

COMMENTARY

Robert K. Elliott

on

Improvements in the Early Employment Experience

When the largest public accounting firms challenged higher education to improve the quality of accounting graduates,¹ the American Accounting Association and many institutions educating accountants responded with alacrity. But many educators quite rightly held up a mirror to the employers and asked whether they didn't need some improvements too. This reflected concerns that perhaps not all was perfect in practice, but also a question: if educators develop better qualified graduates, can employers attract, retain, and make effective use of them?

As a result, the Accounting Education Change Commission appointed an Early Employment Experience (E³) Task Force to investigate how to improve the early employment experience.

The E³ Task Force is charged to develop a strategy to improve the interface between the education of the new accountant and the first two to three years of the employment experience. It is to consider the signals sent to campuses by employers' recruiting activities as well as their continuing professional education efforts.

The E³ Task Force is concerned with accounting graduates from various sources (bachelors' and masters' degrees in accounting) who enter professional accounting careers (including, but not limited to, CPA firms and industry). Obviously, some accounting graduates do not pursue professional accounting careers and some employers do not hire only accounting graduates for accounting careers (for example, they may also hire attorneys, computer engineers, and liberal arts graduates); however, these "side streams" are not currently being investigated by the Task Force.

Early employment experience in professional accounting varies considerably among employers. It is thought, for example, that larger employers (both CPA firms and industry) generally provide better continuing education while smaller employers provide more varied experience. The Task Force must grapple with the many varieties of experience.

Formal education is only one phase of the development of a professional career in accounting, and that phase must be properly integrated with the other phases. In particular, there must be an appropriate continuity between formal education and continuing professional education, implying the need to integrate curriculum development for these two aspects of education.

The attractiveness of early professional careers—including compensation, learning opportunities, and working conditions—will be signalled back to college and university students (including both accounting majors and potential accounting majors) and will affect their attitudes toward the accounting profession, their studies, and the curriculum.

SHORTER-TERM IMPROVEMENT OPPORTUNITIES

The E³ Task Force has identified a number of potentially feasible, relatively short-

Mr. Elliott is a partner in the Executive Office of KPMG Peat Marwick in New York. He is a member of the Accounting Education Change Commission and Chairman of its Early Employment Experience Task Force.

¹*Perspectives on Education: Capabilities for Success in the Accounting Profession*, by the CEOs of the then Big-8 accounting firms, April 1989.

term improvements in the early employment experience. These are discussed below.²

Recruiting. There is some concern that recruiters are not informed by the same objectives and concerns as the top management of employer firms and therefore transmit conflicting signals. For example, if CEOs call for more educational breadth and communications skills, but recruiters seek out technical depth and ignore nonaccounting coursework, the students will find it difficult to reconcile these messages. Therefore, recruiters must be informed about the new requirements and their performance monitored against them.

Also, the incentives provided to recruiters should be reexamined. If they have a tight time and expense budget and are measured on their ability to meet headcount goals, they will surely "round 'em up." But the easy recruits may not be the right ones. Suppose that performance measures for recruiters included such (admittedly longer-term) indicators as the retention and promotion rates of their new hires?

Another recruiting issue is the tendency of some recruiters to over-promise. The recruiter can set unrealistic expectations about many aspects of the job, leading to later disappointment and negative feedback to campuses. Unfortunately, as the baby-bust works its way through higher education, a reduced supply of accounting graduates could exacerbate this tendency.

Transition from education to practice. The most common model is for accounting students to be full-time students until graduation and then full-time practitioners of accounting. This abrupt transition can be contrasted to that in becoming a physician. Clinical experience is introduced early in medical school and gradually takes an increasing percentage of the student's time for six or seven years until the doctor eventually becomes a full-time professional. There is a long, gradual transition from study to practice. This model is probably not feasible for the accounting profession, but there may be opportunities to blend study and practice more effectively. Internships (or cooperative work-study programs) are often considered to provide advan-

tages in this regard. The intern returning to studies typically has a better understanding of the business world, permitting better appreciation and integration of subsequent education. Interns also have more realistic expectations about the work-a-day world and can make better informed employment choices. A less common blend of the study and work experiences is employers' release of summers in the early career for full-time studies. These and other methods of reducing the abruptness of the study-work transition bear greater consideration.

A short-term improvement opportunity that would affect both recruiting and the transition to practice is advanced placement of new hires. Graduates of MBA programs, for example, often have had experience in the business world and are likely to be suited to assume heavier responsibilities than other hires. They might be given the responsibilities, say, of a third year professional. All improvements in matching starting responsibilities to new hires' capabilities would, of course, enrich early employment experience in the profession; advanced placement of MBA hires seems a relatively low-risk option to explore.

Continuing professional education. To the extent that curricula in formal education are broadened at the expense of technical content, the CPE programs of employers must be redesigned to compensate. To the extent formal curricula develop higher order cognitive skills, CPE can be changed to take advantage of such skills. And many of the improved training approaches in formal education (including the case method, team-oriented learning, and learning to learn) are likely to be applicable to the design of CPE programs.

Job assignments. Job assignments must be enriched to take advantage of better-trained graduates and to better motivate

²One possible improvement is not being considered by the E³ Task Force: increase in the starting salary of professional accountants. Although it is certainly true that higher salaries would attract more and better accounting majors, the Task Force considers that, first, salaries are essentially a market matter and the market provides plenty of incentive to neither over- nor underpay over time, and, second, there is nothing the Task Force can do about salary levels.

them. This enrichment can come about through use of "smart" technology to support professional learning and development, computerization of lower-level tasks, and reassignment of less judgmental tasks to paraprofessionals.

New recruits can also be given a more active role in the development of their careers through what amounts to a double auction³ system of assignments. In this way, not only could engagements bid for staff (via the partner and manager), but staff could bid for engagements in an active attempt to shape their experience and expertise.

The most important aspect of job assignments is to provide more challenging assignments. To some extent, this could involve "fast tracking," in which more able professionals can progress faster, but to a large extent—especially in public accounting—it requires better "product design"—that is, the development of new services that assist clients to create value through the use of information and information systems; such service opportunities would naturally result in more challenging and interesting work for staff.

Personnel management. The administration of professional accounting personnel provides many opportunities for improvement. Many employers, for example, still maintain "lock-step" pay and promotion progressions.

Many companies still focus job evaluations on traits (for example, professionalism and community involvement) rather than skills, thereby missing an opportunity to evaluate readiness for promotion and advance workers as soon as their skills reach the level needed for the next job.

A common complaint of new professionals is that they do not understand the reasons for their work—how it fits into the big picture. The resulting discouragement could easily be averted if superiors would take time at the beginning of each assignment to explain the objectives of the work and the implications of various findings and outcomes

Although most employers require evaluation of subordinates by their superiors, more companies are instituting the reverse as well. The upward evaluation of superiors by their

subordinates can lead—if well designed and administered—to increasing the sensitivity of superiors to the developmental needs of their workers and helping them become more effective bosses.

The practice of mentoring could be extended. The typical recruit has been courted, often for several years, by high-ranking personnel from the potential employer. After employment, it may be years before the new hire is again in regular contact with people at such ranks. This not only disappoints new hires, it forfeits an irretrievable opportunity to "set the hook" in the new recruit on behalf of the accounting profession.

Job image. Finally, there is the issue of the image of the job to which the prospect is being recruited. If the message is projected that the product or service is of low or declining value, that such engagements are sold at a loss only to provide the chance for more valuable service opportunities, or that the product or service is not valued by the client or user, it is difficult to imagine that the recruit will relish the chance to spend a professional lifetime doing it. Recruiters need to better articulate the social, economic, and professional value of accountancy's products. (Auditing, for example, is too often characterized as a statutorily mandated compliance formality rather than as an effective way to reduce the auditee's cost of capital by an amount many times the audit fee.)

POSSIBLE REASONS FOR NONIMPLEMENTATION

If the improvement ideas mentioned above are meritorious, why haven't they been fully

³A single auction is one in which potential buyers (for example, for works of art at Sotheby's) or potential sellers (for example, construction contractors) compete against each other, and the high or low bidder, respectively, wins. A double auction (for example, the New York Stock Exchange or the system that has been developed to match medical school graduates and hospital residencies) is one in which both buyers and sellers make offers, and transactions close when there are matched offers. The traditional staff assignment system is analogous to a single auction in which management group members purchase staff time from a staff manager. Staff members find out what engagements they are assigned to without much, if any, participation.

implemented in the competitive market for talent? On the other hand, if they're not meritorious, why would the E³ Task Force consider recommending them?

There appear to be a number of reasons that employers have not universally adopted these ideas. For example, the specter of litigation suppresses much innovation in American business, and accounting has had more than its share. Also, profit squeezes in industrial and professional service firms, brought on by international competition and compounded by a recession, have focussed many firms on survival, not innovation (though their survival is in doubt if they won't innovate).

A further problem is the performance measurement systems in employer firms. For example, the typical billing system in professional service firms is based upon time charged. Such a system motivates maximization of billable time rather than efficiency or productivity.

In highly leveraged CPA firms, there is also a need to keep the staff busy, a task complicated by the inherent seasonality of much of the business.

Then there is the historical approach to managing a CPA firm. As just noted, revenue is a function of billable time. To further elaborate this model, revenue can be seen as the product of (1) headcount, (2) rate per hour, (3) personnel utilization, and (4) realization (the ratio of realized to standard fees). Management manipulates these four levers in an attempt to maximize revenue. The problem is that once a CPA firm is delivering all the potential value it can to its clients, revenue (the product of the four variables) is capped; thus pushing one variable (for example, rate) results in slippage in another (for example, realization).

In addition, there is the traditional staffing model of a CPA firm. At the bottom of the pyramid, it has cheap workers that it churns through and replaces with the next batch of cheap recruits. As one observer pointedly noted, "You don't develop alternative energy sources while the fuel is still cheap."

Finally, it is risky to give challenging, value-adding assignments to new recruits who

lack the maturity and skills needed to do such work. To too great an extent, graduates are not prepared to work on such assignments.

LONGER-TERM IMPROVEMENT OPPORTUNITIES

The E³ Task Force is investigating early employment experience. It is obvious, however, that an employer can provide a good early career only if it is able to provide a good total career. And its ability to provide a good total career depends on its ability to create value for its customers or clients. These observations suggest that there are more fundamental improvements that can be made than the short-term fixes suggested above.

In a knowledge business like accounting, the creation of greater value for customers or clients depends on maximizing along such dimensions as the following:

- Design of high-value information products and services.
- Investment in information technology to improve value, quality, and productivity.
- Upgrade of capabilities through the hiring of more intelligent knowledge workers.
- Upgrade of capabilities through investment in more and better continuing professional education.
- Upgrade of capabilities through maximization of the value of professional experience (through the use of information technology).

(Note: these management levers may be contrasted with the four traditional management levers noted above: headcount, rate, utilization, and realization. The new levers depict a very different management challenge.)

In order to make these fundamental changes, management of an accounting enterprise (either a public accounting firm or the accounting function in any entity) must reconceive the function:

Labor → **capital**. The old model treats accounting as labor intensive. Workers are an expense to be minimized and generally substitutable one for another.

The new model treats accounting as capital intensive. The capital includes human capital (not an expense, but an asset to be developed and protected) and information-technology capital (hardware, software, data bases, and networks).

Hierarchy → network. The old model has a structure (the inverted-tree structure) into which components can be plugged. It is fundamentally industrial in conception: standardize products, make parts interchangeable, drive down costs, and market share will follow. Each worker is an interchangeable component.

The new model is the network. Although it has a structural component (its enabling technology infrastructure), it is fundamentally organic—consisting of the people and their specialized content- and network-process knowledge. It is fundamentally post-industrial in conception. As information customers or clients demand ever more complex and specialized information services, network components become ever more specialized, differentiated, and valuable. They are no longer in-

terchangeable. In fact, unplugging a person from the network tends to send ripples through it.

Accounting information → decision-support information. Finally, the manager of a post-industrial accounting enterprise must reconceive the function as one of providing decision-support information, not just accounting information. This broadening is a necessary adaptation to the demands of the customers and clients. But it is also necessary to establish the value-creating environment in which robust, challenging, fulfilling careers in professional accounting can be realized.

CONCLUSION

The E³ Task Force can be thought of as a first approximation to an Accounting Practice Change Commission. Its job is to ascertain that the improved educational outcomes fostered by the Accounting Education Change Commission dovetail neatly with complementary changes in accounting practice. The Task Force would welcome the advice of both educators and practitioners in fulfilling its mission.

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