

**SOME REFLECTIONS ON MULTINATIONAL ACCOUNTING FIRMS AND  
CONSULTANTS AS CONTRIBUTORS TO BUSINESS EDUCATION AND  
ECONOMIC SOPHISTICATION IN EMERGING NATIONS**

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This work is concerned with the impacts of facilitative business services, such as those provided by major accounting firms and various consultants, upon specialized education both formal and practical in nations which until recently were grouped as the Third World. It begins with a general overview of business service roles. This is followed by a discussion of the internationalization of the services in question. Subsequent to that the educational impacts of such services are considered. The discussion concludes with a final appraisal of such impacts and the potential for their being provided by a wider menu of service firms.

**THE ROLE OF FACILITATIVE BUSINESS SERVICES**

The concept of various service cadres as facilitators of business operations in advanced economies is hardly novel among students of service ascendancy in such economies. Indeed services designed to meet the needs of business clients have been prominent among the service sub sectors leading the overall expansion of services in those economies. If this is true of advanced economies a progression to the global economy seems logical. “Once Services emerged as facilitators in both the operation and expansion of modern economies, the extension of that role beyond national boundaries was all but inevitable” (McKee and Garner, 1992, 65). Since services have assumed a

major facilitative role in the global economy they themselves have often become internationalized. In the light of such advances it seems reasonable to ask what role business services may be shouldering in emerging nations.

The current authors have held ongoing interests in the role of international consulting firms, notably the major accounting firms, in facilitating business operations in various regional cadres of emerging nations. It seems evident that large international accounting firms have become major facilitators of business in the nations previously grouped as the Third World.

Clearly the traditional accounting and auditing services offered by the firms in question provide some homogeneity in business practices to individuals and firms, not to mention nations operating in the global economy. By doing so they facilitate business operations in that economy and its constituent jurisdictions. The major accounting firms have been found to be doing just that in a wide range of locations (McKee, Garner and McKee, 1998, 1999, 2000 and 2002).

Beyond the traditional accounting offerings the firms in question have developed extensive menus of consulting service offerings aimed at assisting individuals, firms and governments in their business related activities. Those offerings are aimed at facilitating the operations of clients using them. Thus it seems reasonable to regard such offerings as facilitative business services. Indeed it seems quite clear that all business services by their very existence are performing facilitative roles. Were they doing less their ongoing existence would have already been threatened.

Facilitative business services, as they are marketed internationally, are not solely the preserve of major accounting firms. Major banks, insurance firms, legal firms and

various consulting agencies may also be involved in numerous jurisdictions. Accounting examples are highlighted in the present discussion since they represent the segment of the facilitative business service sector most familiar to the current authors.

The scope of the menu that such firms can offer can be made more obvious by an example. For that purpose the authors have chosen KPMG Indonesia. Clearly KPMG ranks among the largest accounting firms operating in the post Pacific crisis, post Enron/Andersen debacle, and Indonesia is one of the larger nations in the former Third World grouping.

KPMG Indonesia consists of Siddharta, Siddharta and Harsono and Siddharto Consulting Services (KPMG Indonesia, 2000, 2). Combined the two domestic firms claim to be one of the largest practices in Indonesia, and offer their services to multinational corporations, joint ventures and domestic companies (2). They market themselves as a source of international expertise in Indonesia offering access to the global network of KPMG (2). To identify them as a purveyor of facilitative business services seems appropriate.

The firms offer a range of assurance services composed mainly of auditing, accounting and risk management. To “ensure that management goals and objectives are achieved efficiently, effectively and economically” (2) the firms pursue a system based approach, driven by risk assessment models (McKee, Garner and McKee, 2002, 128). The firms note that accounting services are developed to assist with the preparation and management of underlying records and that they (the firm) specialize in outsourcing financial records (KPMG Indonesia, 2002, 2).

Information and management services consist in the main of business support and compliance services, concerned with information systems (2). The aim is to ensure adequate internal controls for systems and beyond that that systems applications are effective (3). “Recommendations for improving accounting systems, controls and other operational aspects of the business are made in a management letter at the conclusion of each audit” (McKee, Garner and McKee, 2002, 128).

The firms can also assist with tax matters. In Indonesia non compliance vis a vis taxation can elicit significant penalties. Thus the comprehensive range of tax services offered by the firms are popular with both businesses and individuals (4). Beyond taxation financial advisory services are also available, consisting mainly of corporate finance and corporate recovery/restructuring (5). In the field of corporate finance the firm deals with acquisitions, takeovers or mergers and also disposals and the identification of businesses to be bought or sold.

Beyond such matters the firms can assist with business appraisals, valuations and advice on initial public offerings as well as share issues and flotations and project structured finance (6). All such services are provided by a team of executives, well versed in the capital market, the securities industry and investment banking (6). “Such expertise combined with an understanding of local business, legal and cultural issues gives the firms the ability to facilitate the business operations of clients in Indonesia” (McKee, Garner and McKee, 2002, 129).

Consulting services offered by the firm range from human resources to business strategies and from information systems to financial management (KPMG Indonesia, 2000, 6). The goal in mind is to help clients to improve the effectiveness and profitability

of their enterprises (7). Assistance is available in corporate management including such things as strategic planning, organizational restructuring and economic assessment and forecasting, not to mention investment appraisal and feasibility (7). Attention can also be given to supply chain management and improving overall effectiveness, efficiency and financial performance (7).

Marketing assistance can include research and planning the forecasting of sales and market trends, pricing, sales administration and customer service (7). Operations management can cover such matters as facilities planning and production methods, and also production and materials requirements (7). The firm can also assist with quality control, inventory management, distribution management and clerical productivity (7).

The firm also offers services in the area of human resource management, including personnel planning, executive selection, staff recruitment, performance appraisal and personnel management systems. Help is also available with respect to job evaluation, salary administration and management training and development (7).

Financial management is also on the menu of service offerings. In this regard matters pertaining to financial planning and budgeting, performance evaluation and control and responsibility accounting can be dealt with as can product and service costing, capital expenditure and control, financial analysis and financial management reporting (7-8).

The service menu of the firm also contains offerings relating to system integration, including information service strategy, operation strategy, system architecture, system selection and evaluation. Related offerings include enterprise infrastructure technology review, enterprise resource planning, supply chain management and change management.

Still more assistance involves custom application development, data warehousing, secure electronic commerce, enterprise system integration and program or project assurance (8).

Certainly KPMG and its Indonesian partner firms are offering a wide array of services designed to facilitate business. Such services have been seen to assist clients with four major issues (McKee, Garner and McKee, 2002, 130). They can help with the making of better informed decisions on strategy and policy issues related to change. They can assist in setting up effective management structures supported by sound personnel policies. They can help in ensuring that management information systems cover the needs of the organization. They can also help organizations to become more competitive by improving marketing, reducing manufacturing and distribution costs and enhancing the supply of useful information (KPMG, 2000, 7).

Clearly this firm provides a good example of the scope of involvement such an enterprise can generate. KPMG or similar firms may well offer different service menus in different locations. What seems to be clear is that KPMG Indonesia irrespective of the level of its expertise on site has access to the vast resources of KPMG globally. Of course this illustrates one of the major strengths that large international accounting firms can bring to bear in specific settings. They do have access to the resources of their international networks, which of course strengthens their facilitative capabilities.

#### THE INTERNATIONALIZATION OF THE SERVICES IN QUESTION

Michael Porter has referred to the internationalization of competition in service pursuits (1990, 250). He suggested that firms supplying such services could easily adjust

their offerings to local needs, thus retaining a competitive edge over potential local competitors (266). Indeed the competitive needs of such service firms have prompted them to expand the number of jurisdictions from which they operate. Whether or not such an expansion may embrace settings in emerging nations will undoubtedly reflect client needs. According to Porter “a more fluid movement of information ... fast transportation and increasing ease and familiarity with international travel ... make buyers more likely to seek out the world’s best service firms” (251). In turn the market potential of domestic service firms in some locations may be impeded because “buyers with a more international outlook are increasingly willing to hire leading foreign firms” (251).

If Porter’s logic is correct an expanding global economy has fostered a climate for the emergence of major multinational service firms facilitating the operations of client corporations through their offerings. Such offerings bring to bear predictably skilled international operators that may leave little room for the emergence of local practitioners in similar pursuits. Clearly such international service networks homogenize and make predictable the quality of their offerings, an attractive set of circumstances for potential corporate clients but perhaps a mixed blessing for host jurisdictions.

As early as 1988 Thierry J. Noyelle and Anna B. Dutka suggested that with respect to the movement of U.S. based service firms into foreign jurisdictions, such firms often found local firms to have very little expertise and thus “U.S. firms played a key role in many countries in creating a domestic market” (29). In the light of such observations it has been suggested that “such firms ... have had a good deal to do with the structure and

perhaps the growth or development of the economies in question” (McKee and Garner, 1992, 68).

According to a United Nations report the general impact of international services may be difficult to measure because a whole range of services penetrates international boundaries within transnational corporate systems (1987, 22). Included on occasion are such things as advertising, accounting, management, research, data processing and legal services. In light of corporate secrecy practices, host nations may be hard pressed to assess local impacts. Beyond that “the internationalized services of international business units may preclude the development of domestic service groups” (McKee and Garner, 1992, 68).

Such impacts may be most noticeable in smaller emerging nations and increasingly significant where the services are aimed at international rather than strictly domestic concerns. However “Even services aimed directly at the world economy may have significant impacts on small, local economies” (McKee and Tisdell, 1990). Indeed many smaller jurisdictions have included such service strategies in their development plans, witness widespread efforts at developing offshore financial centers.

It has been recognized that exposure to various business related services has been enhanced as such services are put in place to meet the production needs of multinational firms (McKee and Garner, 1992, 69). Where such production units are positioned to deal with local markets, the impact of the service groups that they generate may be substantial (69). If the service groups themselves are international, then service-operating modes may bear a foreign imprint “which, depending upon the size and influence of the

implanted service establishments, may have considerable impact upon the shaping of the local business service sector and the local economy in general” (69).

Few would dispute the need for various services if a particular nation wishes to maintain or augment its operations in the global economy. In pursuing such a goal the nation concerned may make irrevocable adjustments in its domestic economy. In jurisdictions where sophisticated cadres of business services are limited, developmental processes may be impacted adversely (United Nations, 1987, 61). Clearly various business services are needed by nations wishing to strengthen their linkages to the global economy. While contributing to such international linkages the services in question may come with a price to be exacted upon the domestic economy. That price may include the emergence of a foreign business service establishment, which may impair the development of a domestic counterpart. Whether such an occurrence is good or bad is of course jurisdiction specific and much dependent upon the emergence of a local business culture reflecting sound economic practices. Both formal and practical educational elements in this equation can hardly be ignored.

The significance of business services to the global economy is hardly in dispute. “Within and between national economies, services facilitate the passage of materials, personnel and funds within and between business units” (McKee, Amara and Garner, 1995, 255). Accounting, financial and legal practitioners, not to mention a host of other specialized service groups have generated combined impacts that have made global business more efficient and better integrated.

Although a positive role for facilitative business services in the global economy appears to be self-evident at this juncture, such a role in locations within emerging

nations may require further consideration. Clearly the purveyors of the service needs of multinational firms in the global economy are facilitating the operations of those firms and thus strengthening the economy. Those purveyors have frequently become multinational firms in their own right and as such have been able to provide the expertise of their global networks to corporate and other clients in specific jurisdictions. In doing so they can guarantee a homogeneity to the nature and quality of their offerings. Clearly this would seem to benefit clients and host economies alike. The hiring of foreign consultants may be cost effective and at the same time may tap the efficiency of international service networks. However it will undoubtedly retard certain domestic career paths and employment opportunities. Such issues can be alleviated to some extent by jurisdictions that require the hiring of domestic onsite consulting partners.

International consultants may augment their domestic impacts in emerging nations in cases where they opt to open domestic offices. Such decisions are influenced by the size of the domestic economy in question, its relationship to other nations and jurisdictions and of course the nature of the type of consulting activity contemplated.

Generally speaking one might expect firms offering facilitative services in the global economy to consider branch offices in larger emerging nations as compared to offices in smaller jurisdictions. To begin with the larger nations in question would be more likely to house production units associated with multinational manufacturing firms. Facilitative consultants are known to favor locations giving access to potential clients. Consulting branch offices located to service multinational corporate clients would also be in a position to offer their services to domestic businesses as well as government agencies and others who might benefit from their expertise.

International service purveyors may also be prompted to open branch offices in jurisdictions that are the seat of concentrations of activity aimed at the global economy irrespective of the size of the jurisdictions concerned. Examples of such activities abound among actual or would be offshore financial centers (McKee, Garner and McKee, 2000). Many such centers are emerging nations that have chosen the hosting of international business services as a path to economic development. Such centers, when successful, house banks and other business service groups, whose major responsibilities lie well beyond the boundaries of the jurisdictions in question. Branches of multinational service firms contribute significant employment opportunities to the domestic economy. Those employment opportunities are filled by both foreign and domestic workers. Certainly successful offshore financial centers boast economies that are larger and more sophisticated than might have been the case had they opted for an alternative route for development.

The nature of the consulting activity also has some bearing upon whether the firms offering it opt to open branch offices and where those branch offices may locate. Sophisticated scientific and engineering firms appear least likely among consultants to opt for wide arrays of branch offices embracing settings in emerging nations. Such consulting groups are more likely to operate out of locations in major international service centers from which teams of specialized professionals can be dispatched on project specific bases. This may be reflected in a lack of domestic firms capable of replicating their services, and also in a lack of pressure for training domestic professionals.

## EDUCATIONAL IMPACTS IN EMERGING NATIONS

Clearly various international accounting firms and other consultants offering facilitative services to business clients have major impacts in the global economy. Such impacts are both international and jurisdiction specific. Some such impacts are self evident, stemming from the successful completion of consulting roles of various descriptions. Others are much more difficult to assess. Examples of this last category often relate to education. Certainly international business consultants through their operations impinge in various ways upon educational concerns.

As Michael Porter has suggested such consultants by their very existence may discourage the development of local consultants in the domestic economies of emerging nations. If successful international consultants were readily available what need would there be for domestic counterparts. The expertise offered may serve clients and their economies well while simultaneously retarding the need for the development of domestic expertise.

The accounting firms may enjoy an advantage over other consultants since they have opened branches in multiple jurisdictions in order to service the traditional auditing and accounting needs of clients. Of course such branches afford local platforms from which to launch various consulting offerings.

In cases where multinational consultants open branch offices in emerging nations, the picture changes to some extent. To begin with such consultants tend to operate with a mix of foreign and domestic personnel. Typically there are positions for both

professional and paraprofessional employees. Both types of employees benefit from the on-the-job training opportunities available from participation in specific projects.

Such firms are also incubators in the sense that domestic employees leave them to accept positions in the economy at large. In doing that they take with them experience gleaned in the branch operations. Procedures learned generate demonstration effects, which in matters of business expertise, contribute to stronger operating practices in domestic firms. In some cases the existence of the consulting firms generate spin off domestic firms. The whole process has a tendency to strengthen the service sectors of domestic economies.

The needs of the expanding economy generate a demand for academic programs as well. Post secondary business and professional education is encouraged. It is much easier to argue for expanded academic offerings when positions exist for graduates. Indeed a distinct symbiosis can emerge between post secondary and technical education and the business community.

The potential for such developments can perhaps be demonstrated through a closer evaluation of the activities of specific business consultants. In that regard the current authors have been intrigued by the operations of major international accounting firms. While continuing to perform their traditional accounting and auditing functions, those firms have expanded their operations to include an ever-widening array of services to business.

“The importance of what international accounting firms are about in the global economy can be seen in a recent internet release by Independent Accounting International (1998)” (McKee, Garner and McKee, 2002, 25). That group saw themselves “as an

organization conceived and structured specifically for cross border operations” (1998). With respect to their consulting activity they suggested “We offer the same authority and reliability that business leaders already recognize in IA’s extensive international accounting and auditing network, drawing on our well established offices in over 70 countries in all continents” (1998). This description could of course be replicated to illustrate the operations of a number of major international accounting firms and/or networks. Such organizations have developed wide menus of services provided on a consulting basis, that far surpass their traditional accounting and auditing functions. An example of this was detailed earlier with respect to KPMG and its operations in Indonesia.

Independent Accountants International envisage a special advantage to both themselves and their clients from their supply of reliable data and advice on the country of interest, not to mention their ability to assign in-house IA business managers with direct experience with local business cultures as well as other nations (1998). In describing their personnel they stated that “Each of IA’s Business Services affiliates is equipped to provide complete, swift response to your local business needs, identify potential pitfalls and opportunities during all phases of your venture” (1998).

The aims enumerated were to be accomplished through providing market research, strategic planning and merger and acquisitions assistance and through coordinating legal and tax advising services (McKee, Garner and McKee, 2002, 25). Offerings also included administrative services covering accounting services as well as comprehensive management of subsidiaries. Independent Accounting International also stood ready to conduct executive searches and to provide professional staffs for subsidiaries with

guarantees related to unbiased reporting, external hands on management, professional levels otherwise unattainable and flexibility in scope and cost (1998).

As suggested “If such a network can successfully deliver on this menu of assistance, it speaks to the power they can wield in the global economy” (McKee, Garner and McKee, 2002, 25). Beyond that of course is the power that they can wield in individual host jurisdictions, particularly those in emerging nations. Clearly they provide very practical facilitative business inputs to clients in such jurisdictions. Their presence provides local business training and experience to domestic employers. The services they render to clients strengthen such businesses. When their domestic employees move on to other endeavors in the local economy they take with them their experience and expertise. The network in question provides a wide range of para professional and professional employment opportunities in the local labor market.

Since the network in question can hardly be assumed to be the sole competitor in emerging nations hosting them, they together with their rivals magnify the potential for positive impacts. The availability of employment opportunities in turn encourages post secondary educational institutions to expand their business offerings. Major accounting organizations are hardly alone in generating such impacts. Various service groups aimed at facilitating business share in such positive overflows.

Independent Accountants International saw cross border operations as becoming unavoidable realities for medium sized firms (1998). “The breaking down of trade barriers, marketing integration and ever shortening distances within the global economy, are combining to bring this multinational challenge to the doorstep of companies that once could rely on a single national market” (1998). Beyond that they suggest that large

firms are struggling with costly obstacles in foreign markets, irrespective of the depths of their experience and knowledge vis a vis home markets. Clearly the implication is that their network is capable of rendering assistance. In emerging nations that have elected a development strategy based upon manufacturing for export, the potential for assistance from such a firm seems obvious. Of course what is also obvious is the potential for expanding post secondary educational programs aimed at facilitating such concerns.

The network suggested that such international considerations see the firms concerned involved with a costly learning curve and a loss of time, effort and money (1998). The most obvious issues, such as fiscal and auditing arrangements, are infrequently the sole cause of managerial problems. Included as a key element is “The supply of prompt, accurate and relevant financial and economic data on an ongoing and permanent basis” (1998). In addition is a needed understanding of the human, cultural and economic context of the new operating environment (1998). Another set of issues relates to developing the appropriate scale and costs of the management of subsidiaries, which is an issue that may benefit little from home country experience (1998).

Independent Accountants International is a global consulting corporation that offers business advice “on issues that involve transnational inquiries or management advisory services in many areas” (1998). Specialized services offered by member firms include market surveys, investigations and analyses and also productivity analysis and improvement (1998). Legal, administrative and secretarial services are offered, as are human resources services and advice on mergers and acquisitions (1998). Assistance is also available concerning personal computer and software consulting services, health care consulting and translation services (1998). The network can also provide information on

individual or corporate investments as well as assistance on asset management involving representing troubled companies, acting as trustees and handling asset disposal (1998).

The network also helps with tax matters and government contracts and offers business valuation services and litigation support services (1998). Certainly it is involved globally in facilitating the operation of international business interests. Clearly it has much to offer to the economies of emerging nations. Its branch offices not only provide services to local markets, they are in fact a practical training ground for local personnel. They provide job opportunities for such personnel and also provide a rationale for expanding the programs offered by domestic academic institutions. They represent a good illustration of the symbiosis referred to earlier between consulting firms and local educational programs, a symbiosis that can only strengthen the economies of emerging nations concerned.

#### A FINAL OVERVIEW

In summary it seems clear that services designed to facilitate business activities in the global economy have the lowest positive educational impacts in jurisdictions where they are employed as consultants on a project specific basis. In such cases the services are provided by recruiting foreign personnel who complete their responsibilities and return to their home base. Unless the jurisdiction concerned mandates the hiring of local residents in tandem with the foreign consultants, little immediate positive impact can be expected in local labor markets. Indeed to the extent that the operations of foreign consultants are successful the emergence of local consulting groups may be retarded.

The same can be said for the need for certain types of academic and/or technical training. Such circumstances are most likely to emerge in developing nations with respect to highly technical skills that can be acquired from international markets.

In cases where multinational consulting firms actually open branch offices in emerging nations, as do the accounting firms, the picture changes. Such offices in providing their services also offer opportunities for employment and indeed on-the-job training to local professional and para professional personnel. Such employees in cases where they move on to other positions in the local labor force, take with them skills sharpened by experience, which may generate demonstration effects that are potentially transmitted throughout the local economy. Such circumstances where they emerge can be expected to strengthen local economies. In some cases local employees matriculating from branches of foreign consulting firms are actually able to open viable local consulting firms.

With respect to impacts on local post secondary education it seems clear that the types of activities referred to in the above paragraph should encourage program development. Certainly the need for expanding programs in accounting and other business disciplines to provide personnel for an increasingly specialized job market appears to be self-evident. Pressures for such programs should arise at both the university and the para professional levels. It would appear that facilitative business services beyond their obvious situation specific impacts in emerging economies are also providing very positive pressures upon educational processes and programs both job related and academic.

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