were the comprehensive property records Andersen established in the utility industry. A three-year contract yielding $2 million dollars in fees from Commonwealth Edison Company resulted in creating an accurate property record upon which the client's taxes were based. This proved to be of great value to both the client and to

Andersen. Today, Arthur Andersen maintains its specialized competence in about forty industries [1, p. 58]. Today, the continuing dissemination of relevant new information and the coordination of research and participation in industry associations is still the backbone of the company Arthur Andersen founded [1, p. 58-59].

Arthur Andersen nurtured his reputation for integrity, resulting in numerous offers such as that from the New York Stock Exchange in 1938 to serve as its first salaried president. Andersen, although flattered by the offer, declined so that he could continue his efforts toward growing his company. Later that year, the NYSE, created a Board of Governors and extended an invitation to Andersen to serve as a governor. Andersen again declined, but this time because of concerns about the appearance of conflicts of interest. Such offers underscored the rising prominence of Arthur Andersen himself and his firm, Arthur Andersen & Co. [1, p. 63].

ARTHUR ANDERSEN AND THE WAR YEARS

As war broke out in Europe and Asia, Andersen operations in those areas came to a halt. The accounting profession experienced a sudden loss of manpower as men turned to supporting the war effort. By 1941, Arthur Andersen & Co. lost 67% of its personnel to the armed forces. But even the war could not deter Andersen from pursuing excellence. As Andersen stated, "'We are determined to uphold our high standards despite the present shortage of manpower'" [1, p. 68].

In response to these circumstances, Andersen began yet another training program. This one called for centralized training where all Andersen personnel, regardless of their location, were brought to one place for uniform training. This was revolutionary since apprenticeship was the common means of in-house training at that time. Challenging the status quo, Andersen scheduled this new training program during regular working hours. The specific goal was to get "new staff-persons up to speed before they undertake their initial client assignment" [1, p. 68]. Today, this training program, known as the Firm-wide Audit Staff Training School (FASTS), is still going strong. "Thirty-five U.S. students attended the first course in 1940. In

1988, FASTS attracted 4,500 participants from 45 countries" [1, p. 68].

The school begins with a one-week introduction in a staff person's home office followed by two additional weeks at the Center for Professional Education in St. Charles, Illinois. It is built around a detailed case study of a mid-sized manufacturing company and seeks to create a realistic busy-season environment in terms of workload and time pressures. As with every other mainline course, line partners and managers teach the course, bringing real-world experience to the classroom to keep the focus steadfastly on the practical, not the theoretical [1, p. 68].

This training proved to be very useful during the war years when income taxes soared and businesses sought year-round tax counsel to stay on top of the ever changing tax laws and mounting government agency reporting requirements [1, p. 71-72].

Near the end of World War II, Andersen dispatched several of his trusted partners to Europe and Asia to piece together the war-torn network Andersen had established before the war. Andersen wrote, " 'We must have, as we have never had before, a united family—whether the offices are within or outside the borders of the United States, and we must be tied together as a continuing organization, making for better service to the outside world' " [1, p. 75]. Within two months after writing these words which "so clearly defined the cohesive one-firm organization that he wanted to extend throughout the world, Andersen was dead" [1, p. 75].

ARTHUR ANDERSEN'S LEGACY

In 1947, the accounting profession lost what was perhaps it's greatest asset, Arthur Andersen. "Arthur Andersen's death in January 1947 at age 61 was not unexpected after so many years of lingering illness, but it was traumatic nonetheless" [1, p. 81]. During his lifetime, Arthur Andersen reshaped public accounting into what it is today; a uniform, highly skilled profession. He accomplished this by establishing and maintaining high standards in the practice of accounting, by creating and developing a higher education accounting system from which he recruited the best and brightest accounting graduates, by emphasizing quality in employees and in their skills, and by stressing unified in-house training programs that still have a basis in the programs used today. Neither Andersen nor his successor, Leonard Spacek, were "content with the fruits of routine auditing . . . . Both wanted to push outward the frontiers of public accounting to better meet the needs of their clients" [1, p. 90]. Andersen was not afraid to take chances or buck the system and he had the foresight, intelligence, and devotion to reshape accounting into a trustworthy profession. Challenging the status quo proved to be the key to success for Arthur Andersen.

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