Public accounting needs good followers.

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Several summers ago, I attended a dinner and panel discussion that a national firm offered for accounting faculty at a number of southwestern Ohio and northern Kentucky universities. The panel discussion focused on the 150-hour requirement, the added value (or lack thereof) of a graduate degree, hiring practices, and why the firm was hiring undergraduate accounting majors rather than waiting until they completed the 150-hour requirement by getting a master's degree. One speaker believed that a graduate degree would add value if it taught the student about leadership.

[ILLUSTRATION OMITTED]

It is no secret that the past several years have seen a crisis in leadership in public accounting. High-profile examples include the collapse of Arthur Andersen in the wake of the Enron scandal, the alleged responsibility of each national firm in various other accounting failures, the alleged responsibility and no-admission-of-guilt settlements for national firms involved in designing and promoting abusive tax shelters, the indictments of former chiefs of KPMG's tax practice for their role in the firm's sale of alleged fraudulent tax shelters, and alleged responsibility and no-admission-of-guilt settlements by national firms involved in purported fraudulent overbilling of clients for travel-related expenses. The national firms have gotten most of the publicity, but no doubt leadership failures can and do occur at regional and local firms.

I am certain that many of the allegations, lawsuits, and negative press are unjustified. Our society is a litigious one and the national firms are perceived by potential plaintiffs as having deep pockets. Investors and regulators do not understand the role of auditors and what is being "attested." Fraud detection is different from opining on whether the financial statements "present fairly." Financial statements are the responsibility of management. Tax advisors have a duty to clients, who in turn do not have a duty to pay more taxes than the law requires. Consultants know the client's business, and auditors who know a client's business perform better audits. With appropriate safeguards, independence can be achieved.

There is a significant degree of truth in these statements. I understand and for the most part agree with them. But there also must be some truth to the volume and magnitude of allegations, litigation, and negative publicity.

No doubt some of those who have been or are at the top echelons of these firms bear at least some responsibility for what has happened. After all, they represent the firms' leadership. But what about the followers? Could it be that there has also been a crisis in followership? Maybe the leaders are most guilty of not providing an environment and culture that promotes good followers. And maybe the panelist at that dinner should have encouraged us to teach good followership.

Followership and Why It Matters

Much has been said and written about leadership. Seminars and after-dinner speakers tell audiences what makes a good leader. Rudy Giuliani, Jack Welch, and others do quite well for themselves on the lecture circuit and in their books, telling us what constitutes good leadership.

But we don't hear much about followers, and leaders cannot lead unless they have followers. Leaders at the top set the direction and tone for followers, who in turn serve as leaders for those followers farther down the organizational ladder. But more important, "good followers" can have a tremendous positive impact upon their leaders.

Management consultant Ira Chaleff coined the term "courageous follower." In The Courageous Follower--Standing Up To and For Our Leaders (Berrett-Koehler, 2003), he distinguishes between "partners" and "implementers." A partner "gives vigorous support to a leader but is also willing to question the leader's behavior or policies." An implementer is a person whom the leader can count on "to do what is needed to get the job done and not require much oversight and explanation." However, "if the leader begins to go down a wrong path, these are not the followers who are likely to tell the leader so, or, if they do, they are not likely to pursue the matter if the leader rebuffs their attempts."

Public accounting is based on the implementer model. In describing the demise of Arthur Andersen, Barbara Toffler (Final Accounting, Broadway Books, 2003) talks about a firm culture where the firm way is the only way and where partners are gods. So-called androids "did many things because that was the way they were done. It would never occur to them to question any practice, despite the cosmic changes taking place both inside and outside the Firm." The so-called androids might have been the extreme example, but feedback from former students tells this author that the implementer model is alive and well in today's public accounting.

Good followers are not just whistle-blowers. Good followership is not just about preventing another Andersen/Enron debacle. Leadership guru Warren Bennis, in a chapter titled "Followership" in Managing the Dream--Reflections on Leadership and Change (Perseus Publishing, 2000), notes that "organizations that encourage thoughtful dissent gain much more than a heightened air of collegiality. They make better decisions."

According to Robert Kelley, a leading authority on followership, in "Followership in a Leadership World" (Insights On Leadership--Service, Stewardship, Spirit, and Servant-Leadership, edited by Larry C. Spears, John Wiley, 1998), exemplary followers are "actively engaged in helping the organization succeed while exercising independent, critical judgment of goals, tasks, potential problems, and methods." These are people who "think for themselves" and disagree "constructively with the organization's best interest at heart." But when needed, exemplary followers also "fulfill an ethical watchdog role."

Any organization needs to create a culture that cultivates good followers as well as leaders who listen. Bennis says, "Followers who tell the truth, and leaders who listen to it, are an unbeatable combination." Good leaders staff their organizations with people with diverse backgrounds and "encourage them to speak out." They "wisely build dissent into the decision-making process." It makes good business sense for a profession that relies on image and that has been hammered by litigation, legal settlements, and related compliance costs, to have good followers, and leaders who listen.

Consider President Bush's handling of the disaster in New Orleans after Hurricane Katrina struck at the end of last August. It is a graphic example of what happens when leaders fail to take Bennis' advice and do not encourage followers to speak out. According to Evan Thomas in "How Bush Blew It" (Newsweek, September 19, 2005), President Bush does not want to hear dissent or unwelcome news. He does not surround himself with people who disagree; there is no one to play the devil's advocate. President Bush values loyalty, not constructive criticism. His staff could not decide who would apprise him of the gravity of the situation as it unfolded in New Orleans. No one wanted to be the one to upset the President. As a result, his response to the disaster was delay--a case of not enough soon enough. Not only was this an embarrassment for the Bush administration, it may have significantly eroded his ability to accomplish his other policy goals for the balance of his term, regardless of their merit.

The Structure of Accounting Firms

Little public information is available about what really goes on in public accounting firms with regard to how decisions are made at each level and to what extent followers have any real input into the process. Most litigation is settled out of court, so deciphering the decision-making process that led to various high-profile cases is difficult. My perception is anecdotal and based on feedback from former students. However, I suspect that had the "partner model" been in place, the accounting firms would not have been the subject of much of the criticism and litigation noted above, however justified or unjustified. I have to believe that good followers would have provided constructive criticism, good leaders would have listened--the role of accounting firms in business failures, abusive tax shelters, and other such embarrassments to the profession would have been minimized under a "partner model."

The business model in public accounting and other personal service firms is based on leverage--the so-called pyramid. Staff are assigned to audits and consulting projects supervised by seniors or managers and, ultimately, partners. Those at the lower levels are billed out at fees that are significantly higher than what they are being paid themselves. The bulk of the hours on an engagement are worked by those at the lower levels of the organization. The difference between the fees charged and the compensation of those providing the service covers various overhead costs, such as administration, office space, and training, as well as litigation costs and a provision for a return to firm partners. This is the traditional business model, and there is nothing inherently wrong or immoral about it.

Realistically, this business model will continue. To make the model work, firms think they need "implementers" at the lower levels. They need staff, and arguably seniors and managers, that the partners can count on to get the job done and not require much oversight or explanation. After all, they are not formulating strategy, establishing firm policies, or making business decisions for the firm. The partners, or at least some partners, do these things.

But how can one grow from an "implementer" to a "partner" if the culture is to do but not to question? Managers and seniors in public accounting need to develop the ability to question in an appropriate manner at an appropriate level at an appropriate time, so they can do that as firm partners. Firms can no longer afford the "yes man" and groupthink. It is good business for seniors, managers, and partners to critically assess and, at times, constructively disagree with firm policy and strategy. And, in those hopefully rare situations when it is necessary, they must raise the cautionary flag when the firm appears headed down the wrong path on ethical issues.

I also suspect it is difficult for an "implementer," at whatever level within the firm, to question client behavior if the firm's culture stresses getting the job done without explanation and holds that "clients are gods." The extreme example occurred with Enron, where David Duncan was a leader with an implementer mindset and Carl Bass tried to be an exemplary follower. Duncan, the lead partner on the Enron engagement, colluded with the client and on numerous occasions overruled Andersen's professional standards group. Bass, the partner in the Houston office in the professional standards group, insisted on proper accounting and was ultimately removed from the Enron engagement (see Mike McNamee, Amy Borus, and Christopher Palmeri, "Out of Control at Andersen," Business Week Online, March 29, 2002).

Moving Forward

The pyramid business model will not change, and it does not necessarily need to. But the culture in accounting firms does need to change. Firms must cultivate good followers and create an environment conducive to good followership. This means an environment that encourages constructive criticism. It means partners and people at all levels who listen. This means really listening to critical ideas; it does not mean leaders with a supposed open-door policy that, via their verbal and nonverbal behavior, intimidate those who want to make suggestions or provide constructive criticism.

From what I hear, firms are moving in this direction. But they need to go beyond mission statements and guiding principles, public interest councils, hotlines, and ethics courses. Whether a culture encourages good followers depends on what people actually do and how they treat each other. Firms should review and modify personnel evaluation practices, so those who provide constructive criticism or play the devil's advocate are rewarded, not punished. They should establish and monitor mentorship programs that provide less-experienced personnel, at whatever level, with someone who really listens and not someone who has morphed into the "android" mentality. Yes, at whatever level, because just as staff need mentors, new partners need mentors. They should revise promotion criteria to encourage the development of good followers. Partners should be true partners, not implementers.

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