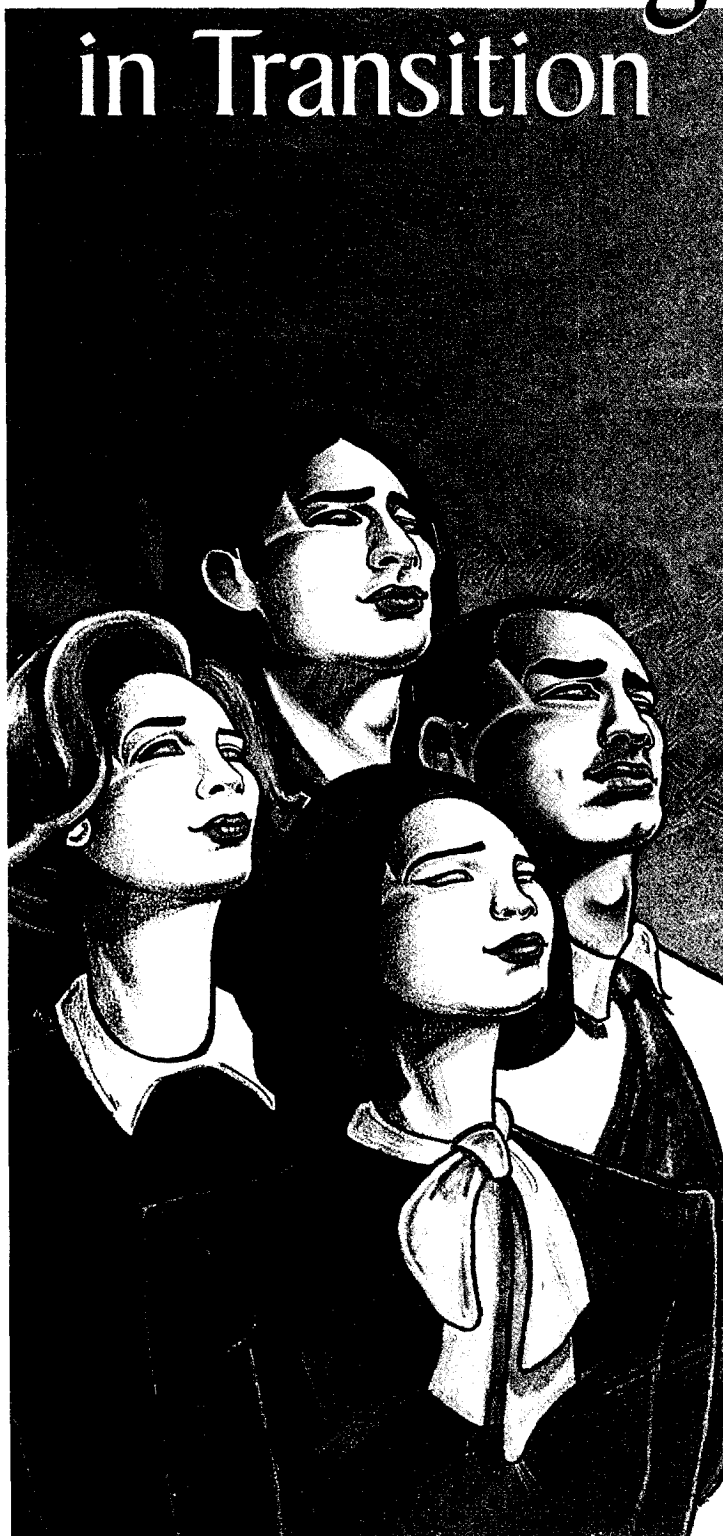


*How will the gender mix, among other things, play out as the fundamental staffing model changes?*

# The Accounting Profession in Transition



*By Patricia M. Flynn,  
John D. Leeth, and Elliott S. Levy*

The accounting profession is at a critical juncture in its development with many of its longstanding traditions being challenged by an evolving workplace and workforce. In recent years, the profession has experienced a changing work environment, characterized by an expanding scope of services, rising costs, technological changes, organizational restructuring, and increased specialization. These changes have generated new sets of staffing requirements and skill needs. The supply of accountants also has changed, with most notably a major influx of women into the profession.

As a result, a high degree of uncertainty characterizes the accounting labor markets today. This uncertainty is demonstrated in the areas of—

- hiring and staffing practices of accounting firms,
- relative salaries of entry-level accountants,
- changing educational requirements, and
- the mix of male and female accountants.

How these issues are resolved will determine in large part the nature and status of the accounting profession in the future.

A study of accounting labor markets, funded by a grant from the National Center for the Educational Quality of the Workforce at the University of Pennsylvania, provides insight into these issues. The authors conducted over 40 interviews with practitioners and educators; performed statistical analyses on educational, employment, and salary data from 1960 to the present; and assessed the literature on professional labor markets across a range of fields. While the study focused on public accounting, the findings have relevance for accountants in industry and government as well.

## Changing Times and Identity

The accounting services industry has experienced major changes in the nature and scope of services provided in recent years. In an environment of increased competition and

maturity of the traditional audit and tax business, accounting firms have become more diversified and more specialized. Many accounting firms have expanded into broader-based professional service firms offering expertise in areas including litigation support, financial planning, real estate, health care, computer support, and management consulting. The organizational structure of work, particularly in larger firms, is shifting away from the *type* of service provided toward an industry or core business focus.

A wave of mergers, acquisitions and bankruptcies accelerated in the 1970s and 1980s as accounting firms sought to cut costs and better service clients in expanding national and international markets. The most visible merger activity involved the then "Big Eight," which became the "Big Six." Of the largest 25 accounting firms in the U.S. in the early 1970s, all that are still in business have been involved in at least one merger or acquisition.

Technological changes also have had a profound affect on the profession. For instance, integrated software for auditing and preparation of tax returns and online access to financial statement databases have changed the way accountants do their work. "Just-in-time" offices, hotelling, and telecommuting have all been outgrowths of the technological revolution.

The new "150-hour" requirement, mandating a fifth year of college study for

membership in the AICPA and for licensing as a CPA in most states by the year 2000, will affect the supply and cost of accountants as well as career paths and mobility. It will also impact the quantity and characteristics of accounting graduates. The vision of the AICPA Special Committee on Assurance Services that the market for assurance services can be expanded from \$7 billion to \$21 billion with new kinds of services to new users will require new competencies and different skills. The AICPA is preparing to roll out a series of specific new services that it believes the marketplace needs and is ready to pay for.

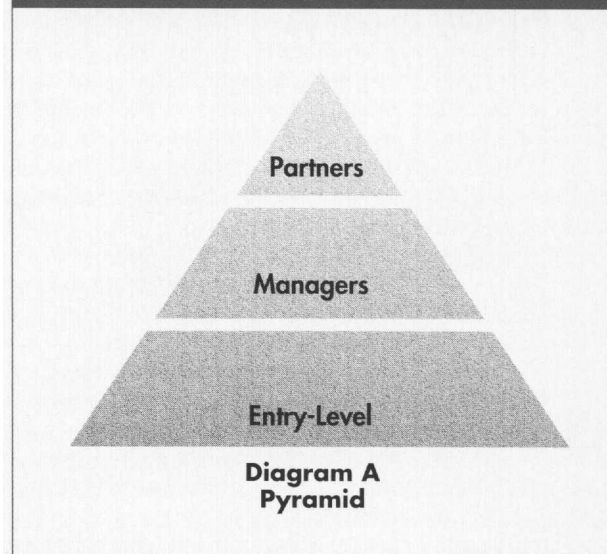
Accounting firms are rethinking the ways they do business, and the outcomes in terms of hiring and staffing patterns, relative pay, educational requirements, and gender mix are far from clear.

### Hiring and Staffing Practices

Changes in compensation and in organizational structure raise significant challenges for public accounting firms, which, in addition to being labor-intensive, have traditionally been very "accountant-intensive." Changing skill requirements coupled with the need to reduce costs have resulted in a changing occupational mix within firms and an accompanying shift to alternative sources of labor.

Accounting firms have begun to reach beyond recipients of four-year accounting degrees, tapping sources such as paraprofessionals, nonaccounting majors, and individuals with MBAs and other graduate degrees. The hiring of para-accountants, for instance, expanded during the 1970s and 1980s. The simplification of tasks through computerization and increasingly sophisticated software encouraged substitution of these less-skilled workers for professional accountants, particularly in the preparation of tax returns and financial statements. Recently it was reported that two-thirds of all ac-

EXHIBIT A  
TRADITIONAL STAFFING MODEL



counting firms employ paraprofessionals.

Nonaccounting majors also have become a more important source of new hires of accounting firms. According to a recent annual AICPA Supply and Demand Survey, 17% of new graduates hired by accounting firms in a recent year had nonaccounting degrees, up from just five percent in the mid-1980s. Moreover, almost 40% of the new graduates hired without accounting degrees had non-business degrees, compared to only four percent in 1986. Some of the largest public accounting firms, in particular, have increased their hiring of MBAs, many of whom are liberal arts majors. These graduates are often put on a "fast track" to partnership, moving quickly away from the repetitious tasks usually encountered in the first few years of a public accountant's career.

The traditional "pyramid" career structure (see *Exhibit A*) in which accounting firms hire relatively large numbers of entry-level accounting graduates, increasingly smaller numbers of whom advance up the ladder to senior, manager, and partner is being challenged. The prevailing "up or out" philosophy, whereby individuals who do not become partners after 10 to 12 years are asked to leave the firm, is also being questioned. Various models and "shapes" have been proposed to reflect these evolving career structures (see *Exhibit B*). The configuration that

## In Brief

### The Work Force Is Changing

What will be the future composition of the workforce of the accounting profession? The demand for professionals is shifting because firms have changed the way they do business and are looking to new sources to fill their needs. Supply is impacted by changes in relative pay, new educational requirements, and gender mix.

The authors see four possible scenarios for the future gender mix and influence in the profession: predominantly female, predominantly male, two tier with women concentrated in the lower levels, or fully integrated. Each scenario has the potential for significantly changing the nature of the profession.



EXHIBIT B  
ALTERNATIVE STAFFING MODELS

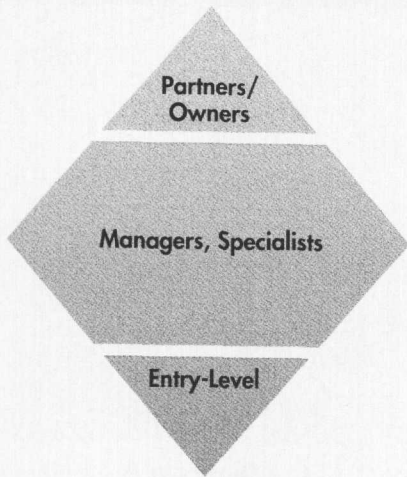


Diagram C  
Hut

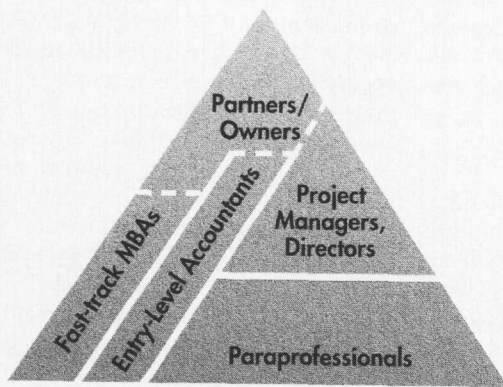


Diagram D  
Revised Pyramid



Diagram E  
Temple

will emerge is likely to involve several of these components and vary by firm size.

The traditionally strong education-to-work link in the accounting field is weakening as accounting firms hire increasing numbers of nonaccounting graduates. There has been, however, no systematic assessment in terms of turnover, training costs, and productivity resulting from the expanded use of paraprofessionals and the shifts toward hiring liberal arts grad-

uates and MBAs who have had little exposure to accounting. There is no consensus, even among the largest public accounting firms, over the future of these trends.

#### Relative Pay

Entry-level salaries for accounting graduates at both the bachelor's and master's degree levels fell dramatically compared to most other disciplines from the early

1970s to the late 1980s. At the bachelor's degree level, for example, the salary differentials between accounting and liberal arts declined throughout this period; by the mid-1980s these majors were being offered roughly equal starting salaries (see *Exhibit C*). The starting pay of accounting majors also declined relative to other disciplines including economics-finance, computer science, engineering, and marketing and general business. At the mas-

Recently it was reported that two-thirds of all accounting firms employ paraprofessionals.

ter's degree level as well, accounting graduates lost ground during this period.

The pattern of long-term decline in relative pay at the undergraduate level turned around in the late 1980s, as several accounting firms realized they were losing their best job candidates to firms in other fields, such as financial services and management consulting. Gains in relative pay of graduates with four-year accounting degrees made in the late 1980s, however, appear to be short-lived. Entry-level accountants again lost ground in terms of relative pay from 1992 to 1995.

At the master's level, accounting graduates made progress compared to MBAs with technical undergraduate degrees in the late 1980s; however, these gains, too,

were eliminated after 1992. Relative to MBAs with nontechnical undergraduate degrees, master's in accounting graduates have continued to fall behind in starting salaries since the early 1970s.

Salaries competitive with other business fields will be necessary to attract and retain high quality individuals in accounting. Moreover, trends in student interests, and the increasing importance of non-monetary factors in career decisions, such as work-life balance, suggest that the accounting profession must also provide a competitive work environment and career prospects.

### Educational Requirements

For many years, most accountants have gained entry into the profession with a four-year undergraduate degree in accounting. In 1988 the AICPA amended its bylaws to require 150 hours of education, essentially a fifth year of college study, for membership in the year 2000. As of January 1997, 37 states and jurisdictions have adopted legislation, effective at varying dates, requiring 150 hours to become a licensed CPA. In the early 1970s, 20% of the new graduates hired by public accounting firms had accounting master's degrees. By 1991, this share had fallen to just seven percent. A considerable shift has occurred, however, in the 1990s, and by 1995 mas-

ter's holders represented 15% of accounting graduates hired by accounting firms.

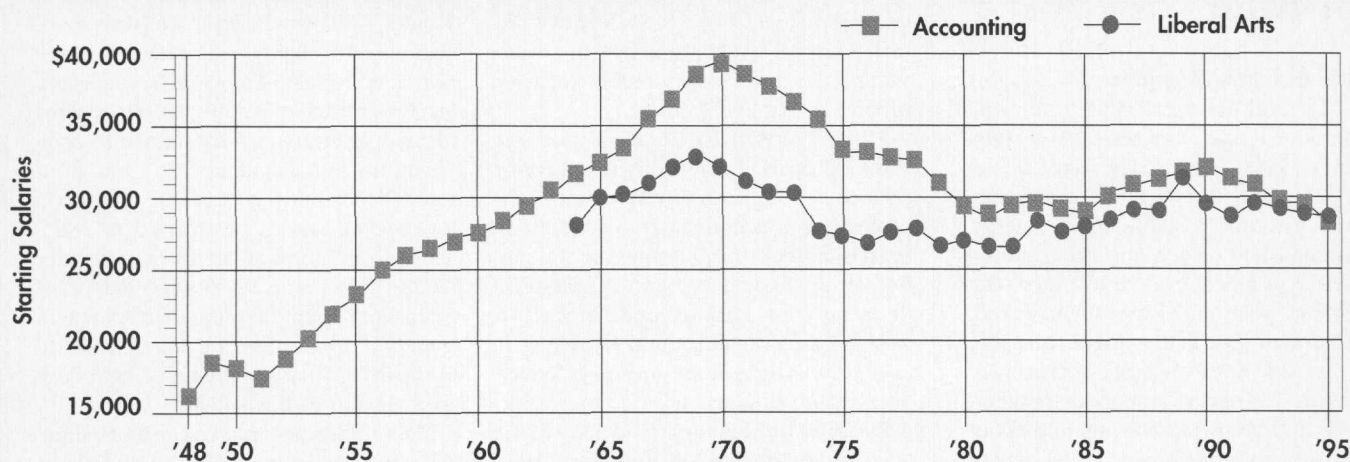
Many educators and employers raise concerns about the necessity and timing of the 150-hour requirement. Some individuals question the basic need of the "fifth year" requirement. Smaller firms, in particular, are apprehensive about the additional costs involved. Moreover, many small CPA firms are satisfied with the preparation new hires receive in traditional undergraduate accounting programs.

The timing of the new requirement and its likely impact on the pool of accounting graduates also worry some educators and employers. Others express concern that the implementation dates for many of the states' 150-hour requirements are incompatible with Workforce 2000, and question whether many individuals in the increasingly diverse population will be able to pay for the additional year of education.

There is no comparable 150-hour requirement for accountants in business/industry or government, and there are no visible efforts to move toward additional education as a requirement for entry-level work in these areas. Some of the education and training needs identified by accounting firms (e.g., communications and problem-solving skills, critical thinking) are needed for accountants in

(Continued on page 56)

EXHIBIT C  
STARTING SALERIES (1995 DOLLARS) OF STUDENTS WITH BACHELOR'S DEGREES IN ACCOUNTING RELATIVE TO LIBERAL ARTS



Note 1994 and 1995 data represents estimates based on *CPC Salary Survey* information.  
Source: *The Endicott Report*. Various years.



## Profession in Transition...

(Continued from page 45)

all sectors. In addition, employers outside of public accounting often require greater emphasis in technical areas such as cost and management accounting, internal auditing, and government accounting.

Development of different educational tracks and possibly different entry requirements for four-year and five-year accounting programs could result in a two-tiered system with those on the more traditional track stigmatized as underachievers.

### Gender Shift

There has been a significant gender shift in the traditionally male accounting profession. By the early 1990s females comprised over half of the accountants in the United States, compared to just 17% in 1960. Moreover, the absolute number of accounting degrees awarded to males peaked back in the 1970s.

While there has been a major influx of women into the profession, the proportion of women at the top rungs of the career ladder remains quite small. Women comprised 13% of the partners in accounting firms in 1993; in the "Big Six," they represented only five percent of partners.

The accounting profession is at a pivotal point with respect to the mix and future roles of men and women. Consider four possible gender-based scenarios. Will the profession become predominately female (scenario one)? History has shown that occupations that have "tipped" from traditionally male to become primarily female (e.g., public school teaching, insurance adjusters, bank tellers, and residential real estate agents) experience declines in occupational status and salary relative to other professions. In many of these fields, status and pay declined before the influx of women; rewards to the occupations continued to fall thereafter, for men as well as women.

Alternatively, will accounting return to being a predominately male profession (scenario two) as relatively high numbers of women continue to leave the profession compared to men, and greater numbers of men move into it drawn possibly by increasing relative pay? The number of women receiving accounting degrees stabilized in the 1980s, with declines actually occurring in 1987 at both the bachelor's and master's degree levels. Accounting as a percent of all four-year

degrees awarded to women peaked in 1984. Moreover, surveys of college freshmen show females exhibiting less interest in majoring in accounting in recent years; in contrast, males planning on studying accounting rose from 1993 to 1994 after 15 years of decline.

Another option is that accounting will emerge as a two-tier or multitier profession with women concentrated in the lower level(s) (scenario three). Women in traditionally male-dominated professional positions including lawyers, physicians, engineers, professors, and scientists are concentrated in the lower-paying, less prestigious divisions and specialties in the field. In accounting, several trends, including changes in hiring sources, increased use of paraprofessionals, the development of alternatives to partnership tracks, increasing specialization, and the 150-hour requirement, raise issues regarding the emergence of a two-tier or multitier career structure.

Lastly, might the accounting profession instead become fully integrated without significant distinction in the roles, positions, and pay of men and women (scenario four)? The development of new employment models and recruitment strategies may generate a multitier system in terms of career ladders and professional development patterns. New organizational structures need not, however, foster or result in segmentation of men and women in particular divisions or career paths in accounting. A fully integrated profession depends on employers addressing the changing characteristics of the workforce and workplace, and on accountants and potential accountants understanding the paths, options, and criteria for development and advancement in the profession.

### The Future

The fully integrated profession (scenario four) holds the most promise for the accounting profession, accounting firms, and accountants. It suggests that relative pay and occupational status need not fall further; that significant numbers of women need not leave the profession for more satisfying employment alternatives; and that a two-tier or multitier system with women concentrated in the relatively low-paid, low-prestige positions need not emerge. Fully integrated professions, in terms of roles, positions, and pay of men and

The accounting profession is at a pivotal point with respect to the mix and future roles of men and women.

women, however, have eluded U.S. labor markets. Data on accounting trends coupled with history on gender patterns in other fields, suggest instead scenario three, with women concentrated in the lower tier(s), will be the most likely outcome for the accounting profession, unless proactive steps are taken by those who influence the employment and education of accountants.

The accounting profession can serve as a new model in this regard. Moreover, the changing workforce, coupled with increasing competition and restructuring of firms, creates the potential for new work and staffing arrangements that can be mutually beneficial for accountants and accounting firms. Some accounting firms have begun to move in this direction, experimenting with flextime, flexplace, new alternatives to partnership, and so forth. Much more needs to be done.

As a profession characterized by many of the dynamic changes taking place throughout the economy (e.g., greater numbers of women workers, industrial restructuring and organizational change, growing internationalization of markets, and greater demands for more broadly trained and flexible workers), accounting can lead the way in meeting the career development needs of professionals and in seeking greater competitiveness for firms through enhanced flexibility and worker productivity. □

*Patricia M. Flynn, PhD, is dean of the Graduate School of Business and professor of economics, John D. Leeth, PhD, is associate professor of economics, and Elliott S. Levy, CMA, CIA, CPA, is associate professor of accounting, all at Bentley College.*