What’s the future of the Accounting Profession?

Power, Pressure, Perfection and People

Since 2002, the accounting profession has been rocked by sensational corporate scandals and subsequent strict regulations. The four largest global accounting firms (the ‘Big Four’;) still have more challenges on the horizon. All of them see their talented staff as the best tool to embrace these challenges and add the value demanded by clients.

If talented people are the key to differentiation for each of the firms, why and how should they change and structure themselves in order to capitalize on this critical resource? How can they each use their people to differentiate from each other? In spite of the new networked, knowledge economy, increased regulations and changes to the profession, the organisational design and way audits are staffed and performed has generally remained the same. Is it time for the Big Four to change?

Continued...
Since 2002, the accounting profession has been rocked by sensational corporate scandals and subsequent strict regulations. The four largest global accounting firms (the ‘Big Four’) still have more challenges on the horizon. All of them see their talented staff as the best tool to embrace these challenges and add the value demanded by clients. Each of the Big Four believes their people are the source of their future competitive advantage.

But, most graduates who are recruited by these firms write the same exams, are affiliated to the same professional bodies and are overseen by the same external regulators. The structure of an audit, the deadlines, the type of people who are recruited, the pressure and the opportunities are similar at each of the four accounting giants.

If talented people are the key to differentiation for each of the firms, why and how should they change and structure themselves in order to capitalize on this critical resource? How can they each use their people to differentiate from each other?

Auditors work in a new networked, knowledge economy with increased regulations and many recent changes to the profession. But, the organisational design of accounting firms and the way in which audits are staffed and performed has generally remained the same.

Is it time for the Big Four to change?

The power of the Big Four

Ernst & Young, KPMG, PricewaterhouseCoopers and Deloitte are the four largest accounting and professional services firms. They are the global ‘Big Four’. In 2007, they had combined revenue of $89 billion and this is likely to exceed $100 billion in 2008. Together they employ over 500,000 people globally.

According to AccountancyAge.com, the Big Four audit 100% of the FTSE100 and 97% of the FTSE350. Recent research done by BDO Stoy Hayward in the UK revealed that investors would be concerned if a company switched to a non-Big Four auditor. A third would then review their investment decisions. Of those investors who expressed concern, they could not articulate exactly why they would be worried. The reputation alone of the Big Four giants gives the public a sense of confidence and security.

Clearly, the Big Four accounting firms have created a powerful, global oligopoly.
Why everyone has a vested interest in the Big Four

An audit identifies whether the financial statements, prepared by management, are fairly presented and are a true reflection of the financial position of the company. Audits provide vital confirmation and confidence to investors so that they can allocate their capital wisely.

The dominance and power of the Big Four has risen out of the importance of reliable accounting, which is the foundation of the commercial system. They are perceived as the stewards of the integrity and reliability of global capital markets. The integrity of capitalism depends on the integrity of accounting systems.

The landscape

The accounting and audit landscape was shaken by the sensational accounting scandals of 2002 and the subsequent reactive regulatory burdens. The bankruptcies of WorldCom and Enron, the collapse of Arthur Andersen and the loss of public confidence in the accounting profession were triggers for change.

In response to the corporate scandals, George W Bush passed the Sarbanes Oxley Act of 2002. This was the most sweeping amendment to US securities law since 1934 and it had a global ripple effect. This Act made management responsible for their company’s internal controls. Independent auditors, like the Big Four, had to attest these controls and report any material weaknesses. Failure to adhere to these rules imposed criminal penalties on management.

In order to comply, the Big Four, and their clients, entered an internal-focused frenzy of compliance. They became preoccupied with avoiding risks that may lead to criminal action.

Now that this rush of compliance is calming down, commercial finance functions within companies are recognizing that they need to keep pace with the rapidly changing global market and reinvent themselves in spite of regulatory and reporting burdens. They see consolidation, simplification and centralisation as vital, necessary change for the future.

As clients streamline processes, eliminate redundant procedures and move routine functions offshore and into shared service centres, so auditors need the knowledge to understand and add more value to their clients’ new business techniques. The revenue from Sarbanes Oxley work is beginning to wane so it is becoming more and more important for the Big Four to differentiate, position themselves in the market, improve operational effectiveness, manage talent and establish a market position in both developed and emerging markets.

Most audit firms have placed their people at the front of their strategic agenda. The Big Four are dependent on the knowledge, networks,
Professional service firms like the Big Four are models of 21st century organisations. They do not need to change their organisational structure and design as many traditional companies should. They are models of 21st century organisations. They do not need to change their organisational structure and design as many traditional companies should.

If it’s not broken, don’t fix it

In July 2007, the Economist published an article about how the Big Four accountancy firms set an example to other companies by the way they manage talent. Their performance management systems, partnership structure, global mobility opportunities and innovative recruitment strategies show that the Big Four do not simply pay lip service to talent management but also take concrete, visible steps to practice what they preach. The UK Graduate Survey in 2007 revealed that graduates rate all four accounting firms in the top 15 best companies to work for.

According to McKinsey consultants, Lowell Bryan and Claudia Joyce, professional service firms like the Big Four are models of 21st century organisations. They do not need to change their organisational structure and design as many traditional companies should. In their book called ‘Mobilizing Minds’, Bryan and Joyce examine how companies can mobilise the mind power of their people in order to create wealth from talent in the 21st century. They believe the cutting edge company of the future should have a combination of both hierarchy and collaboration. It should also mix individual accountability with mutual accountability to drive the company’s strategy and increase the bottom line. They tout professional service companies, like the Big Four, as prime examples of this quality.

Qualities of the 21st century company, which the Big Four already have, are:

1. Partnership-at-the-top model

   • A partnership culture increases the number of people who feel personally responsible and accountable for performance of the organisation. It forces leaders to think outside the bounds of personal self-interest.

   • Bryan and Joyce’s model is made up of a group of senior partners who form a top management committee. They are responsible for running the firm, dividing returns between partners and they serve as board of directors. All of the Big Four already have these executive management committees of senior partners.

   • A partnership provides more senior job opportunities to which junior staff can aspire. The traditional top down hierarchy has limited space for senior people at the top. The Big Four do not have these restrictions - there is room for more talented
people because there is a broad plateau of leaders.

- One dominant profession, accountancy, should make it easier for partners at the Big Four to make strategic decisions.

2. Role-specific performance management

- This standardizes performance management across the organisation.

- The Big Four accounting firms encourage collaboration by defining the behaviour that is expected from every role - associate, manager, senior manager, director and partner. They set expectations for performance and define the skills which are essential for each role.

- ‘We believe that by defining how people with different roles should work with one another and holding them accountable for doing so,’ say Bryan and Joyce, ‘you can make it in their mutual self-interest to collaborate effectively.’ If people are held both individually and mutually accountable for helping others succeed, they have a vested interest in developing others.

3. Formal networks

- A formal network is a structured community of people who have a common interest. The Big Four have organised their professionals into networked communities for many years.

- Each of the Big Four has grouped industry experts into global networks who collaborate and share knowledge. There are financial services, public sector, mining and energy, media and entertainment and consumer and industrial product specialist networks.

- These networks stimulate interaction and streamline decision making because it is easier and faster to find knowledge and resources using the network than it is elsewhere.

4. Talent Marketplaces

- Talent marketplaces try to match employees who are seeking challenging, career-enhancing job opportunities with managers who need talented resources for projects.

- It puts more responsibility on the individual for managing their own personal development.

- The Big Four are already talent marketplaces where employees are a pool of resources. They are staffed on projects and when
a job is over, they are reassigned to another one.

5. Knowledge Marketplaces

- Knowledge marketplaces allow information to flow through the organisation in a streamlined, structured and accessible way.

- The Big Four are already formal knowledge marketplaces. Many have dedicated knowledge managers who filter information and distribute it to the people who could use it the most.

‘In brand terms, both the profession and the Big Four are highly desirable and high profile [to graduates],’ wrote Hugh Thompson in the Accountancy Age magazine. If the Big Four are so popular with graduates, why do they still battle to retain talent?

According to the Economist, the Big Four have about 15-20% turnover every year, compared to 5% in other industries. Jim Wall from Deloitte believed every annual percentage drop in turnover rates equates to a saving of around $400 million to $500 million.

Why do these model 21st century talent-focused companies find it so difficult to engage employees?

The Big Four face certain inherent challenges that are engrained in the nature of the accounting profession. Their people obstacles lie in the nature of the work, the reasons why people choose to be accountants and the motivation behind the new generation of young talent which is the core of Big Four work force.

Accountancy firms have to understand and accept that simply changing the structure of the audit or launching a new recruitment campaign cannot solve the obstacles they face.

True talent differentiation for the Big Four lies in responding to these fundamental points:

1. **Understand the reasons why most people become accountants**

The reasons why people choose the accounting profession are not usually congruent with their deep, personal passion and talents. Money, status and future career marketability are some of the main reasons why people choose the accounting profession.

In his book, A Whole New Mind: Why Right Brainers will Rule the Future, Daniel Pink says:

> Relatively few people become accountants out of a sense of intrinsic motivation. This weekend, there will be accountants doing watercolours in the garages. But I guarantee you that you won’t find any sculptors who on weekends will be doing other
values loyalty and is more appreciative of the stability, rewards, experience and opportunities provided by their firm. Millennials do not necessarily respect people because of rank or experience - they want their leaders to act in a way that demonstrates why they are at that spot in the hierarchy.

The collaborative structure of the audit team is encouraged by futurists like Lowell Bryan and Claudia Joyce. So, the challenge for the Big Four is to manage acute generational differences within these teams.

6. Communicate a unique vision (if you have one)

Each of the Big Four say they are different from their competitors yet none has articulated the vision that makes them unique. What is their differentiating purpose in business, other than making money? Their challenge is to ensure they are not driven solely by fear - fear of failure, fear of client rejection, fear of regulators, fear of becoming another Arthur Andersen. Why are any of the Big Four a better place to work than their competitors? If it is not any different, then don’t pretend it is.

Talented people want to work with other great people to achieve a big vision. Financial rewards for the company then become a natural by-product of that vision because people understand it, can apply it and it is clearly defined to the market, clients and staff. The Big Four’s challenge is to communicate this vision clearly and then let their actions speak for themselves.

The new generation entering the work force, the Millennials, craves meaning and purpose in their work. The nature of audits makes this difficult as the audit is done once every year. The following year, the slate is wiped clean and the team begins the cycle over again.

During the Middle Ages, a traveler came upon a building site. He asked a couple of workers, ‘What are you doing?’ One mumbled, ‘I’m cutting stone. It’s hard, boring and my back is aching.’ The other responded, with an excited gleam in his eyes, ‘I’m building a cathedral.’ Are any of the Big Four building their own ‘cathedral’? The perception from bored junior staff is that they are not creating something lasting and significant. The challenge for the Big Four is to define what that vision is (aside from making money) for each of their business units.

The future

Business strategists, like those from McKinsey, have revealed that the organisational structure and design of the Big Four is one of the models that 21st century organisations should use to create wealth from talent.

So, the future is not about changing the structure of the firms, but understanding the deep, profound challenges which are inherent within
the accounting profession.

The Big Four firm who will truly differentiate, capture market share and retain highly skilled talent is the one who embraces generational differences, removes bureaucracy, communicates a vision, makes entry level audit work more exciting, harnesses people’s passion and intrinsic motivation and takes calculated business risks in spite of the unforgiving market and regulatory environment.

Achieving these things requires above average innovation and creativity. That’s why the accounting profession needs more right brain thinkers ...

REFERENCES:


8. The Economist. Accounting for Good People 19 July 2007

9. Smith, Philip. Accountancy Magazine Big Four spawn more FTSE 100 FDs 3 March 2008

10. Thompson, Hugh. AccountancyAge.Com Talent spotting at the big four 11 April 2005


12. Accounting Profession in 2006 - The big trends http://www.accountingweb.co.uk/cgi-bin/item.cgi?id=149534
About TomorrowToday

We are a global management consulting company who works with many of the world’s leading companies. Our focus is to find creative ways to connect organisations with people. Why? Because to put it bluntly, connecting with people pays!

We inform: Our clients are quicker and better informed than their competitors about changing business, consumer and societal trends. Our diverse research simplifies complex trends and explains the “why” behind change.

We inspire: Our professional speakers are amongst the best in the world. Through high energy, humour and entertainment our multimedia presentations convey powerful business messages at conferences and company workshops.

We impact: Our team of consultants create long-lasting and significant improvements in company performance.

We are world leaders in Generations: a valuable framework connecting companies, talented staff and valuable customers.

TomorrowToday Ltd
www.tomorrowtoday.uk.com
info@tomorrowtoday.uk.com
+44 20 8274 3000
+44 7525 160 964