CEO WATCH

The Numbers Game

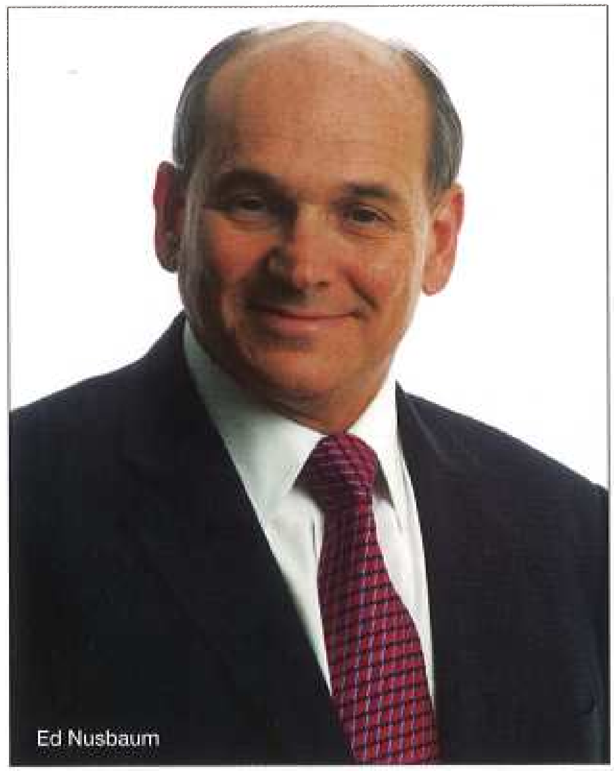
In a recent interview, Ed Nusbaum, CEO of Grant Thornton LLP, shared his thoughts about the accounting and auditing industry's troubled past, SOX reform and the pressing accounting issues threatening to make headlines in the future.

You were named CEO in 2001 after the firm had gone through three CEOs in as many years. Did you ask yourself, "What have I gotten myself into?"

On a personal level, I enjoyed it, because you prove your capabilities not leading through great times, but leading through tough times and making tough decisions. During the boom in systems implementation consulting, we had gotten into consulting—along with many other firms. A lot of conflict evolved as a result of having these huge system implementation projects, as well as the audit business and tax business, and that took a toll and hurt us financially. In 2000, we finally sold off our consulting practice, but then the tech market went bust and 9/11 hit. It was a tough time to be taking over as a CEO of an accounting firm, or probably any organization. A first decision was to be true to what we are—to focus on accounting and auditing, and on tax and on financial-related consulting that fits in with those things. Since then, we've expanded into doing special projects, tax work and internal controls work.

CEOs say that accounting companies were so fixated on the consulting side that they just let the audit side glide in whatever trajectory it was going.

There's an element of truth to that. If you can bill $5 million in consulting, you are not as worried about how much time you spent on the audit or your fees for it. So you might discount the audit more than you should have. It was very competitive, and people were doing less than they probably should have been doing. Now SOX and the [regulatory bodies] are saying, "You have to do more work" to the chagrin of CEOs, because when we do more work, it costs more. Some corporate CEOs may want us to go back to the way it was, but I don't think the investors want to have scandals again.



Ed Nusbaum

BERT HARRIS

How much of a boon was Sarbanes-Oxley for you?

A tremendous boon. SOX required us to do more work. Also, the collapse of Andersen was bad for the profession, but it was an opportunity for us. We were very aggressive in going after quality partners. We picked up 60 partners and 500 people from Andersen, about a 20 percent increase in personnel. We also expanded geographically, adding offices in Charlotte, Greensboro, Columbia and Raleigh in the Carolinas; and in Orlando, Albuquerque, and Tulsa, Oklahoma; and dramatically expanded our Houston and Cleveland offices. We went from 250 partners to 480 and grew our revenue dramatically. We were around $300 million. Now we're close to a billion.

Is SOX a cure that's worse than the purported disease?

The SEC didn't really provide much guidance with Section 404, so control auditors felt they had to test every single control out there, which is how things got ridiculous. We need to fix that, and I think the new SEC and PCAOB rules will. They won't solve all the problems, but they will make it more focused, more efficient, and