

New Leadership Tracks in Accounting Firms: An Alternative to the Partnership

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SUMMARY: Public accounting careers traditionally have followed an “up or out” progression from staff to senior to manager to senior manager to partner. Recent American Institute of Certified Public Accountants (AICPA) data suggest that senior managers increasingly are promoted to non-equity “post-senior manager” positions rather than directly to partner (AICPA 2006). However, the accounting literature provides few insights into the factors underlying the creation of such positions by firms, or of the roles of the people holding these positions. This study provides the first set of detailed descriptive data on the position, based on survey responses from the largest 100 public accounting firm human resource directors and interview data from two partners who have held senior leadership roles in their firms. We also discuss implications for firms and researchers.

Keywords: partnership; directors; public accounting; career paths.

INTRODUCTION

The nature of career paths within professional accounting firms has long drawn the attention of both academic and professional accounting researchers. However, this research has ignored a growing phenomenon—the number of non-equity “post-senior manager” (hereafter referred to as PSM) positions offered by accounting firms.¹ The AICPA reports that 35 percent of large public accounting firms now offer some form of an alternative partnership agreement as compared to only 17 percent in 2004 (AICPA 2006). Within large non-Big 4 firms, 80 percent of promotions from Senior Manager were to PSM positions and only 20 percent were to equity partner positions (AICPA 2005). While these “director” or “principal” positions occasionally are mentioned in firm and professional accounting publications, they rarely are described and often are grouped together with partnership numbers in statistics (e.g., Deloitte 2009).

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¹ This paper uses the term “post-senior manager” to refer to all salaried employees (possibly with a bonus component) other than equity partners who hold positions above the Senior Manager level.



Despite their growing frequency, there are numerous issues not yet understood about PSM positions, including their location on the public accounting career ladder, how the activities engaged in by PSMs differ from or are similar to those performed by partners, and the costs and benefits of the positions to firms, including any gender effect. This study explores the aforementioned issues with a survey of Human Resources Directors at the top 100 U.S. public accounting firms, followed by in-depth interviews with two senior partners—one Big 4 partner and one recently retired large regional firm partner.²

The survey results reveal that a majority of firms have some type of PSM position in place, that they have added these positions primarily over the last decade, and that the positions often comprise a new leadership track. While some PSM positions are of a technical support nature, more often PSMs fulfill more of the client service roles formerly undertaken by partners, thereby freeing the equity partners to devote more attention to new business development.³ Whether the position is a step to partner varies widely, although the partner interviews reveal that it is more frequently viewed as a terminal position, and thus an alternative to partnership, within the firm career structure. Those who occupy the role are most frequently counseled toward it by firm leadership, and the differentiating factor leading to that path is the professional's business development skills.

This study makes a number of contributions to accounting research. First, it highlights the significance of a relatively new position in the public accounting career path. By making researchers aware of such positions, future research addressing accounting careers should incorporate a more complete range of career options currently available in public accounting, rather than focusing on partnership as the only destination on the career ladder. Second, by providing a detailed description of PSM positions, this study provides insights into how this emerging position reflects changes in the underlying business model of firms and the nature and distribution of work performed within a firm. Because our survey includes responses from a range of firm sizes, we increase transparency around PSM positions, providing accounting practitioners with a broad understanding of the nature and use of PSM positions across a range of firms. Understanding what these positions entail also will help researchers develop new research areas regarding professional practice, and ensure that studies utilizing PSMs as participants are using participants appropriate for the experimental tasks (Abdolmohammadi 1999). Finally, understanding how the public accounting career path has changed will ensure that faculty members are current in the career progression expectations that underlie many of their discussions with students.

BACKGROUND AND LITERATURE

PSM Positions in Public Accounting

Historically, public accounting career paths have been “up or out,” with the standard career progression being from staff to senior to manager to senior manager to partner. Although individuals occasionally were promoted from senior manager to positions with PSM titles such as

² The regional firm partner had retired from the firm only a few months prior to the interview; consequently, the comments reflect current practices and views within the firm.

³ Although PSMs often perform partner-level client service work, typically only equity partners are permitted to sign attestation reports. PSMs and other non-partner professionals may sign tax returns. Our survey did not differentiate responses by functional area.

“director” rather than to equity partner, these positions usually were reserved for technical specialists who were not heavily involved in practice development and/or for non-CPAs.⁴ Because firms were prohibited from making non-CPAs partners, they used the title of “principal” or “director” for non-CPAs at the highest organizational level. It is not entirely clear when these PSM titles also began to be used for CPAs.

Anecdotal evidence from discussions with recently retired partners with major firms indicates that PSM titles first began to be used for accountants as a “consolation prize” for individuals possessing extremely high technical skills, but lacking in the practice development skills necessary to become a partner.⁵ Typically, these early PSMs had little or no client contact and functioned within the firm quite differently from a partner. However, these same retired partners also told us that, over the ensuing years, the PSM positions evolved into being used for a broader set of purposes and often are determined on a case-by-case basis. While there is considerable diversity in the nature of PSM positions, the day-to-day activities of PSMs have become much more similar to those of partners.

The above comments implying diversity in contemporary PSM positions parallel the vague descriptions provided by the rare references to such positions in the professional literature. A 2005 *Inside Public Accounting (IPA 2005)* article describes “non-equity partners” (i.e., PSMs) as varying dramatically from firm to firm in their place on the career ladder and their function within the firm. This same industry publication claims that PSM positions are driven by the desire to retain more experienced staff who are unsuitable or uninterested in the partnership, and to help firm profitability by increased leveraging of non-partner professionals.

The most recent AICPA data indicate that alternatives to the traditional “up to equity partner or out” model generally are becoming more prevalent in accounting firms, and are particularly growing within large accounting firms. The AICPA identified that in 2004, 35 percent of large firms offered “alternative partnership arrangements,” compared to only 16 percent in 1999 (AICPA 2006).⁶ Of particular interest within these “alternative partnership arrangements” is the rise of non-equity PSM positions. A more recent survey of non-Big 4 firms with more than 50 AICPA members indicated that 80 percent of promotions from Senior Manager were to PSM positions and only 20 percent were to equity partner positions (AICPA 2005). This same survey further suggested that women are promoted to disproportionately more PSM than equity partner positions. Specifically, approximately 40 percent of senior managers were women, yet they made up 48 percent of the PSM promotions, but only 17 percent of the equity partner promotions.

While a similar phenomenon has existed for some time within the law profession (National Association of Women Lawyers [NAWL] 2006, 2009), to date, both the academic and practitioner accounting literature have been virtually silent on this emerging position (Almer and Single 2007). This omission is surprising given descriptions by the profession of PSM positions as “a very hot topic right now” (IPA 2005, 2). Even extensive professional benchmarking surveys (AICPA 2006) and academic studies of female accounting professionals (Gammie et al. 2007) do not separately

⁴ For example, the Big 4 all have Technical Research departments in their national offices, which have numerous highly specialized technical experts with PSM titles.

⁵ The three retired partners included one tax and one audit partner each from different Big 4 firms, and one audit partner from a regional firm. Discussions with these three partners were used to assist with the development of the survey questionnaire. We also interviewed the regional firm partner in the second stage of this study.

⁶ The AICPA (2006) report defines “large” firms as those with greater than 20 AICPA members, encompassing Big 4 through large local firms. Firms typically have more total professionals than professionals who are AICPA members.

identify PSM positions and, thus, do not provide insights into the frequency and nature of such roles within firms.

PSM Positions in Law Firms

While there is a dearth of information about PSM positions in public accounting, the legal profession more openly discusses a parallel situation that exists within law firms. Because of the similarities in the professions and firm structures between law and public accounting service firms, the law literature is relevant for establishing questions to be considered in the public accounting domain.

In law firms, “non-equity partners” fulfill virtually the same client service role as equity partners, although the nature and prestige of client assignments may vary (Evans 2007).⁷ Non-equity partner positions may function as either a “stepping stone” to equity partnership or a “step off” the partnership track (Curriden 2001; Evans 2007).

The law literature highlights potential benefits and costs of PSM positions. First, non-equity positions can provide promising associates with additional time to “hone their business development skills” prior to appointment to equity partnership (Curriden 2001; Evans 2007, 95). Second, by providing an alternative to the partnership track, non-equity positions help firms retain talented senior lawyers who (1) are unwilling to work as many hours as are typically expected of equity partners (Curriden 2001; Evans 2007), or (2) may be excellent lawyers, but lack other skills necessary for effective firm ownership, such as business development skills and general business judgment. Third, non-equity positions may increase equity partner profits by increasing the human capital leverage within the firm (Evans 2007).

However, critics within the legal profession argue that non-equity partners may be less committed to the long-term financial and professional welfare of the firm and its employees (Evans 2007; MacEwen 2009). Additionally, unless a firm has a clearly stated practice of putting all potential equity partners through a non-equity “step,” non-equity partners often are perceived within firms as “second-class citizens” (Curriden 2001; Evans 2007), suggesting that there will be a reasonably high turnover rate for such positions. Finally, concerns exist in the law literature that women are being “disproportionately directed into [post-senior manager] positions instead of promoted to partner level work and compensation” (NAWL 2006, 16; Evans 2007; NAWL 2009).

Unanswered Questions about PSMs in Public Accounting

The above discussion suggests a number of issues to consider concerning PSM positions in the public accounting domain. First, the lack of empirical research concerning PSM positions means that we need to ascertain the prevalence of PSMs, types of firms using PSMs, and the nature of the work performed by PSMs. Specifically, it is important to understand whether PSMs are performing client service work formerly performed by partners. According to agency theory (e.g., Eisenhardt 1989), an equity partner is a principal/owner in a firm, whereas a PSM is a non-owner/agent (Almer et al. 2005). As such, agency theory predicts different motivations and behaviors between partners and PSMs, which could arguably impact the quality of service performed. For example, principals and agents may assess risk differently because principals

⁷ While only equity partners can sign attestation reports in accounting firms, no such similar restrictions exist for tasks that can be performed by equity versus non-equity partners in law firms.

ultimately bear the associated financial liability. Second, there is a need to understand the place of PSM positions within the firm structure and to examine whether PSM positions in accounting firms typically are a “step” on the path to partnership or an alternative to partnership, and to consider the factors that influence the placement of individuals into this non-partnership track. In particular, do these positions represent a significant change beyond just the titles used in public accounting firms? Does the presence of PSM positions change the nature of service delivery in firms, or is it merely another layer of professional in an essentially unchanged firm? What do firms perceive is driving the establishment of the positions? What do firms perceive drives promotion to such positions rather than to the partnership? What role do the firms view this position as playing in delivering quality client service?

METHOD

To address these questions, we used a two-stage, sequential exploratory approach whereby surveys provided an initial understanding of PSM positions from a large cross-section of firms, and subsequent interviews facilitated a more detailed exploration of issues surfacing from the surveys (Creswell 2003). In the first stage, we surveyed Human Resources (HR) Directors from the 100 largest U.S. public accounting firms to develop a broad picture of the nature and frequency of PSM positions across firms.⁸ We identified the top 100 firms from the “*Inside Public Accounting 2007 Top 100 Firms*” (IPA 2007).

We called each firm to verify the names and email addresses of the HR directors and then sent the survey link in an email message that also briefly described the nature of the study. In some instances, firm bureaucracy made it difficult for us to contact the HR director directly, so instead we leveraged personal contacts within those firms to make the survey request. Participants were assured of anonymity, although a solicitation for follow-up interviews was included at the end of the survey, to which none of the participants responded. We sent two follow-up emails, following the Dillman (2000) procedure. We administered the survey through SurveyMonkey, and the cover page of the survey instrument explained that the term “PSM” refers to any position that represented a promotion from senior manager to something other than equity partner. Respondents were asked if their firms offered a PSM position and, if so, what titles were used to describe it.

To understand the role of the PSM within firms, our survey included the questions shown in Appendix A. These questions were intended to determine the nature of the work performed by PSMs, whether PSMs typically are a “step” on the path to partnership or an alternative to partnership, the factors influencing the placement of individuals into this non-partnership track, and the perceived benefits and costs to firms of such positions.

Stage two involved structured interviews with two senior partners. These partners were selected (Creswell 2003, 185) for two reasons. First, the partners had extensive experience with partner promotion decisions on a firm-wide basis and were willing to be interviewed about this very sensitive and confidential issue. Second, in order to parallel the diversity of firm size represented in our survey, one partner was from a Big 4 firm and the other was from a large regional firm. We conducted the interviews after the survey data were collected and analyzed, and we designed the semi-structured interview questions to explore further the issues revealed by the survey data. We analyzed the interviews using the following process. One of the authors independently coded the

⁸ The original sample included the Top 100 non-Big 4 firms. After we added the Big 4, the total number of firms surveyed was 104.

interview transcripts to identify material that related to the themes of interest that had emerged from the survey data.⁹ Two of the remaining authors independently examined the transcripts and, in collaboration with the other authors, further refined the first author's coding to ensure "consistent patterns of theme development among [the] investigators on [the] team" (Creswell 2003, 195).

RESULTS

Demographics of Responding Firms

We received survey responses from representatives of 52 firms. Of the respondents, 30 (57 percent) indicated that their firms currently have a PSM position. Responding firms included the entire spectrum of firms in the Top 100 group, although fewer than half supplied information about the gender breakdown of their senior-level professionals. The proportion of firms in the final sample of 30 firms with PSMs is representative of the relative proportions in terms of firm size in the underlying population of firms.¹⁰

Of the 30 firms that have a PSM position, the titles used vary, as shown in Panel A of Table 1. Partner interviews also indicated that the titles for senior positions in the firms varied not only across firms, but also across departments (i.e., tax, audit, consulting) within firms.

Respondents indicated that their PSM positions had existed from a minimum of 60 days to a maximum of 20 years. Panel B of Table 1 includes the distribution of the length of time that the sample firms have had a PSM position. The largest proportion of firms falls within the six- to ten-year range, consistent with the anecdotal evidence, as well as evidence from the 2004 AICPA survey that the existence of a PSM position is a recent trend (AICPA 2006).

Division of Responsibility

Survey respondents also indicated the relative workload of partners versus PSMs in areas that typically comprise partner-level responsibilities. The responses, shown in Table 2, indicate that the PSMs take on more of the actual service delivery to clients than do partners. Specifically, respondents indicated that PSMs do more day-to-day engagement management, staff development, and incur the same or more of the hours billable to clients as compared to partners. In contrast, the partners have the majority of new business development, firm strategic planning, and firm administration responsibilities. It appears that partners and PSMs devote about the same amount of time to technical research, suggesting that the PSM is not simply a highly specialized "technical guru."

The two partner interviews provided support for the survey respondents' views. However, it was clear from both interviews that PSM roles are not homogeneous and that they are being used to support many different functions within the firms. The partners asserted that some PSMs primarily are technical specialists. Such PSMs held "deep technical subject matter expert roles"

⁹ The co-author who completed the initial coding did not participate in the interviews.

¹⁰ Statistical significance was determined using a two-sample test of proportions. Both differences are significant at $p < 0.05$. Please note that, for the firms in the over \$500 million of revenues category, the sample had a slightly higher proportion of firms than the underlying population (10 percent versus seven percent) and, for the \$25–50 million of revenues group, the sample had a smaller proportion than the underlying population (30 percent versus 58 percent).

TABLE 1
PSM Titles Used and Length of Time PSM Position in Place

Panel A: Titles Used for PSM Position (n = 30)

Title	Proportion of Firms ^a
Director	41%
Managing Director	7%
“Partner” no equity	33%
Principal	33%
Career Senior Manager	11%
Other	26%

Panel B: Length of Time PSM Position in Place (n = 22)

Years	Proportion of Firms
1 year or less	14%
2–5 years	27%
6–10 years	36%
More than 10 years	23%

^a Percentages do not sum to 100 percent, as some firms indicated more than one title that applies to PSM position.

and “needed to have a high-level position with a high-level title, something more than senior manager, but they were not well-rounded enough to make the partner track” (Partner 1). However, to a far greater extent, the partners spoke of PSMs as possessing a much broader range of professional skills. In particular, both partners described the workload of many PSMs as being like “a first-year partner.” For example:

[Our PSMs] will have smaller engagements, more authority to really almost act as a partner and then [they’ll] carry a significant amount of responsibility for that engagement . . . [I]f you

TABLE 2
Comparison of Time Devoted to Responsibilities by Partners versus PSMs

	Partner > PSM	Partner = PSM	Partner < PSM
Billable hours	12%	38%**	50%**
Engagement management	0%	42%*	58%*
Technical research	4%	60%*	36%**
New business development	69%	27%*	4%*
Firm strategic planning	89%	11%*	0%***
Firm administration	65%	35%	0%*
Staff development	16%	65%*	19%
Philanthropic activities	52%	48%	0%***

*, **, *** Significant at < 0.01, < 0.05, and < 0.10 levels, respectively.

Tests of equality of proportions were completed to analyze differences in workload between Partners and PSMs by comparing the responses: Partner equal to or less than PSM to the Partner > PSM response choice.

ask [our PSMs] they would tell you, “No, I’m out doing the very same thing that [current partners are] doing. I’m helping partners with targeting and practice development,” and doing a lot of the things that you know a first-year partner would do. (Partner 2)

Career Track Criteria

We asked respondents to indicate the typical number of years of service prior to promotion to each of the two positions. On average, it takes 11.4 years (range of 8–15 years) to reach the PSM position, and 13 years (range of 8–20 years) to reach the partner level.¹¹ One partner indicated that a typical period to promotion in his/her firm was around 12 years, compared to eight to ten years “in the early days.”

For 27 percent of the responding firms, the PSM position is viewed as a step on the career track to partner, and only 8 percent view it as always being a terminal position (the remaining respondents stated that “it varies”). However, despite admitting that PSMs often were completing “partner” work, both partners were clear that PSM positions in their firms were rarely a step to full partnership. Unlike the HR respondents, the two partners argued that, in their firms, moving from a PSM position to partnership “wasn’t extremely common” (Partner 1) or was “very, very rare” (Partner 2). Rather, it appeared that such positions generally were perceived as terminal rather than a step toward partner. Among the firms who answered “other” to the question about titles, two indicated that they use the Senior Manager title, but it is “known” by the professional and the firm that it is a terminal position.

We also asked respondents about the factors that determine a professional’s career track in the direction of partner versus PSM. Of the respondents, 38 percent indicated that firm leadership initiates the track, 3 percent responded that it was the professional, and 59 percent responded that “it varies.” Table 3 shows the distribution of the most common reasons that firm leadership and individual professionals might choose to pursue the track to PSM as opposed to equity partner. Participants selected separately from personal reasons and professional reasons.

Practice development skills was the primary determinant among professional reasons that distinguish between the two career paths. Although childcare responsibilities came up as a personal factor in a few cases, our survey did not capture the nature of the majority of personal reasons for choosing PSM compared to partner. In the open-ended comments section, one respondent indicated that geographic constraints and an overabundance of qualified professionals in a particular specialty may be barriers to partner promotion.

Similar to the HR respondents, the two partners asserted that the primary reason for a professional moving into a PSM position rather than partnership was that the individual lacked the necessary business development skills to build the client “ledger” required for partnership. While “the business development aspect of things was always an important part of being an equity partner” (Partner 2), the partners indicated that the recent economic downturn redirected emphasis from a more “rounded” partner, with strong skills in engagement management and staff development, to a focus on the “economic case” (Partner 1). In addition:

Now [that we are no longer in a boom economy], every firm is so concerned about growth that unless someone can deliver directly to the bottom line into new engagements and growth in those engagements, they are not going to make partner in most firms. (Partner 1)

¹¹ The range of years indicated to reach partner level is greater than the range of years to reach PSM at $p < 0.05$.

TABLE 3
Factors Determining a Professional's Career Track
n = 30

	<u>Choice Initiated by Firm Leadership</u>	<u>Choice Initiated by the Professional</u>
Professional Reasons		
Technical skills	8% ^a	10% ^a
Practice development skills	64%	65%
Leadership skills	28%	25%
Personal Reasons		
Health issues	0%	0%
Child care responsibilities	0%	15%
Elder care responsibilities	0%	0%
Partner mandatory retirement age	0%	0%
Other personal reasons	100%	85%

Tests of equality of proportions were completed to analyze the Professional Reasons response choices.

^a The proportion of responses indicating that Technical Skills are an important factor is significantly less than those indicating that Practice Development and Leadership Skills are important at < 0.01 .

Partners also stated that the individual sometimes had adequate business development skills, but was located in a particular geographic or specialty market that was unable to support the business case for the creation of a full partnership position. The firm might, thus, establish a PSM position for the individual who would, as noted above, fulfill much of the same role as a partner, but for a smaller client base.

The partners also identified, albeit quite briefly, a number of other "personal" factors (related to business development) that they perceived as limiting an individual's ability to be promoted to partner. Specifically, they mentioned an unwillingness to move to a major business center and an unwillingness or inability to "devote 3,000 hours" (Partner 1) to their work. One partner indirectly suggested that female professionals with children may be less willing to take on a partnership role. Finally, one partner suggested that the relatively young mandatory partner retirement ages at some firms can be a barrier to professionals who enter public accounting at an older age or who take time off or work a reduced schedule for a period of time. In both of these scenarios, a professional may not be able to yield a high enough rate of return on their partnership investment to warrant becoming a partner rather than a PSM.

Benefits and Costs

The survey requested feedback about the benefits of PSM positions, as well as the negative consequences that firms have experienced. These questions are intended to help understand whether the expectations of firm leadership were being met with the PSM positions, and whether there were any unintended consequences associated with this change in the traditional public accounting career path. We summarize the responses in Table 4.

The respondents presented a very supportive view of PSM positions, identifying significant benefits for firms in areas such as retention of qualified professionals, client service, and technical expertise. Likewise, they indicated only limited agreement with the potential negative impacts

TABLE 4
Costs and Benefits of PSM Position to Firms
n = 30

	<u>Not at All</u>	<u>Somewhat</u>	<u>Quite a Lot</u>
Experienced Benefits of Post-Senior Managers			
Improved retention of experienced professionals	0%*	52%	48%
Reduced personnel costs	59%	36%	5%*
Improved client service	13%*	74%	13%*
Improved day-to-day firm management	24%**	57%	19%
Increased specific technical expertise	13%**	57%	30%
Increased partner's compensation	38%	62%	0%*
Experienced Negatives of Post-Senior Managers			
Diversion of "partner potential" candidates to post-senior manager positions	71%**	29%	0%
Gender inequity among post-senior managers and partner groups	67%**	24%	9%
Lack of professionals available to buy out retiring partners' equity interest	71%*	24%	5%

*, ** Significant at < 0.01 and < 0.05 levels, respectively.

Tests of equality of proportions were completed to analyze the differences between the neutral response of "Somewhat" and the extreme choices of "Not at all" or "Quite a lot."

suggested in the survey, such as the diversion of potential partners away from equity ownership and gender inequity in firm leadership. However, they appeared more divided over whether they felt that the existence of PSM positions had a positive impact on two of the most tangible measures of economic benefits to the firms—reduced personnel costs and increased partner compensation. Thus, while the law literature suggests that non-equity partners increase leverage and thereby compensation for equity partners, our respondents do not report that they perceive this is occurring in accounting firms.

The partner interviews indicated that the PSM positions were beneficial for retaining senior professionals, particularly during the economic boom, and for enhancing technical expertise on engagements. They also noted that, as the time to partnership was increasing, the PSM role provided an "opportunity ... to keep them interested in the partner track" (Partner 1). While they did not discuss the potential for increased leverage provided by PSMs, Partner 1 did state clearly that the existence of the "quasi partner" types of PSMs:

enables the partners to hold a bigger ledger, which is an increasing trend ... In order to be able to do that, you have to have people you can rely on during the engagement to really do a lot of the work, with a fairly ... surface review by the partners, because otherwise they can't do a \$4,000,000 ledger or a \$3,000,000 ledger, or something of that sort.

Similar to the survey respondents, the partners indicated little support for the suggested potential negatives of PSM positions, arguing instead that the majority of individuals being appointed to PSM positions were not "partner potential" candidates. However, they did perceive that a small number of "partner potential" professionals were ending up in PSM positions because of their personal unwillingness to relocate or reluctance to take on the workload or the risks

associated with partnership. One partner did believe that there may be some gender inequity in appointments, but saw this as an indirect effect of the fact that the current focus on business development is the primary factor influencing partnership decisions. Specifically:

now every firm is so concerned about growth . . . and women do not have the same access to senior mentors to help them learn the business development part of becoming a partner to the same degree as their male counterpart. (Partner 1)

Gender Distribution in Upper Management

Because the 2005 AICPA survey found that females were disproportionately promoted to PSM positions rather than to the partnership (AICPA 2005), our survey asked firms to provide data about promotions and professionals by gender. Although few responding firms provided gender data (19 firms provided gender breakdown for partners, 12 firms for PSMs, and 17 firms for senior manager), their responses are shown in Table 5. These data suggest that, while the gender imbalance within this group of firms may be diminishing, promotions to the highest levels of firm management still are not representative of the gender distribution at the senior manager level. However, because the data are from an extremely small sample, and responding firms may not be representative of all firms, any conclusions regarding gender should be viewed with caution.

CONCLUSION

The overall objective of this study is to gain insight into the nature of PSM positions and to better understand the costs and benefits to firms of such positions. Results suggest that these positions represent a significant change beyond just a title. The fact that PSM positions are most frequently a “destination” rather than a “step” position indicates that, while it initially appears that an additional layer has been introduced to the public accounting personnel structure, PSM positions often comprise an “alternative” career track beyond the senior manager level. There was

TABLE 5

Gender Distribution of Senior-Level Professionals

Panel A: Gender Distribution of Upper Management

	<u>n</u>	<u>Male</u>	<u>Female</u>
Partner*	19	86%	14%
PSM***	12	67%	33%
Senior Manager**	17	58%	42%

Panel B: Gender Distribution of Promotions (n = 15)

	<u>Male</u>	<u>Female</u>
Partner**	88%	12%
Post-Senior Manager***	64%	36%

*, **, *** Significant at < 0.01, < 0.05, and < 0.10 levels, respectively, for paired comparisons for males and females within each group.

a clear indication that the decision for a professional to be on the PSM versus partner track was made by the firm, and was most often a function of client development skills. It also was apparent that the decision to create a PSM position in a practice has been a function of the changes in the economic environment, which has increased pressure on equity partners to build and maintain substantial client ledgers.

The results also indicate that today's partners allocate much of their time to business development in order to maintain their increasingly large client base and consequently perform relatively less of the technical and engagement management work. Such work is instead increasingly delegated to PSMs, who provide a "partner substitute" in technical and engagement management work. Thus, PSMs in general, and the "quasi partner" types of PSMs in particular, are performing client service tasks traditionally reserved for equity partners. The role of the PSM consequently appears to provide an important solution to a changing business environment by facilitating a greater separation of duties within firms, whereby those with specialist business development skills focus on building/maintaining the client base, and those with greater technical and management skills perform the client service work.

While the findings regarding the gender distribution of PSM positions were not conclusive, they did suggest, similar to previous studies, that women may be being promoted into PSM positions at a far greater rate than into equity partnership roles. Thus, recent claims by firms such as [Deloitte \(2009\)](#) about increasing proportions of women in the senior leadership ranks may be underpinned by a rise in the number of women in PSM positions, rather than women holding partnerships.

As this study was intended to be exploratory, its findings give rise to a number of issues that should be examined by future research. First, as a significant minority of respondents indicated that PSMs may be diverting some "partner potential" candidates away from partnership, further research is needed to examine whether those in PSM positions are satisfied with such appointments and whether PSM positions will function as successful retention tools for such professionals in the long run. These questions could be addressed by conducting research from the perspective of the PSM professionals rather than the employing firms.

Second, while this study examines factors that influence the creation of PSM positions, it does not explore the reasons why firms may choose not to have such positions, suggesting that there is a need to examine in greater detail the nature of the firms that have PSM positions compared to those that do not. This study also has not formally considered the extent to which there may be variation in the use of such positions within a single firm; for example, whether its use may vary between different specialties or across different locations.

Third, the reallocation of the client service workload from partners to PSMs also requires considerably more examination. Agency theory suggests that partners (principal/owners) will behave differently from PSMs (employee/agents) ([Almer et al. 2005](#)). Partners, ultimately, are responsible for the risky decisions made by their professional staff, yet much of the opportunity for partners to have direct input into the engagement process is being delegated to PSMs. Future experimental research should consider whether principal/agent differences occur in decisions made by partners and PSMs on decisions such as risk assessment for audit clients and positions taken on tax issues.

Fourth, while our study indicates that PSM positions support the growth of firm revenue, it is not entirely clear what is driving the need for partners to carry a much larger ledger or book of business than in the past. Future research could determine whether partners must build and manage an increasingly large client base to support increased overhead costs (i.e., litigation,

technology, etc.) or to better compensate partners for increased risk associated with public accounting in a post-SOX era.

Finally, while results indicate that HR professionals and partners believe that PSMs are enhancing client service, we do not know how clients feel about PSMs. There is, therefore, a need to gain an understanding of the client's perceptions of and satisfaction with the nature of service delivery by accounting firms that are making greater use of the types of PSMs identified in this study.

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APPENDIX A

Survey Questions

Question	Response Scale
1. Does your firm have a post-senior manager position other than partner?	Yes/No
2. Please specify the title your firm gives to the post-senior manager position. (check all that apply)	List of titles shown in Table 1
3. How long has your firm had a post-senior manager position in place?	Open-ended
4. Which of the following is generally true regarding the relative percentage of time a partner versus a post-senior manager devotes to each activity?	a. Partner > PSM b. Partner = PSM c. Partner < PSM
5. Please list any additional activities for which there is a distinction between the responsibility of the partners and the post-senior managers.	Open-ended
6. Whether a professional is placed on a partner or post-senior manager track is most often determined by:	a. Firm leadership b. The individual c. It varies
7. For each of the choices below, select the most common reason that firm leadership and individual professionals in your firm choose to pursue the post-senior manager position rather than partner:	See results reported in Table 3
8. At what point does the firm begin to evaluate the professional's potential career path in terms of partner versus post-senior manager position? When the professional is a:	a. Senior b. Manager c. Senior Manager
9. Is the promotion to a post-senior manager position typically seen as:	a. A step along the way to partner. b. A terminal position. c. May be either.
10. How many years total experience does a professional typically have when he/she is promoted to the post-senior manager position?	Open-ended
11. To what extent has your FIRM experienced the following BENEFITS of post-senior manager positions?	See results reported in Table 4
12. To what extent has your FIRM experienced the following NEGATIVE CONSEQUENCES of post-senior manager positions?	See results reported in Table 4
13. Please make additional comments regarding the post-senior manager position in your firm that you feel were not addressed in the questions above.	Open-ended
14. Please indicate the size of your firm in terms of net revenues.	a. > \$500 million b. \$100–500 million c. \$50–100 million d. \$25–50 million e. < \$25 million
15. How many offices does your firm have?	Open-ended
16. How many professionals does your firm currently have at each of the following levels:	a. Senior Manager (M/F) b. Post-Senior Manager (M/F) c. Partner (M/F)

(continued on next page)

APPENDIX A (continued)

Question	Response Scale
17. How many professionals were promoted to each level in 2007?	a. Senior Manager (M/F) b. Post-Senior Manager (M/F) c. Partner (M/F)
18. How many years total experience does a professional typically have when he/she is promoted to equity partner?	Open-ended

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