

Arthur Andersen: Forte In Information Systems

By Yoko Shibata

Arthur Andersen is riding high on the crest of Japan's liberalization, and is carving out a comfortable niche in business consulting for Japanese companies. As a "big eight" international accounting firm, the Arthur Andersen name is well known, but the company's activities reach far beyond accounting and tax services. It has become an international consulting behemoth offering a vast range of business services.

In July 1987, Arthur Andersen celebrated its 25th anniversary in Japan. Even so, the company is still a relative newcomer as it was next to the last among the big eight to establish a presence in Japan. The firm's Japan practice began with the hiring of seven staff, including one CPA (certified public accountant) and four junior CPAs. The "Seven Boys," as they become known, were trained in the United States and, in 1962, returned to Tokyo to start what is today the largest practice among the big eight in Japan and, overall, one of the largest professional firms in the country.

Blue chip clients

Arthur Andersen's beginnings in Japan were not much different from its other big seven competitors. The primary mission of the practice, at first, was to serve foreign entities operating in Japan. That changed when, in the 1970s, a wave of offshore listings by Japanese corporations brought a flood of new business from domestic clients who needed audited financial statements prepared in English in accordance with U.S. GAAP (Generally Accepted Accounting Principles). During this period, Arthur Andersen won a fair share of listed clients. Today the company serves 22 blue chip Japanese corporations on the first section of the Tokyo Stock Exchange.

Arthur Andersen's worldwide organization, encompassing nearly 40,000 people in 226 offices, is comprised of part-



Yoshiaki Yamauchi: "Foreign firms have a greater appreciation of the services we render."

nerships and other entities in 49 countries. Each entity is member firm of Arthur Andersen & Co. Société Coopérative, an administrative coordinating entity based in Geneva, Switzerland. The firm's structure allows for the sharing of costs (i.e. centralized training), the relatively free movement of resources between member firms in different countries, and common standards of practice, quality and training. Andersen touts its "one-firm concept" and a strong company culture. The firm believes its organizational structure is one source of its strength and is a key to the success it has attained worldwide.

In order to conform with Japanese laws regulating the public accounting and tax consulting professions, Arthur Andersen in Japan is represented by three independent legal entities, each of which are member firms of Arthur Andersen & Co. S.C.

Audit and accounting services are provided through Eiwa Audit Corporation. Tax services are rendered through Olsen-

Uno Tax Accountants. Only management consulting, which is not a regulated profession in Japan, operates under the name Arthur Andersen & Co.

Management consulting accounts for roughly 60% of the firm's fee income in Japan. "As Japanese business has become globalized and business management more complex, Japanese companies have found they need to utilize information technology to manage their businesses and to compete. Planning, designing and installing information systems to enhance business management is our forte," says Yoshiaki Yamauchi, country managing partner for Japan.

In the early 1950s Arthur Andersen pioneered the first business application of an electronic computer. It has been a leader in the field of applying computers to business ever since. In Japan, the firm's management consulting division employs more than 300 consultants, nearly half of the more than 650 people in the entire Japan practice. With a buoyant business outlook (annual fees have been

raised 30-40% in the past few years) the firm's Japan consulting division alone expects to expand to more than 600 professionals by 1990.

Staffed by approximately 150 professionals, Eiwa Audit Corporation ranks fifth or sixth among all audit firms in Japan. Unlike its big eight competitors in Japan, Arthur Andersen has taken a "go-it-alone" strategy and has not tied up with domestic audit firms. Eiwa serves 22 public companies, which are required to be audited under Japan's Securities Exchange Law.

Uniform standards

The firm also performs financial audits required under Japan's Commercial Code. As a member firm of the worldwide Arthur Andersen organization, Eiwa is particularly adept at assisting Japanese firms operating internationally and foreign firms operating in Japan. For example, under an Arthur Andersen program called JIN. (Japanese International Network) Eiwa has assigned more than 18 manager- and partner-level Japanese professionals abroad to provide accounting and tax services to Japanese overseas

companies. In each office these partners and managers are assisted by Japanese-speaking accountants hired locally. JIN serves hundreds of Japanese companies abroad and employs more than 60 Japanese-speaking professionals.

Similarly, the Japan practice has working within it a roughly equal number of foreign nationals (3% of the total number of its employees in Japan) to assist with client engagements or practice development efforts requiring special expertise. Without the commonality of standards, procedures, training and language, sharing of personnel and resources like this would be difficult at best—which is one reason why the firm has a worldwide policy of shying away from affiliations and mergers.

Arthur Andersen's tax practice in Japan, like Eiwa, has a strong international focus. Olsen-Uno Tax Accountants is one of the largest—if not the largest—tax consulting firm in Japan. The company's clientele tend to be foreign entities, which are more accustomed to aggressively looking for ways to reduce their tax burden. Managing Partner Yamauchi said, "Japanese tend not to distinguish between tax avoidance (taxes legally not re-

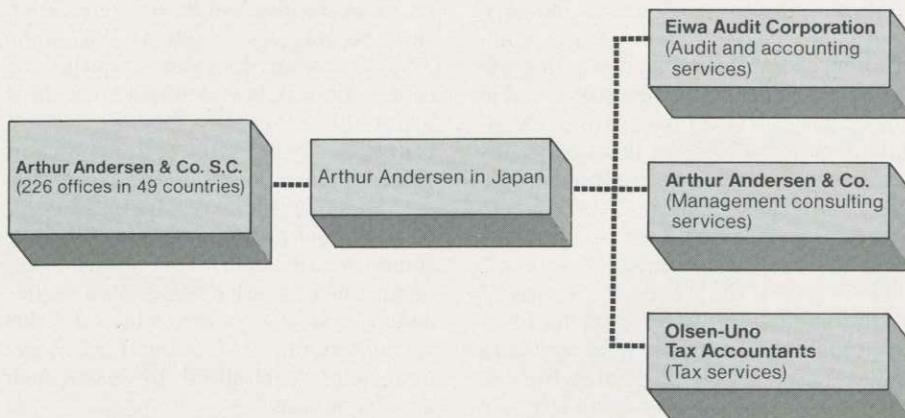
quired to be paid) and tax evasion (taxes that illegally go unpaid). Foreign firms, for the moment, have a greater appreciation of the services we render."

Finding solutions

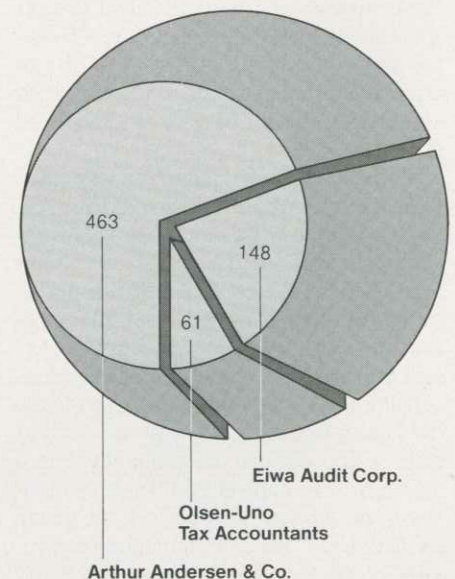
Olsen-Uno has experienced explosive growth in the past year—attributable in part to the large influx foreign financial firms establishing or expanding operations in Japan. The firm provides a variety of tax consulting services as well as compliance services (filing tax returns) for corporations and individuals both in Japan and the U.S.

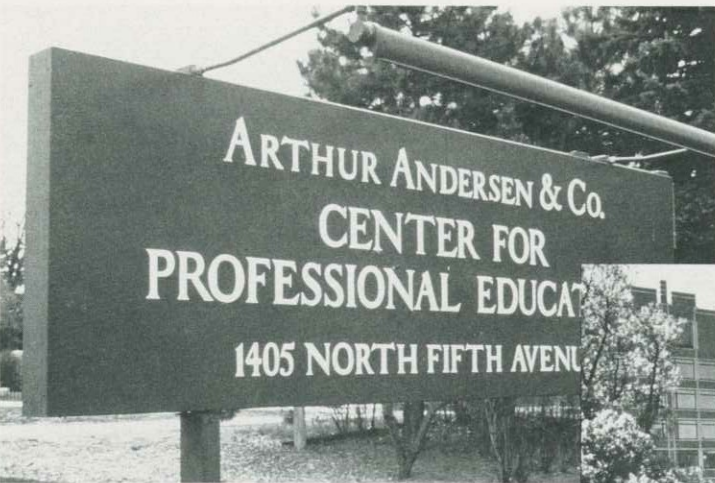
Arthur Andersen prides itself on the ability of its consultants to find practical solutions that bridge the gap between management (business) issues and the technical issues common in information consulting as well as accounting and tax engagements. Worldwide, Arthur Andersen supports its practices with more than 40 industry programs that are designed to ensure professionals receive the training and support necessary to make them knowledgeable about their clients' industry and business and, thereby, better able to give the best advice.

Organization

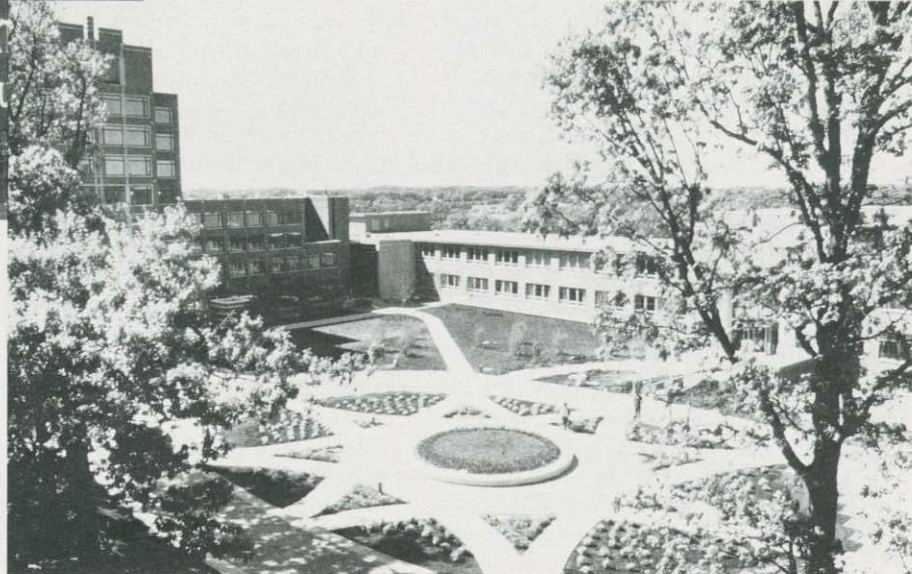


Staff Numbers (as of April 1, 1988)





Both new recruits and more senior staff receive training at this center in St. Charles in the U.S. state of Illinois.



In Japan, Arthur Andersen has demonstrated its strength in the manufacturing and distribution industries. Clients are said to include Japanese multinationals that are household names, but the firm is tight-lipped about who they are and the exact nature of the work it does out of respect for client confidentiality. Nevertheless, one gets a hint of the respect the firm commands in Japan by reviewing its growing audit client list of publicly traded companies, among which are Sharp, Ricoh, Stanley Electric and Orient Leasing.

The big push in Japan for the firm today is in financial services. Arthur Andersen formed the Capital Markets Consulting Group in Tokyo in November 1986, in light of new consulting opportunities resulting from financial liberalization. The group provides accounting, tax and information consulting services concerning the development and use of new (to Japan) financial instruments, such as futures and options, asset/liability management, risk control and treasury management. As part of this effort, the group has launched "on-call" consulting to provide banks, investment banks, security

firms and other financial institutions with quick answers to questions related to the accounting and tax implications of financial transactions or new financial instruments. The Capital Markets Consulting Group in Tokyo is comprised of more than 20 specialists headed by Mitchell Fulscher, an Andersen partner from Chicago who is a well-known and respected adviser to the financial futures industry.

Arthur Andersen has also made significant inroads in providing consulting services to Japanese companies involved in the acquisition of companies and real estate abroad and foreign firms acquiring companies in Japan. Services offered include strategic planning, assistance in screening, advice on investment structure and integration strategies.

To support the "one-firm concept," Arthur Andersen has developed a training capability unsurpassed by any consulting firm. New college recruits from all over the world, including Japan, are sent to the Arthur Andersen Center for Professional Education in St. Charles, Illinois, for initial training ranging from one to six weeks. The center offers more than 400 courses throughout the year and

employs more than 300 education development specialists. Recently, the firm invested over \$80 million to expand the facility, which can now house and feed about 1,600 students a day. An additional expansion which will cost \$80 million is planned in the next year.

Not only are fresh recruits trained at St. Charles, but all personnel, including partners, receive continuing education there to hone their skills. In 1987 some 209,000 worker days were spent at the center for training. Annually, the firm invests 10% of its gross fees (\$2.3 billion worldwide in 1987) on training, an unprecedented amount in the consulting or any other industry. Training at St. Charles, apart from providing an outstanding education, offers students the opportunity to learn the shared values and culture of the firm, which it holds so important. "No other firm," says Yamauchi, "can afford to make such an expenditure." ■

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