



Inside Arthur Andersen: Shifting Values, Unexpected Consequences

By Susan E. Squires, Cynthia J. Smith, Lorna McDougall, William R. Yeack

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Why did Arthur Andersen really collapse? What crucial lessons can be learned from Andersen's experience? *Inside Arthur Andersen* uncovers the roots of Andersen's implosion, tracing its spectacular two-decade transformation from staid auditor to aggressive consulting firm-and the profound change in corporate culture that led to its self-destruction. The authors bring 26+ years' experience studying Andersen culture from the inside-and their story offers profound lessons for every organization.

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Editorial Review

From the Back Cover

"*Inside Arthur Andersen* provides a perceptive analysis of the changes in cultural values that took Andersen from the top of the accounting profession to its doom. The authors do a superb job of analyzing the historical Andersen culture and the varied forces that led to dramatic changes in that culture in recent years. In addition, the authors display great insight into what made Andersen great and the changes that led it to fail, while also raising serious questions about the remaining accounting firms and whether they understand how they must change to survive. In the struggle between public interest and private profit, private profit won out only to cause Andersen to fail."—Arthur R. Wyatt, Retired Partner, Arthur Andersen, former member, FASB, and past Chairman, IASC

"This book provides a thought-provoking account of how the firm's culture changed over time. It is balanced and helped me make sense of what happened to our once-great firm."—James Brennan, former Associate Partner, Andersen Consulting

"This author team is the best to provide insider insights and credible explanations of what happened at Arthur Andersen and why it happened. The story they tell contains valuable lessons for all companies and leaders and is a must-read for anyone interested in the health and well-being of companies today."—D. Quinn Mills, Harvard Business School, and author of *Wheel, Deal, and Steal*.

"The wave of corporate financial scandals has served to emphasize the critical role of the external auditor in maintaining a market economy. Arthur Andersen had a distinguished history of being the 'gold standard' of the profession. How this highly respected firm lost its bearings is the subject of a superb, serious study by former Andersen employees. *Inside Arthur Andersen* is and will remain the definitive explanation of the downward spiral to Enron."—Leonard R. Sayles, Professor Emeritus, Graduate School of Business, Columbia University

"*Inside Arthur Andersen* provides a lively excursion through the conflicting goals and values that permeate organizations in general and the public accounting profession in particular. The story of the birth and death of the Arthur Andersen firm is loaded with lessons for us all. This book should appeal especially to readers who want an overview of the dramatic consequences of Andersen's changing values through the years."—Charles T. Horngren, Stanford Graduate School of Business

"*Inside Arthur Andersen* provides an outstanding chronology of the birth and life of a great firm. Andersen had an extraordinary culture and exceptional strategies that resulted in unquestioned leadership professionally and in the financial and business world. Somehow management lost sight of its 'core' and greed destroyed what I valued as a partner for 22 years."—Dean Christensen, former Arthur Andersen local office managing partner

The collapse of Arthur Andersen was among the most profound events in the history of American business. For nearly a century, Andersen was synonymous with integrity. Seemingly overnight, the firm imploded in scandal. How could it have happened?

Inside Arthur Andersen uncovers the roots of Andersen's collapse, tracing its spectacular two-decade transformation from staid auditor to aggressive consulting firm—and the profound change in corporate culture

that made it possible for Andersen people to begin shredding thousands of Enron documents that fateful day in October 2001.

Could Andersen have adapted to a new business environment without compromising the values that first made it successful? How did Andersen's leaders miss the harbingers of disaster? The authors of this book are uniquely well positioned to answer these questions. Together they bring more than 26+ years' experience studying Andersen culture from the inside. In this book, they tell a story that every leader needs to hear.

- Enron and Andersen
- The all-night shredders-What were they thinking when they shredded all those Enron documents?
- Honest Beginnings
- Strong, principled leaders made Andersen the gold standard among auditors
- Growth before the Storm
- How Andersen grew and how it changed
- Losing Control
- The harbingers of disaster-and why they were ignored
- Consulting Revolution
- Can a public accounting firm offer consulting services without conflict of interest?

About the Author

Lorna McDougall has extensive experience in organizational development for major companies and universities in the U.S. and UK. She joined Andersen Worldwide's Performance Consulting group in 1990, where her work included research, organizational planning and development, and cross-cultural training for worldwide delivery for Audit, Tax and Consulting.

Cynthia J. Smith worked in the Management Development Group in Arthur Andersen's Center for Professional Education and Development. She also worked at World Headquarters on cultural risk management and onsite with engagement teams in Asia developing improvements in high risk and international project management.

Susan Squires has over 15 years' professional experience conducting organizational research in corporate settings, evaluating new products, and leading business trainings throughout the United States, Europe and Asia. In 1994, she joined Andersen Worldwide, where she worked with Andersen Consulting and Arthur Andersen as well as many of their clients.

William R. Yeack joined Arthur Andersen in 1981, worked on audit engagements, earned his CPA (1983), and was a member of the Management Information Consulting Division, which became Andersen Consulting. He specialized in large, high-risk projects in the utility and financial industries. He held high-level executive positions with international responsibilities that involved ongoing business relations with the firm.

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Preface

The fall of Arthur Andersen—one of the five largest accounting firms in the world—was as much a shock to its 85,000 worldwide employees as it was to the business community and the general public. Except for the Enron engagement team, those inside the global firm knew little about its association with Enron. Most first

learned from the media of the Andersen felony indictment for obstructing a federal investigation. Even then, it was inconceivable to most Andersen employees that the entire firm, with offices all over the world, could be affected so profoundly. Within days, desks were being packed, families relocated, whole offices parcelled off. Everyone was left looking back at what had been. The story is poignant, not just because it affected the lives of those inside but because it has a message for businesses today in all sectors. The changes inside and outside the firm that led to actions so out of character for the company's founder, Arthur E. Andersen, are changes that can and will affect other companies, perhaps yours.

The mission of this book is to tell what happened, as seen from inside—before, during, and after—to those who are not insiders of Arthur Andersen or the accounting industry, and provide insights for those who were insiders. The authors, Susan E. Squires, Cynthia J. Smith, Lorna McDougall, and William R. Yeack were all employed by Andersen and bring over 26 years of collective experience with the firm to the Andersen story. The book's tale is of a firm that changed as competition among the big accounting firms became aggressive. To survive and prosper, Andersen changed and adapted in ways many firms today are changing and adapting. From the days of Arthur E. Andersen's original public accounting firm that provided honest audit service, the firm became a dynamic, sprawling, more aggressive multiservice organization with clients willing to skate ever closer to the edge of risk. This book chronicles key decisions that led to changes in Andersen's culture and the external and internal factors that led to events that would have been unlikely—even impossible—only a few years before.

The story begins as Arthur Andersen goes to trial, then recounts the sequence of events that brought the firm to court—the day things turned ugly—the media coverage of the shredding, and the fall of the first of several dominos that would eventually topple Arthur Andersen.

You will get the inside view from several perspectives of the firm. What was it like to work at Arthur Andersen? How did the company grow from a small accounting firm dominated by one individual to a global firm that was the largest of its kind in the world when it became Enron's auditor? You will understand the long chain of events that eventually caused Andersen to fall. These events shed light on the role of accounting in the American economic system and on current concerns. In the end, you can consider what this means for you and perhaps for your company.

About the Authors

Arthur Andersen is a unique case to which analysis of the organizational culture can be applied. All authors are Andersen "insiders" who were participants and observers within the Andersen organization and are able to share a factual business picture, as well as a very human face of the firm's story. Three of the authors of this book are cultural experts who held positions at the firm. Based on their understanding and first-hand experience, the authors are able to shed light on events and core values of the legendary Andersen culture and how they were transformed over time, especially from 1981 to 1997, the time span of their experience.

Dr. Susan E. Squires was at Andersen Worldwide's Center of Professional Development from 1993 to 1997, working with both Arthur Andersen and Andersen Consulting as an evaluator and cultural consultant on internal and external teams.

Dr. Lorna McDougall was a cultural consultant at Andersen Worldwide, conducting research and working on long-term human resources and organizational learning for the Audit, Tax, and Consulting divisions in the U.S. and the UK.

Dr. Cynthia J. Smith, an anthropologist, began working with the firm in 1982, creating the first position for an anthropologist in the Management Development Group at Andersen's Center for Professional Education and Development in St. Charles, Illinois.

William R. Yeack's responsibilities for large multinational, high-risk projects within the firm and as a private sector executive add a front-line professional perspective to the book. William Yeack and Cynthia Smith worked closely together on cultural research projects in the firm, developing high-risk and international project cultural risk management improvements.

Acknowledgments

Many people helped us with this project. We owe thanks to the many members of the Andersen family who lent us their support, to senior members of the firm in the U.S. and UK for generously sharing their perspectives, and to all the Arthur Andersen alumni for their thoughtful interviews. We want to thank James Brennan for his generosity in terms of time and effort to help us with the interview phase of the project. All of those we talked with added immeasurably to our understanding, and without them this story might be very different.

We would like to express our deep gratitude to our editor, Jim Boyd, for the unusual opportunity to write as a team and for his invaluable insights and guidance throughout this project.

We thank Russell Hall for his editorial support and for his cheerful encouragement as we worked through the many possible approaches to writing.

We must thank Mitchell Lear for suggesting that we write this book and Dr. Leonard Sayles and Kathy Ripin for their help in thinking through the project. They gave generously of their time and advice.

We especially thank retired partner, Thad Perry, for taking an interest in the research and development projects proposed by William Yeack and Cynthia Smith when they all worked together in the early 1980s. Mr. Perry had the management courage to give permission and support for our work.

Thanks also go to Dr. Daniel Jensen, Director of the Accounting Hall of Fame at Ohio State University, who took time to engage in a most interesting and helpful discussion of recent events in accounting from his perspective as a historian of the accounting profession.

We would also like to thank those who helped us with research for the project. Elaine Lowell and Gabrielle Cooney provided help with some of the background. Brian Hickam and Tim Burns, reference librarians at Ohio State University-Mansfield Library, were extremely helpful and creative about tracking down sources.

It is important that we thank Marilyn Taillon for her Andersen insights and Kate Cox for her guidance in reorganizing the original manuscript. Bryan Bryn deserves our thanks for helping to tighten the book's conclusions.

Our families have been unfailingly supportive while we thought about and undertook the writing task. We want to express our appreciation for all the concessions our families and friends have made and for their support during our work on the book.

Lucy, Susan's dog, deserves special thanks for sitting so patiently by her desk while she wrote and rewrote instead of going for walks.

Because the firm no longer exists, for all intents and purposes, it has been difficult at times to verify information. Although we have made every effort to check points of accuracy, the authors take responsibility for any errors. When we found discrepancies in details recounted in the media, we attempted to check the facts with former Andersen partners or to decide which sources we believed to be more reliable. The story of Andersen and Enron is still unfolding, and a great deal of litigation is still outstanding against the firm,

which makes it difficult for Andersen people to discuss certain topics.

Users Review

From reader reviews:

Charles Grove:

Book is written, printed, or created for everything. You can recognize everything you want by a publication. Book has a different type. As you may know that book is important factor to bring us around the world. Beside that you can your reading proficiency was fluently. A reserve Inside Arthur Andersen: Shifting Values, Unexpected Consequences will make you to possibly be smarter. You can feel far more confidence if you can know about anything. But some of you think that will open or reading some sort of book make you bored. It's not make you fun. Why they could be thought like that? Have you seeking best book or appropriate book with you?

Sharon Rowe:

Reading a reserve can be one of a lot of action that everyone in the world adores. Do you like reading book consequently. There are a lot of reasons why people enjoyed. First reading a publication will give you a lot of new information. When you read a reserve you will get new information because book is one of many ways to share the information or even their idea. Second, reading through a book will make you actually more imaginative. When you examining a book especially fictional book the author will bring someone to imagine the story how the figures do it anything. Third, you may share your knowledge to other individuals. When you read this Inside Arthur Andersen: Shifting Values, Unexpected Consequences, you could tells your family, friends along with soon about yours book. Your knowledge can inspire the mediocre, make them reading a guide.

Larry Gregg:

The book Inside Arthur Andersen: Shifting Values, Unexpected Consequences has a lot details on it. So when you check out this book you can get a lot of profit. The book was authored by the very famous author. Tom makes some research ahead of write this book. This book very easy to read you may get the point easily after reading this article book.

Christopher Palmer:

The book untitled Inside Arthur Andersen: Shifting Values, Unexpected Consequences contain a lot of information on the idea. The writer explains the woman idea with easy method. The language is very easy to understand all the people, so do definitely not worry, you can easy to read this. The book was authored by famous author. The author provides you in the new age of literary works. You can actually read this book because you can continue reading your smart phone, or program, so you can read the book within anywhere and anytime. If you want to buy the e-book, you can wide open their official web-site in addition to order it. Have a nice go through.

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