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TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

THE ORGANIZATIONAL STRUCTURES OF SELECTED LARGE PUBLIC ACCOUNTING FIRMS

CHAPTER I

THE PROBLEM

Introduction

By attesting to the fairness of financial statements, the public accounting profession substantially influences user confidence in published financial information. Since financial information affects efficient resource allocation, it is imperative that the modus operandi of such an economically vital profession be well understood by all user groups.

Although all successful professional organizations must be well organized, the public accounting profession is unique in one respect--its practicing units are so diverse in size. As Carey indicated, no other profession has practicing units that vary from one-man offices to offices employing thousands of professional personnel.[1] Therefore, the organizational structures of these varied firms become critical to

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[1]John L. Carey, The CPA Plans for The Future (New York: American Institute of Certified Public Accountants, 1965), p. 422.

the efficient, effective discharge of professional obligations.

Even though of significant value to firms, business and academic communities, and various user groups, an in-depth study of the organizational structures of large public accounting firms is not present in the literature. Therefore, this study attempts to fill the void by empirically investigating the organizational structures of selected large public accounting firms.

Statement of Problem

Stated in general terms, the problem of this study is: Is there a typical organizational structure within the public accounting profession which is characteristic of large, successful firms?

The specific problems of the study are:

1. Historically, what events have precipitated major changes in firms' organizational structures?

2. How do firms' organization charts reflect coordination and integration of firms' subunits?

3. What distinction do firms make between line and staff personnel?

4. How do firms balance partner authority and responsibility?

5. What is the scope of firms' committee activities?

6. How do firms establish effective two-way communication?

7. What is the scope of firms' international operations?

8. What is the scope of firms' growth rates, commitments to continuing professional education, and commitments to research?

9. What recommendations do firms and partners have concerning methods of improving organizational structures?

Statement of Purpose

The purpose of this study is to explore the organizational structures of large public accounting firms. Because it is the first in-depth study in this area, it is an exploratory study. Lehmann and Mehrens suggest such an exploration to obtain information which is useful in identifying relevant variables for subsequent research.[1] In addition, the results of this exploratory study are expected to provide various groups with useful information.

Need for the Study

Roy and MacNeill cautioned that results of organizational research are difficult to quantify and are seldom pure. While such results are not generally prescriptive in nature, they do make a contribution by providing meaningful

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[1]Irvin J. Lehmann and William A. Mehrens (eds.), Educational Research: Readings in Focus (New York: Holt, Rinehart and Winston, Inc., 1971), pp. 189-190.

insights into alternative organizational structures.[1]

Practitioner interest in this study was determined for two reasons. First, accounting research should follow the philosophy that "accounting is an applied area and the research should be research which improves the practice of accounting."[2] Furthermore, this study required firms' participation. Table I summarizes the responses received and indicates that firms of various sizes participated in this study.

TABLE I

FIRM PARTICIPATION

	Big Eight	Non-Big Eight	Total Number	Total Percent
Mailed	8	17	25	100
Responses				
Yes	6	6	12	48
No	0	3	3	12
Total	6	9	15	60

[1]Robert H. Roy and James H. MacNeill, Horizons for a Profession (New York: American Institute of Certified Public Accountants, 1967), pp. 232-234.

[2]Paul J. Aslanian and John T. Duff, "Why Accounting Teachers Are So Academic," The Journal of Accountancy, CXXXVI (October, 1973), p. 53.

Examples of the affirmative responses include:

> I congratulate you on your selection of this topic for your doctoral dissertation since I believe it is a most important one, and the results of your research could be invaluable to many practitioners. Please be assured that . . . will be most pleased to cooperate with you in this effort.

> We would be pleased to participate in the investigation you are conducting in preparation for your dissertation. It is a topic worthy of study and should be of benefit to the accounting profession.

The three firms which declined to participate (all non-Big Eight) did so for various reasons. For example, one thought that it was too small, while another, although complete confidentiality had been assured, said that its "internal organization has always been considered by our partners a very private matter not for publication."

The enthusiastic comments of the affirmative respondents indicated their recognition of the need for this study. The participating firms manifested this enthusiasm by investing their most valuable commodity--time--in this study.

Contribution to the Profession and Accounting Literature

By filling a void in the literature, this study hopefully contributes to an increased understanding of the organizational structures of large public accounting firms. All segments of the profession benefit by realizing strengths, as well as possible weaknesses, of current organizational structures. And, if the study shortens the trial and error process of organizational evolution, regional and local firms may be able to save substantial resources necessitated by reinvention of the wheel.

Any research which culminates in more responsive, manageable organizational structures benefits all firms of the profession, their clients, and all users of published financial information. In addition, the business and academic communities benefit by understanding the internal functioning of public accounting firms via the profession's organizational structures.

Operational Definitions

In order to standardize terminology, each of the following terms has a specific meaning in this study:

Advisory Partners.--Consult with engagement partners to insure that clients receive high-level professional service and provide firm continuity in case of engagement partners' transfer, retirement, death, or resignation.

Directors of International Operations.--Regional managing partners for offices owned by United States firms; liaison partners for affiliated firms throughout the world; report to firm managing partners.

Engagement Partners.--Responsible for all professional and administrative services rendered clients and for ascertaining that all applicable firm policies, accounting principles, and auditing standards are applied.

Firms.--Responses of twelve firm managing partners or their designated representatives who participated in this study by completing Firm Interview Guides.

Firm Managing Partners.--Chief administrative officers of their firms and office managing partners of national offices.

General Counsels.--Full-time attorneys retained by firms to provide in-house legal advice.

Management Committees.--Senior-level groups of partners elected by partners to determine firm-wide objectives and policies and to act on firm-wide proposals.

National Directors (ND).--Responsible for all activities which transpire within their respective areas of national offices; report to firm managing partners; disseminate information from national offices to regional counterparts.

National Offices.--Firms' headquarters where firm-wide professional and administrative activities and policies are developed, implemented, and monitored.

Office Directors (OD).--Responsible for all activities which transpire within their respective areas of practice offices; report to office managing partners; receive communication from regional counterparts and disseminate it to other practice office partners.

Office Managing Partners.--Responsible for all professional and administrative aspects of their respective offices.

Partners.--Responses of partners who participated in this study by completing Partner Questionnaires. The firms' owners and personnel who have partner equivalent status (generally tax and management advisory services personnel who have special expertise but lack the accounting education necessary to obtain CPA certificates).

Regional Directors (RD).--Responsible for all activities which transpire within their respective areas of regional offices; report to regional managing partners; receive communication from national counterparts and disseminate it to office counterparts.

Regional Managing Partners.--Supervise, monitor, and coordinate activities of all offices in their regions either from a strong line position or from a staff advisory position; office managing partners in their regions report to them; they report to firm managing partners (Chapter III) or to national directors of domestic operations (Chapter IV).

Units.--Shares of ownership which represent the interests of individual partners in firm-wide operations.

Hypothesis to Be Tested

The hypothesis of this study is:

H_1: There exists within the public accounting profession a typical organizational structure which is characteristic of large, successful firms.

Since this is a descriptive rather than a statistical hypothesis, statistical tests of significance are not applicable. Such exploratory research (which seeks what is) frequently must precede hypothesis-testing research (which predicts relations).[1] The purposes of exploratory research include discovering significant variables, discovering relationships between variables,[2] and laying foundations for more rigorous and systematic testing.[3] In fact,

> it is well to recognize . . . that there are activities preliminary to hypothesis-testing in scientific research. In order to achieve the desirable aim of hypothesis-testing, preliminary methodological and measurement investigation must often be done.[4]

Assumptions

This study is based on the assumption that successful public accounting firms have well-designed organizational structures which have contributed to their success. It is

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[1]Daniel Katz, "Field Studies," Research Methods In The Behavioral Sciences, eds. Leon Festinger and Daniel Katz (New York: Dryden Press, 1953), Part I, Chapter II, p. 74.

[2]*Ibid*., p. 75.

[3]Fred N. Kerlinger, Foundations of Behavioral Research (Second Edition; New York: Holt, Rinehart and Winston, Inc., 1973), p. 406.

[4]*Ibid*.

also assumed that, although a particular firm's environment may require minor differences in organizational structure, there is a commonality of organizational structures.

Limitations

Participation in this study is confined to selected large public accounting firms. This is not a major limitation, however, because the identification of a typical organizational structure which is characteristic of large, successful public accounting firms can benefit regional and local, as well as national, firms. While the organizational structures of large public accounting firms might be generally understood by some, the need for empirical documentation remains.

Methodology

Methodology concerns the collection and analysis of the data utilized in this study.

Collection of Data

Twenty-five of the largest (including all of the Big Twenty[1]) public accounting firms received a letter (Appendix C) requesting their participation in this study. Fifteen firms responded; twelve expressed their desire to be included

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[1] The New York Times, May 1, 1973, p. 56.

in the study. This is an affirmative participation rate of 80 percent of the respondents.

Data used in this study were obtained from personal interviews and mail questionnaires. Personal interviews were conducted with twelve firm managing partners or their designated representatives (who are deeply involved with or are in charge of organizational matters). The interviews were conducted between December 19, 1973, and January 25, 1974. Each interview, which was recorded on cassettes, consumed approximately two to three hours and was based on the Firm Interview Guide (Appendix A).

Nine of these twelve firms agreed to have Partner Questionnaires (Appendix B) mailed to their partners. From these nine firms, 114 partners were selected to receive the Questionnaires. The selection procedure involved the following steps:

1. Each firms' offices were divided into three categories--large, medium, and small. Approximately one-third of each firms' Questionnaires were mailed to each office size. That is, if fifteen of a firms' partners received Partner Questionnaires, five partners represented large, five partners represented medium, and five partners represented small offices.

2. In order to provide for as much geographic representation as possible, offices from various regions of the country were selected.

3. After offices were selected, particular partners to receive Partner Questionnaires were selected,

except that only one partner in a particular office was selected.

The number of partners selected in each firm to receive Partner Questionnaires was based on the total number of partners in each respective firm. The number of partners selected ranged from 6 to 18; the median was 15.

In February, 1974, each of the 114 partners received the following:

1. A letter which explained the study (Appendix D).

2. A memorandum from a partner in the national office which acknowledged the firm's participation in the study and requested a candid and prompt response (Appendix E).

3. A Partner Questionnaire (Appendix B).

In March, 1974, each partner who had not responded received the following:

1. A follow-up letter which emphasized the importance of a response (Appendix F).

2. A Partner Questionnaire (Appendix B).

Partner Questionnaires were received between February 13, 1974, and May 13, 1974. Responses were received from 88 (77 percent) of the partners who received Partner Questionnaires. The response rate of individual firms ranged from 67 percent to 100 percent; the median was 73 percent. Of these responses, 85 (75 percent) were usable. Because of the open-ended nature of many of the questions, this is considered to be a good response rate.

Analysis of Data

The data captured by the Firm Interview Guides and Partner Questionnaires were subjected to intense analysis:

1. A Firm Interview Guide was completed in detail for each participating firm from the cassette recording.

2. A Partner Questionnaire was completed which summarized the responses of each participating firms' partners.

3. The Firm Interview Guide (step No. 1) and the summarized Partner Questionnaire (step No. 2) were compared on a firm-by-firm basis. This was necessary to determine the degree of understanding between a firm and its partners.

4. Generalizations were formulated with significant exceptions indicated. The results of this step appear in Chapter III. No firm, office, or individual is identified in the study; that is, no tabulations by firm are presented.

5. An organizational structure was proposed in Chapter IV which encompasses the relevant accounting and management literature presented in Chapter II and the empirical evidence reported in Chapter III.

Organization of the Study

This study is composed of four additional chapters. Chapter II reviews related studies and principles of sound organizational structure. Chapter III reports the empirical evidence captured by the Firm Interview Guides and the Partner Questionnaires. Chapter IV presents a recommended organizational structure which encompasses the accounting and management literature reported in Chapter II and the empirical evidence presented in Chapter III. Chapter V consists of the summary, conclusions, and recommendations.

CHAPTER II

RELATED STUDIES AND PRINCIPLES OF SOUND ORGANIZATIONAL STRUCTURE

Introduction

There are two primary reasons for a review of related literature: (1) to identify what research has and has not been conducted on a problem and (2) to explain the theoretical base of a problem.[1]

Although an extensive review of literature failed to reveal an in-depth study concerning organizational structures of large public accounting firms, several related studies do merit attention and are therefore reviewed.

Management principles applicable to the organizational structures of large public accounting firms are then reviewed to determine the theoretical base of the problem.

Related Studies

The professional and bureaucratic (rationalized efficiency) dichotomy within large public accounting firms has

[1]Kerlinger, p. 696.

been investigated. Montagna[1] found that the extent of bureaucratization was rather low for enterprises as large as public accounting firms. Only 12 percent of professional time was spent on firm administration, which he attributed to the personal autonomy of partners and the influence of professional factors (codification of ethics, accounting principles, and auditing standards) external to the firm.

Research results also indicated that the development of rules was eroding professional mystique and thereby converting a formerly intellectual activity into a mechanical technique. In this situation, "firms will strive to gain control over new areas of knowledge with high judgment potential."[2] He cited operational auditing as an example of this trend.

Sorensen[3] also conducted a study in this area. It involved four national public accounting firms and was designed to answer three questions: (1) Is there a chasm between the ideals and perceptions of professional and bureaucratic

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[1]Paul D. Montagna, "Professionalization and Bureaucratization in Large Professional Organizations," The American Journal of Sociology, LXXIV (September, 1968), pp. 138-145.

[2]Paul Douglas Montagna, "Bureaucracy and Change in Large Professional Organizations: A Functional Analysis of Large Public Accounting Firms," Dissertation Abstracts, XXIX (July, 1968), p. 336-A.

[3]James E. Sorensen, "Professional and Bureaucratic Organization in the Public Accounting Firm," The Accounting Review, XLII (July, 1967), pp. 553-565.

organizations when viewed from different vantage points (i.e., partners and juniors)? (2) Is there actually a conflict between bureaucratism and professionalism? (3) What is the influence of bureaucratism and professionalism on job satisfaction and/or job migration?

The affirmative responses to the first question indicated that partners and juniors represented two extreme positions of bureaucratic and professional orientation. However, as one advanced in rank from junior to partner, professional orientation steadily declined and bureaucratic orientation increased. Sorensen concluded that juniors had unrealistic orientations which had to be transformed (i.e., their more idealistic professional orientation had to be supplanted by bureaucratic orientation) over time if they were to enjoy success and reach partner status. The same orientation pattern was found when years of experience was substituted for position (i.e., as years of experience increased, professional orientation steadily declined and bureaucratic orientation increased).

The second question also received affirmative responses. High bureaucratic and high professional orientation resulted in conflict because an individual's ideals exceeded his perceived reality. However, low bureaucratic and low professional orientations resulted in little conflict between ideals and reality.

The affirmative responses to the third question indicated that bureaucratic orientation was significant in determining job satisfaction and job migration plans. An individual with either high or low professional orientation, accompanied by high bureaucratic orientation, experienced job satisfaction and planned to remain at his job, while an individual with significantly lower bureaucratic orientation planned to migrate.

In a subsequent article, Sorensen[1] expanded his analysis of the third question. He discovered that all personnel reported professional experiences below ideals and those who planned migration perceived a greater variance between their ideals and their understanding of the firm's actual operations than those who planned to remain at their jobs. In addition, he reported that partners and managers shared similar views on professional issues, as did seniors and juniors, but there were significant differences between the two groups. Sorensen concluded that turnover rates in public accounting firms would decrease if individuals were selected whose views of work were compatible with those of the firm and if continuing professional education courses were

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[1]James E. Sorensen, "Professional and Organizational Profiles of the Migrating and Non-Migrating Large Public Accounting Firm CPA," Decision Sciences, I (July-October, 1970), pp. 489-512.

designed to assist staff members in modifying their ideals and perceptions.

Watson[1] conducted a different type of research concerning public accounting firms. He found a considerable difference in the environmental stability of project teams organized to render auditing and management advisory services. While auditing teams enjoyed a relatively stable task environment and exhibited mechanistic organizational structures, management advisory services teams had a relatively unstable task environment and exhibited organismic organizational structures. These differences were attributed to the different task environments of each area and were considered necessary for the successful conduct of professional engagements in their respective environments.

In order to determine the effect of organizational structure on need satisfaction and managerial success, Ghiselli and Johnson[2] administered a questionnaire to 413 managers selected from numerous types of business and industrial enterprises that were geographically dispersed

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[1]David John Hopetoun Watson, "The Structure of Project Teams Facing Differentiated Environments: A Study of Public Accounting Firms," Dissertation Abstracts International, XXXIII (February, 1973), p. 3849-A.

[2]Edwin E. Ghiselli and Douglas A. Johnson, "Need Satisfaction, Managerial Success, and Organizational Structure," Personnel Psychology, XXIII (Winter, 1970), pp. 569-576.

throughout the United States. For security and social needs, they found no significant difference between satisfaction and success in flat and in tall structures. However, for higher order needs (esteem, autonomy, and self-actualization), they found a significantly higher correlation between satisfaction and success in flat than in tall structures. There was greater higher order need satisfaction in flat structures because they have fewer levels of management (in organizations of constant size) and wider spans of control. Flat structures are superior to tall structures, which have many levels of management and narrower spans of control, because they encourage managerial discretion.

Greiner[1] described the five evolutionary phases of organizational development which all growing enterprises experienced: creativity, direction, delegation, coordination, and collaboration. Each of these phases had a smooth stage and a turmoil stage (preparation for the subsequent phase). The third phase, delegation, illustrated the process. As a result of top-management direction in the second phase, lower level managers sought and received additional authority and responsibility. This delegation caused a decentralized organization. Top management then decided to regain control

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[1] Larry E. Greiner, "Evolution and Revolution as Organizations Grow," Harvard Business Review, L (July-August, 1972), pp. 37-46.

of the enterprise's operations by installing special coordinating techniques. Hence, the enterprise moved into the fourth phase. Greiner concluded that management should not discourage these evolutionary phases because skipped phases might preclude acquisition of certain essential strengths and experiences.

Principles of Sound Organizational Structure

The Firm Interview Guides and Partner Questionnaires investigate several aspects of large public accounting firms which are based on management principles. The following management principles concerning basic organizational concepts, line and staff relationships, authority and responsibility, committee structure, and communication are limited to the traditional areas of management theory since they are most applicable to the organizational structures of large public accounting firms.

Basic Organizational Concepts

Objectives, organization charts, and departmentalization are the basic organizational concepts applicable to the organizational structures of large public accounting firms.

Objectives.--Strategic planning is an essential element in the long-range success of an enterprise. One aspect of this planning is the development of objectives upon which future managerial policies and actions are based.[1] One principle of objectives states that: "Before initiating any course of action, the objectives in view must be clearly determined, understood, and stated."[2] A sound objective is predetermined, stated in written form, and, in order to serve a motivational role, difficult to attain (although within reach).[3]

The inclusive nature of enterprise objectives is such that they are essential in every area which has a significant impact of the survival or prosperity of the enterprise. In fact, there are eight areas in which performance objectives are prerequisite to a well-managed enterprise: market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude, and public responsibility.[4]

Enterprise administration is more effective when sound

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[1]Justin G. Longenecker, Principles of Management and Organizational Behavior (Second Edition; Columbus, Ohio: Charles E. Merrill Publishing Co., 1969), p. 78.

[2]John F. Mee, "Management Philosophy for Professional Executives," Business Horizons (1956), p. 7.

[3]Henry L. Sisk, Principles of Management: A Systems Approach To The Management Process (Cincinnati: South-Western Publishing Company, 1969), p. 51.

[4]Peter F. Drucker, The Practice of Management (New York: Harper & Brothers, 1954), p. 63.

objectives are developed and communicated to all personnel. Otherwise, crisis management results and chance events have too great an influence.[1] Although top management can accept, modify, or reject submitted objectives, the most effective ones are those developed via manager participation because of their increased commitment and teamwork in accomplishing them.[2]

Organization Charts.--After objectives are determined, an enterprise is designed to achieve those objectives. The type of enterprise influences the basic organizational structure that is needed.[3] While an organization chart is essential in understanding organizational structure, it is a means rather than an end. It is not the organization; it simply reflects, without numerous dynamic relationships, lines of authority within an enterprise at a particular time.[4]

Research has indicated that a sound enterprise is typified by a comprehensive organization chart.[5] The function

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[1]Harold Koontz and Cyril O'Donnell, Principles of Management: An Analysis of Managerial Functions (Fourth Edition; New York: McGraw-Hill Book Company, 1968), p. 114.

[2]Drucker, pp. 128-129.

[3]Koontz and O'Donnell, p. 413.

[4]Longenecker, p. 171.

[5]Paul E. Holden, Lounsbury S. Fish, and Hubert L. Smith, Top-Management Organization and Control (Stanford, California: Stanford University Press, 1941), p. 93.

of any organization chart is to serve a clarification role and reduce potential conflict within an enterprise. Therefore, in order to avoid inconsistencies and complexities of authority relationships, the construction of an organization chart is frequently the first step in the development of a sound organizational structure.[1]

There are several organization chart configurations. The most popular is a vertical chart which shows authority relationships from the top to the bottom of an enterprise. Another is a horizontal chart which follows the normal reading pattern of left to right. There is a circular chart which places the chief executive in the center of a group of concentric circles. Proponents of this chart believe that it more accurately reflects the dynamic relationships that exist within an enterprise.[2]

Because of the limitations of each of these charts, an orbital matrix organization chart has been recommended. The center of this chart represents a customer's need, which is surrounded by dynamically rotating circular (for line authority) and elliptical (for staff functions) discs. An individual can communicate directly with anyone else and does not fear either falling off the chart or moving to a lower

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[1]Koontz and O'Donnell, pp. 417-418.

[2]Sisk, p. 375.

level. The trajectory of these rotating discs provides the motility and dynamism appropriate for a modern enterprise.[1]

There are several criticisms of organization charts. One criticism is that authority relationships are depicted while many informal relationships are excluded. However, a chart with both relationships would be too complicated. Other criticisms are that a chart often reports what is supposed to be rather than what really exists and that, by committing an organization chart to writing, a degree of inflexibility is fostered.[2] These two criticisms must be regarded as people (rather than organization chart) weaknesses. The first indicates a lack of ability to design a chart and the second is a by-product of poor leadership. Regardless of any weaknesses, "the best-known tool of organization planning is the organization chart."[3] An organization chart which accurately reflects an organizational structure should therefore be developed and kept up to date.

Departmentalization.--People must be organized in manageable units in order for enterprise objectives to be effectively accomplished. Some common denominators for establishing

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[1]W. Boyd Smith, "The Missing Dimensions in Organization Structure Charts," The New York Certified Public Accountant, XLI (April, 1971), pp. 303-305.

[2]Koontz and O'Donnell, pp. 418-419.

[3]Longenecker, p. 292.

departments include function, product, customer, and geography. Departmentalization by function is popular because executives are used to thinking in terms of enterprise activities. The advantage of this approach is its logical organization of personnel by occupational specialization. A major drawback is the lack of general management training provided promotable individuals--the first general managerial position is president or executive vice president. Product departmentalization is used for specific projects which require expertise. Although customer service is frequently improved and profit responsibility is easily established via this approach, enterprise disarray results if it is followed unnecessarily. Customer departmentalization is appropriate when the needs of customers are special and vary widely. However, it complicates coordination of various departments into an integrated enterprise. Geography is sometimes a criterion for departmentalization, but neither poor communication nor necessary prompt action at the local level is a valid reason for implementing it. Either avoiding absenteeism (incorporating local factors into decisions) or taking advantage of economies of a local operation is a valid reason for geographical departmentalization.[1]

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[1]Koontz and O'Donnell, pp. 260-274.

Fayol stated the purpose of departmentalization when he said:

> The object of division of work is to produce more and better work with the same effort. The worker always on the same part, the manager concerned always with the same matters, acquire an ability, sureness, and accuracy which increase their output.[1]

This principle contributes significantly to the development of a sound enterprise.

Line and Staff Relationships

Historically, line and staff were military terms with relatively precise meanings. Businessmen then began to use them to allocate authority throughout organizational structures.[2] Line activities are those which have direct responsibility for the accomplishment of enterprise objectives, while staff activities are those which assist the line in the effective accomplishment of enterprise objectives.[3]

The term staff applies to at least two types of personnel. First, it refers to a staff member who serves as an

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[1]Henri Fayol, General and Industrial Management (London: Sir Isaac Pitman & Sons, Ltd., 1949), p. 20.

[2]Lyndall Urwick, Notes on The Theory of Organization (New York: American Management Association, 1952), pp. 67-71.

[3]Louis A. Allen, Improving Staff and Line Relationships, ("Studies in Personnel Policy," No. 153; New York: National Industrial Conference Board, Inc., 1956), pp. 12, 20.

assistant-to his superior. This position (1) lacks specific functions (duties depend upon assignments), (2) has no inherent authority (it is granted for a specific assignment), and (3) is representative (actions are on behalf of a superior).[1] An assistant-to "should never have or be allowed to imagine that he has . . . any authority of his own."[2]

The second type of staff personnel, specialized groups, serves an entire enterprise--personnel, public relations, legal counsel, controller, labor relations, and maintenance. The role of these specialists is to provide knowledge, service, and advice superior to that otherwise available to the line. When the quality of service provided surpasses that generally available, line personnel seek and accept advice and guidance from staff personnel. Both become members of the same team and productivity of the entire enterprise increases.[3]

Unfortunately, line personnel do not always view staff personnel positively. They complain that staff personnel usurp line authority, give unsound advice about problems (too theoretical), tend to accept credit for successful innovations but blame line personnel for unsuccessful

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[1]Sisk, p. 298.

[2]Urwick, p. 73.

[3]Longenecker, pp. 220-222.

projects, fail to inform line managers of work involving their subordinates (especially in training programs), and fail to see the over-all objectives of the enterprise because of their specialty outlook. On the other hand, staff personnel complain that line personnel fail to properly utilize available staff expertise, resist new ideas, and fail to give staff personnel adequate authority.[1] Hostility between these two groups decreases when staff personnel recognize that their job is to counsel and line personnel recognize the distinction between counsel and command.[2]

Staff personnel are most helpful to line personnel when they de-emphasize their specialty approach and emphasize overall enterprise objectives, inform line personnel of their services, seek input from those who are affected by change and carefully explain its advantages, and acquire technical competency which complements the employer's specialized expertise.[3] Line personnel maximize staff assistance by listening to their recommendations and by being informed about problems and developments germane to their areas. Good personal relations are of utmost importance.[4]

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[1] Allen, pp. 71-74.

[2] Koontz and O'Donnell, p. 297.

[3] Allen, pp. 76-78.

[4] Koontz and O'Donnell, pp. 323-325.

The relationships between line and staff personnel are affected by their responses to their respective responsibilities. Although numerous guidelines applicable to both line and staff personnel are available,

> "official channels" are not the way to do business. They are there "for the record" in case good personal relations break down or there is a sudden change of personalities. But the real work of the world is always done by individuals who trust each other and whose good relations are informal.[1]

The functional authority concept is perhaps a viable alternative to the traditional line and staff dichotomy. That is, an individual or department may receive specific power to influence activities in other departments. This concept usually answers questions of "how" and "when" rather than questions of "where," "what," or "who." Although the functional authority concept cannot be allowed to destroy unity of command, it does minimize problems associated with the line and staff dichotomy.[2]

Authority and Responsibility

The terms authority and responsibility are often confused. Although phrases such as delegating responsibility abound in the management literature, it is authority--not

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[1]Urwick, p. 72.

[2]Koontz and O'Donnell, pp. 301-305.

responsibility--that is delegated. Authority is the power to command others; responsibility represents obligations to superiors. The key to managerial activity, therefore, is authority.[1]

There are several theories concerning the source of authority. The Formal Authority Theory (hierarchical transfer of authority) states that business firms obtain authority from private ownership of property. As the property passes from owners to managers to the lowest subordinates of the firm, clear lines of authority develop. However, such factors as legislation, competition, and labor unions temper this authority considerably. The Acceptance Theory and the Competence Theory are other theories concerning the source of authority. The Acceptance Theory states that subordinates accept managerial authority because of the power their superiors have over them. Since subordinates usually accept orders automatically, this theory is perhaps more germane to leadership than to authority. The Competence Theory states that an individual's technical competence generates authority. Each of these theories is useful in understanding the development of authority within an enterprise.[2]

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[1] _Ibid_., pp. 59-65.

[2] _Ibid_., pp. 60-63.

Authority (not responsibility) is delegated via its transfer, preferably in written form, from a superior to a subordinate.[1] Delegation is more effective when the following principles are observed:[2]

1. Principle of parity of authority and responsibility.
2. Principle of absoluteness of accountability.
3. Principle of unity of command.

Several advantages accrue to an enterprise which delegates authority as far down the organizational structure as possible. Delegation of authority frees high-level executives from detailed work and enables them to concentrate on major responsibilities. It fosters the growth of subordinates so that they are capable of making decisions and it enhances over-all morale. However, these advantages of delegation are mitigated in various ways. Some potential delegators do not want to relinquish their power; others are too insecure to do so. The limited ability (lack of education and/or experience) of subordinates and time pressure to complete a project also affect delegation of authority. In addition, projects of particular significance to an

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[1]Geneva Seybold, Company Organization Charts ("Studies in Personnel Policy," No. 139; New York: National Industrial Conference Board, Inc., 1953), pp. 6-7.

[2]Sisk, pp. 313-320.

enterprise often are not delegated.[1]

Decentralization is

> a philosophy of organization and management, implying both selective dispersal and concentration of authority. It requires far more than simply handing authority to subordinates. As companies find when they begin to decentralize, it requires careful selection of what decisions to push down into the organization structure and what to hold at or near the top, specific policy making to guide the decision making, selection and training of people, and adequate controls. Indeed, decentralization encompasses all areas of management.[2]

The extent of delegation of authority is one index of decentralization in an enterprise. The following guidelines for measuring the degree of decentralization indicate that decentralization is greater:

1. The greater the number of decisions made lower down the management hierarchy.

2. The more important the decisions made lower down the management hierarchy.

3. The more functions affected by decisions made at lower levels.

4. The less checking required on the decision.[3]

Span of management influences authority and responsibility. Although there is considerable variation in the

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[1]Longenecker, pp. 269-275.

[2]Koontz and O'Donnell, p. 350.

[3]Ernest Dale, Planning and Developing the Company Organization Structure (New York: American Management Association, Inc., 1952), p. 107.

preferred span of management, two highly recommended ranges are from "four to eight subordinates at the upper levels of organization and eight to fifteen or more at the lower levels."[1] There is also considerable variation in actual span of management. A study of 100 large enterprises with good organizations was conducted. The results indicated that the number of executives reporting to presidents ranged from 1 to 24; one-half exceeded the recommended upper limit of eight executives reporting to a president (the median was between eight and nine).[2]

Because channels of communication follow line organization, an inverse relationship exists between the span of management and the number of echelons of management within an enterprise. As the span of management is increased, a given enterprise can operate with a flatter structure.[3] A study of Sears, Roebuck and Company revealed that a flat, less complex structure, combined with administrative decentralization, tended to produce improved attitudes, better supervision, and greater employee responsibility and initiative than did a narrow span of management.[4]

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[1]Koontz and O'Donnell, p. 242.

[2]Dale, pp. 56-60.

[3]Longenecker, pp. 202, 207.

[4]James C. Worthy, "Organizational Structure and Employe (sic) Morale," American Sociological Review, XV (April, 1950), pp. 169-179.

Many interacting factors influence the optimum span of management for an enterprise. The nature of work (repetitive or constantly new situations), the geographical spread of enterprise activities, and the executive's physical, mental, and emotional characteristics determine his effective span of management.[1] Although these and other variables affect the optimum span of management in a particular enterprise, a wider span of management, in conjunction with a flatter organization chart, is preferable.

Committee Structure

Although the committee approach is criticized, its inherent advantages insure its continued existence. Growth in both size and complexity of modern enterprises dictates that certain functions be assigned to groups rather than to individuals.

A committee is composed of

> two or more persons appointed by their immediate superior for the purpose of acting or advising their superior about a subject that is not clearly within the competence of any of them.[2]

The scope and power of most committees is clearly defined and their functions are usually homogeneous. Committee

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[1]Longenecker, pp. 209-212.

[2]Cyril O'Donnell, "Ground Rules for Using Committees," Management Review, L (October, 1961), p. 64.

membership is generally a part-time activity and the chairman, who is appointed by the creator of the committee or elected by the committee,[1] should be selected "on the basis of his ability to conduct an efficient meeting."[2]

The committee approach is based on two assumptions: (1) the quality of decision making improves with group participation (ad hoc committees) and (2) a committee facilitates coordination of an enterprise (standing committees).[3]

Appropriate committee size is prerequisite to maximizing the benefits of group deliberation. It is recommended that "a committee should be large enough to promote deliberation and include the breadth of expertness required for its job but not so large as to waste time or foster indecision."[4] Therefore, effective committees usually have five or six members, but they should not have more than fifteen or sixteen members.[5]

There are numerous advantages of the committee approach. Committee members from various functional areas contribute

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[1]Sisk, pp. 340-341.

[2]O'Donnell, p. 67.

[3]Sisk, pp. 340-342.

[4]Koontz and O'Donnell, p. 400.

[5]Dale, p. 90.

different approaches to solving a complex problem. Also, after careful committee scrutiny, faulty reasoning and personal bias become apparent and are avoided in implementing a decision. As committee members report, receive, and analyze information, they also gain understanding of over-all operations.[1] In addition, when a committee implements a decision, peer influence provides motivation for otherwise reluctant members to become enthusiastic supporters of a decision (unless it is a "railroad" decision).[2] The committee approach also enables an enterprise to invest more authority in a group than it wants to entrust to an individual.[3]

There are also numerous disadvantages of the committee approach. A very important one is the cost/benefit ratio. Time and money expenditures on committee activities have to be justified by the benefit to an enterprise. A method has been suggested which measures this ratio in order to objectively determine whether or not to continue committee activities.[4]

Since committee authority and responsibility are dispersed throughout the group, no committee member is accountable

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[1]Longenecker, pp. 237-239.

[2]Koontz and O'Donnell, pp. 382-383.

[3]Sisk, p. 345.

[4]Dale, p. 88.

for group actions. This lack of accountability is one of the greatest weaknesses of a committee.[1]

Another disadvantage inherent in the committee approach is the risk of compromise. While some decisions are made at the lowest common denominator level, the alternative is decision making dominated by one strong committee member.[2] Careful selection of committee members is the best protection against this disadvantage.

As modern business has become more complex, enterprises have supplemented individual leadership with management committees. The goal of a top-management committee is

> to create a superman by combining the great breadth of experience represented by the various members, so each can contribute his own viewpoint for the benefit of the others and the group as a whole.[3]

The first enterprise to implement a top-management committee was E. I. du Pont de Nemours & Company, Inc., in 1921.[4] The committee was formed because a problem filtered to the top of the Company and back down again before it was resolved.[5]

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[1]Koontz and O'Donnell, p. 385.

[2]Sisk, pp. 346-347.

[3]William H. Mylander, "Management by Executive Committee," Harvard Business Review, XXXIII (May-June, 1955), p. 56.

[4]M. R. Lohmann, Top Management Committees ("AMA Research Study," No. 48; New York: American Management Association, 1961), p. 5.

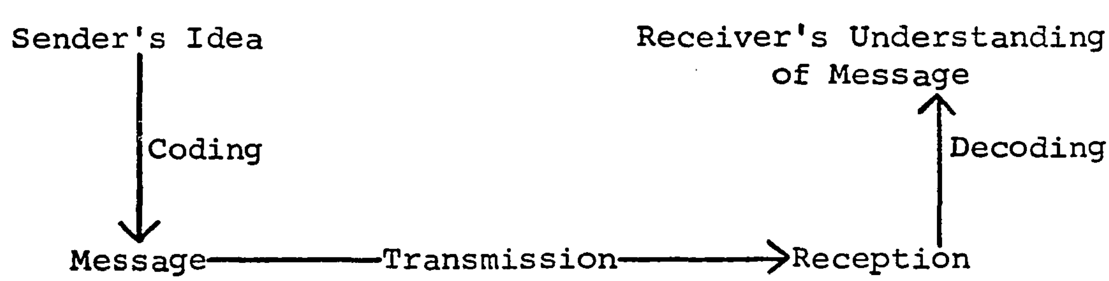
[5]Mylander, p. 53.

American enterprises have emulated du Pont throughout the years.

Communication

Communication is the "exchange of facts, ideas, opinions, or emotions by two or more persons."[1] Its purpose "is to influence the behavior of another person."[2]

Effective communication occurs when a receiver perceives a message exactly as a sender perceives it. However, there are several stages through which all transmitted messages must pass, and each stage provides an opportunity for distortion. There are numerous opportunities for distortion in a relatively simple transmission from one person to another:[3]



Communication is classified either by the method of

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[1]William H. Newman, Charles E. Summer, and E. Kirby Warren, The Process of Management: Concepts, Behavior, and Practice (Second Edition; Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1967), p. 219.

[2]Sisk, p. 421.

[3]William P. Sexton, Organization Theories (Columbus, Ohio: Charles E. Merrill Publishing Company, 1970), pp. 245-246.

transmission (written or oral) or by the direction of the flow (downward, upward, horizontal, or diagonal). While oral communication provides speed and opportunities for instant feedback, it is also easily misinterpreted and obstructed by interpersonal relationships. These disadvantages make written communication more reliable. Written communication with downward flow includes house organs, annual reports, handbooks, and formal statements of policies, procedures, and methods. Written communication with upward flow includes systems for grievances and suggestions and surveys of attitude and morale. Letters and memoranda between department heads illustrate horizontal and diagonal written communication.[1]

A general principle of communication is that "for effective communication the sender must determine the purpose of the communication and use symbols having the same meaning for sender and receiver."[2] Four principles facilitate the application of this general principle:[3]

1. Principle of clarity. A sender is responsible for formulating communication in language that the receiver (subordinate, peer, or superior) can understand.

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[1]Sisk, p. 427.

[2]*Ibid.*, p. 423.

[3]Koontz and O'Donnell, pp. 601-603.

2. Principle of attention. Receiver attention cannot be left to chance because of brief attention span and competition with other messages.

3. Principle of integrity. Immediate supervisors should communicate with their subordinates and, except in extreme emergencies, should not be bypassed in the communication channel.

4. Principle of strategic use of informal organization. Utilize the grapevine to send and receive supplemental information since it can be neither eliminated nor ignored.

When these principles of effective communication are not followed, problems arise. One serious problem is the receiver's tendency to evaluate a message before it is complete, especially if the message transmission is interrupted and not resumed. Careful listening is the solution to this problem.[1]

Additional problems of communication include badly expressed messages, messages cast outside a receiver's frame of reference, messages repeated several times, and inattention of a receiver.[2] Required feedback from a receiver is a solution to these problems which require clarification. Airplane pilots follow this approach; they repeat air traffic controller's instructions prior to implementing them.[3]

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[1]Carl R. Rogers and F. J. Roethlisberger, "Barriers and Gateways to Communication," Harvard Business Review, XXX (July-August, 1952), pp. 46-52.

[2]Koontz and O'Donnell, pp. 599-600.

[3]Sexton, pp. 246-247.

Problems of communication are also caused by unclarified assumptions, distrust of a sender, fear, insufficient time for a receiver to think before responding, and selection of messages to be transmitted.[1]

One method of improving communication is to reverse roles of opposing groups in a dispute. Real communication results when one group understands a situation well enough to express it in the opposing group's terms.[2]

Another method of improving communication is to follow the Ten Commandments of Good Communication offered by the American Management Association:

1. Seek to clarify your ideas before communicating.
2. Examine the true purpose of each communication.
3. Consider the total physical and human setting whenever you communicate.
4. Consult with others, where appropriate, in planning communications.
5. Be mindful, while you communicate, of the overtones as well as the basic content of your message.
6. Take the opportunity, when it arises, to convey something of help or value to the receiver.
7. Follow up your communication.
8. Communicate for tomorrow as well as today.

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[1]Koontz and O'Donnell, pp. 600-601.

[2]Rogers and Roethlisberger, pp. 47-48.

9. Be sure your actions support your communications.

10. Last, but by no means least: Seek not only to be understood but to understand--be a good listener.[1]

Although these and other rules of communication do not transform a poor communicator into a good communicator, they do help improve communicative ability.

A manager who shares candid, honest information with subordinates establishes a good esprit de corps with them. When he is cognizant of the potential information overload and carefully selects messages for transmission, inefficiency and errors decrease. Selective receiving is also applicable when priorities are carefully established.[2]

Summary

Because they provide useful background information, this chapter reviews several studies which are related to the organizational structures of large public accounting firms. It also reviews selected (those which parallel the Firm Interview Guides and Partner Questionnaires) management principles. They are limited to the traditional areas of management theory since they are most applicable to the

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[1]American Management Association, Ten Commandments of Good Communication (New York: American Management Association, 1955), quoted in Harold Koontz and Cyril O'Donnell, Management: A Book of Readings (Second Edition; New York: McGraw-Hill Book Company, 1968), pp. 495-496.

[2]Longenecker, pp. 508-510.

organizational structures of large public accounting firms. The recommended organizational structure presented in Chapter IV abides by these traditional management principles.

CHAPTER III

PRESENT ORGANIZATIONAL STRUCTURES

The purpose of this chapter is to report, via generalizations with significant exceptions indicated, the empirical evidence captured by the Firm Interview Guides and the Partner Questionnaires. Therefore, the organization of the chapter parallels that of the data-gathering instruments.

Historical Development

Historically, several events have precipitated major changes in firm organizational structures. In fact, new structures are continuously evolving.

Major Changes

The fact that one-half of the firms established their current organizational structures in the 1970's and the remaining one-half did so in the 1960's indicates that firms respond to changing times. Approximately one-half of the firms made structural changes when they elected new firm managing partners; growth or the desire for growth accounted for structural changes in most of the other firms.

Before 1960, office managing partners typically reported directly to firm managing partners. However, the explosive growth of the 1960's required some modifications of this practice as the span of management grew too wide. Over one-half of the firms responded to this challenge by instituting regionalization. Two additional firms are moving toward regionalization (each has appointed its first regional partner) and anticipate complete regionalization eventually. Although for entirely different reasons, two other firms do not have regionalization. However, in one of these firms, 92 percent of its partners referred to regionalization.

Since 1960, growth via mergers with local firms has caused some problems. The most frequent solution to the problems was the formation of national partnerships. They enabled merged partners to come into partnerships as general partners rather than as office partners. Another solution utilized the establishment of two classes of partners (general and special). The special partner category facilitated mergers with firms which had excessive numbers of partners. That is, it enabled some merged partners to retain their partner titles but placed restrictions upon the scope of their activities.

Those firms which did not have national offices by 1960 established them as a result of phenomenal growth. These offices are usually functionally and operationally independent of practice offices located in the same city.

The post-1960 period also witnessed a trend toward more democratic administration of firms. For example, one firm managing partner relinquished, to the management committee that he established, his authority to make basic firm policies. Although he is chairman of the management committee, his action departed significantly from precedent. This approach broadened the input base available for major policy decisions. Firms also became more democratic by expanding their general partnerships to include all partners of firms (previously only the chosen few had been general partners in national partnerships).

Unsuccessful Organizational Plans

Because of the evolutionary, rather than revolutionary, nature of organizational structures, a substantial majority of firms have avoided unsuccessful structures. That is, earlier structures were appropriate when they were followed, but growth necessitated changes. Such organizational changes must be made at the appropriate time.

Firms recognized two unsuccessful organizational plans. Two firms centralized their management advisory services practices (or significant portions of them) in their national offices. This approach proved unsatisfactory, partially because of scheduling and personnel problems (continuous travel). Consequently, both firms abandoned the plan within a few years.

Another unsuccessful plan involved practice office supervision. The firms involved utilized diametrically opposed solutions to enhance quality client service. One firm solved the problem by increasing its regions (approximately five regional managing partners were added to move the firm managing partner closer to operating problems). The other firm solved the problem by decreasing its regions (regional managing partners were consolidated into almost full-time positions). Each firm is pleased with its solution to an unsuccessful plan.

Summary

The public accounting profession responded constructively to the turbulent years since World War II. The election of new firm managing partners and growth affected (1) regionalization, (2) mergers, (3) the establishment of national offices, and (4) the development of more democratic firm administration. Very few unsuccessful organizational plans have been implemented because of the evolutionary nature of organizational structures.

Organization Charts

Firm organization charts reflect the channels through which firm subunits are coordinated and integrated. Firm objectives, to a great extent, and the litigation environment, to a lesser extent, influence these charts.

Firm objectives must reflect the sentiments of firm managing partners. Therefore, firm managing partners, with the advice and consent of management committees, usually determine objectives. National directors and others in the national office influence these objectives, as do practice office partners. Input from the latter group is either from chance comments made in meetings and reports or from small groups of partners (twelve or less) assigned to assist firm managing partners develop firm objectives.

The current litigation environment has strengthened quality control and has prompted approximately one-half of the firms to retain a general counsel. As a result of the 1136 Tenants' Corporation case, small business practices are monitored by accounting and auditing departments to insure maintenance of quality control standards. In addition, offices are reviewing increasing numbers of working papers. Some firms have therefore established national directors of quality control.

Although not directly related to organizational structures, the current litigation environment has also increased the criteria for accepting new clients, increased the cost of professional liability insurance significantly, and decreased the use of paraprofessionals.

As firm objectives and the litigation environment change, firm organization charts are modified. In order to render the highest level of quality client service, the following changes were made:

1. National directors were established in national offices. They have firm-wide responsibility for a single aspect of professional practice.

2. Regions were established to provide high-level expertise near client-serving practice offices.

3. Industry specialization was designed to strengthen competence in specific industries.

4. Review processes were strengthened at local, regional, and national levels.

Charts

Figures 3.1, 3.2, and 3.3 depict a synthesis of organization charts of the firms. Figure 3.4 depicts a synthesis of organization charts of those firms which have regional and/or office positions parallel to national office positions. The criterion for the synthesis is substance rather than titles.

Because partners own the firms and, in nine of the twelve firms, elect a majority of the management committees, they are shown at the top of Figure 3.1. Memberships on

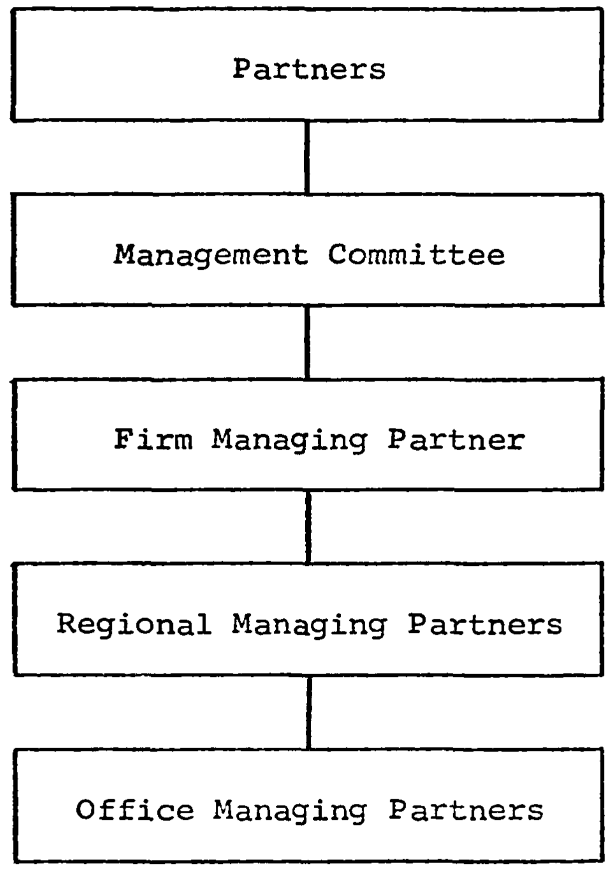


Fig. 3.1.--Domestic Line Organization

management committees range from 5 to 25 in the nine firms which elect management committees; the median is 11. Two of the remaining three firms have self-perpetuating management committees and the third firm has a positional management committee (firm managing partner, national directors, and all office managing partners).

Management committees delegate authority for implementing their policies to firm managing partners. Their authority is then delegated, in eight of the twelve firms, to regional managing partners. Office managing partners receive their authority either from regional managing partners (eight firms) or from firm managing partners (four firms). They have complete responsibility for all professional and administrative aspects of their offices.

Figure 3.2 is a snythesis of national offices. Personnel reporting directly to the twelve firm managing partners range from 6 to 70; the median is 18.

Since office managing partners report directly to firm managing partners in the four firms without regional structures, these firms were removed for additional analysis. Then, personnel reporting directly to the eight firm managing partners range from 6 to 25; the median is 16 (a drop of only 2) and is reflected in Figure 3.2. The number of regions in the eight regionalized firms ranges from 3 to 8; the median is 7 and is also reflected in Figure 3.2.

There are several activities for which each position in Figure 3.2 is responsible. The following list illustrates these activities:

National Director of Accounting and Auditing Services

1. Accounting and Auditing Research
2. Securities and Exchange Commission Consultation
3. Library Maintenance

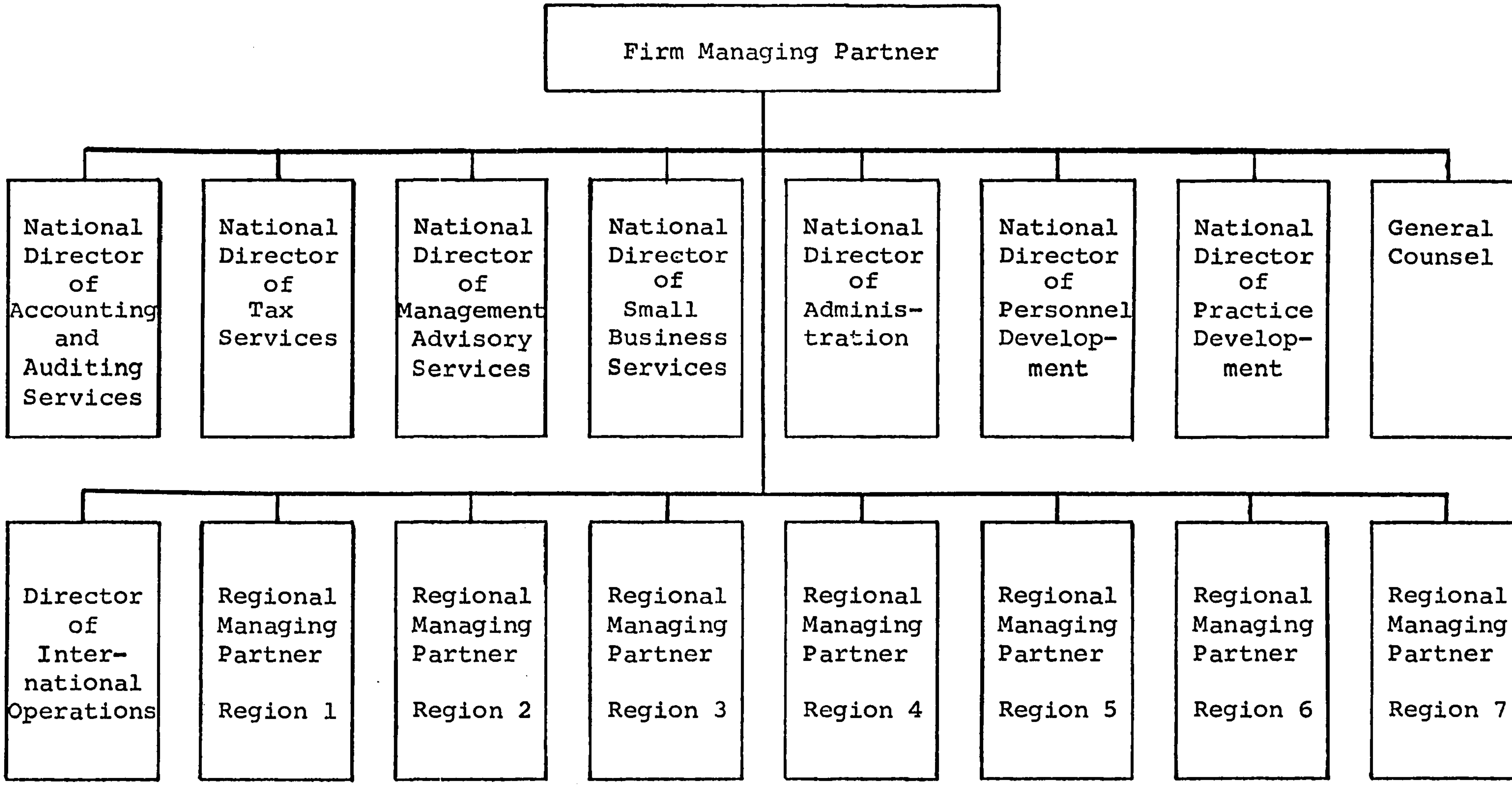


Fig. 3.2.--National Office Organization

National Director of Tax Services

1. Policy and Planning
2. International Taxation
3. Research

National Director of Management Advisory Services

1. Computer Applications
2. Mathematical Applications

National Director of Small Business Services

1. Monitors practice quality to prevent declines
2. Reviews equipment and other developments to mobilize new techniques

National Director of Administration

1. Controller
2. Internal Auditor
3. Purchasing Agent

National Director of Personnel Development

1. Recruiting
2. Continuing Professional Education

National Director of Practice Development

1. Industry Specialization
2. Government Contracts
3. Communication
4. Mergers and Acquisitions

General Counsel

1. Advises on legal developments which potentially affect the firm
2. Monitors legal developments which affect the accounting profession

Director of International Operations

1. Coordinates work performed for United States clients in foreign countries
2. Functions as a liaison representative with affiliated foreign firms

Regional Managing Partners

1. Monitors professional and administrative activities
2. Suggests cities for expansion
3. Investigates prospective merger candidates

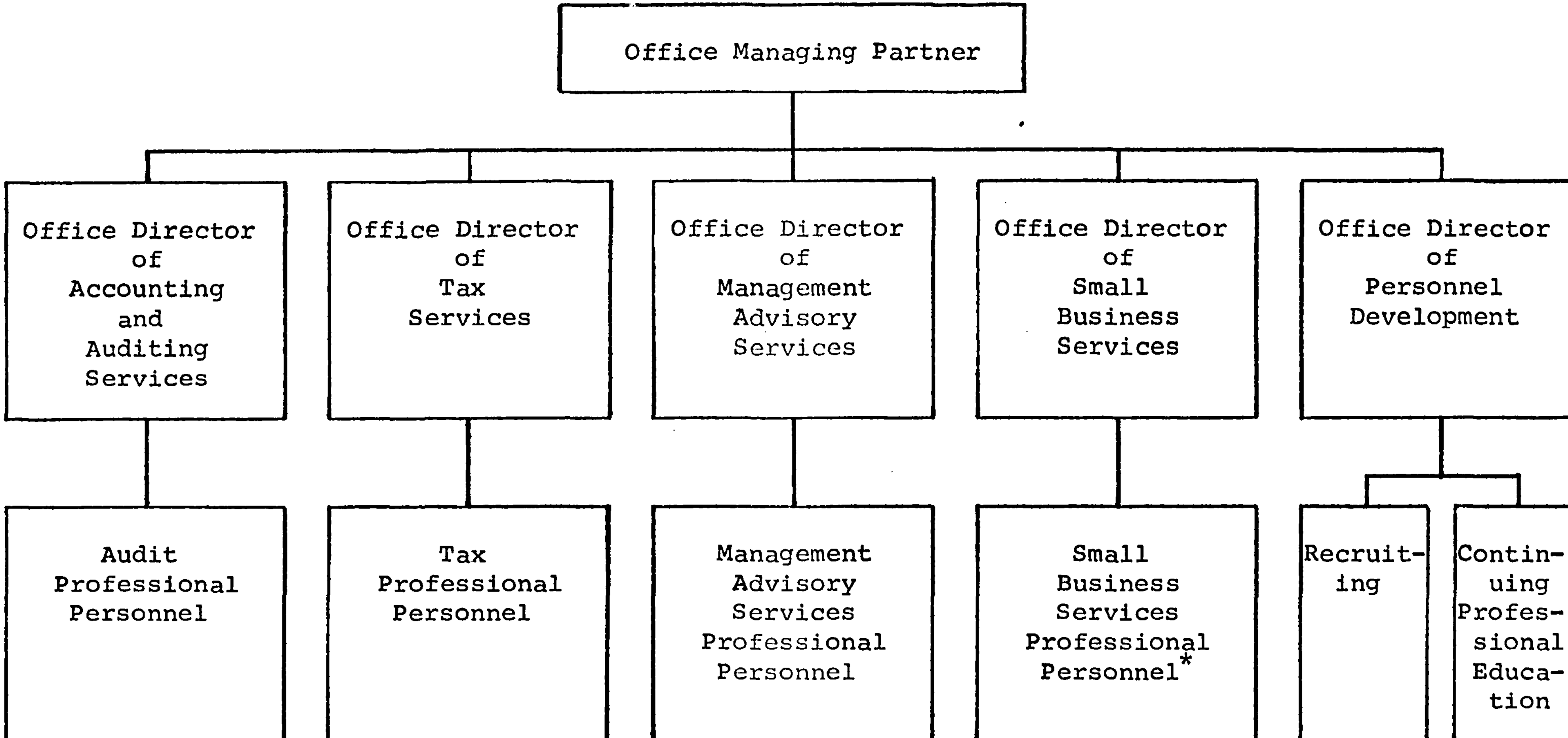
Although they are atypical and therefore do not appear in Figure 3.2, several other activities merit attention:

1. Several firms utilize senior partners to maintain continuity and to help with complicated matters (litigation, public and professional relations, and management of investment funds).

2. One firm established a national director of planning and firm development in order to achieve continuous and envisionary long-range planning. This person considers possible alternatives to significant decisions, insures that operating policies are effective, and develops an organizational environment which generates commitment to firm objectives.

3. One firm established a committee on accounting and auditing standards. This committee, described as an in-house Financial Accounting Standards Board, is concerned with the conceptual aspects of professional practice. It renders opinions on technical interpretations, but does not solve the practical problems of the national director of accounting and auditing services.

Figure 3.3 depicts the organization of practice offices. Office managing partners are the chief executive officers of their offices and have the authority and responsibility for all professional and administrative activities provided they do not deviate from firm policies. They establish policies relating to office organization and client services and, via engagement partners, ascertain that quality client service is provided. Office managing partners determine office



*Personnel for these engagements frequently are drawn from the other three functional areas. However, in some cases separate staffs are maintained.

Fig. 3.3.--Practice Office Organization

policies on such practical matters as whether to observe Patriot's Day in Boston or Mardi Gras in New Orleans. However, they usually do not have the discretion to offer fringe benefits that exceed those the firms offer. For example, office managing partners cannot offer their office personnel dental insurance. Strong office managing partners are prerequisite to the success of large professional organizations. In fact, many firms attribute their success to highly autonomous practice offices which are strongly dedicated to rendering the highest level of quality client service.

Office size determines the extent of departmentalization. Figure 3.3 reflects a trend toward office directors in each of the four functional areas of practice and in personnel development. Large offices divide personnel development into recruiting and continuing professional education. In addition, large offices have administrative partners who free office managing partners of many administrative details. Therefore, they can concentrate their efforts on activities such as practice development.

Figures 3.1, 3.2, and 3.3 depict typical firm organization charts. In addition, Figure 3.4 depicts expansion within regions and offices.

The trend toward regionalization is accelerating. Some firms have taken the first step toward regionalization, and

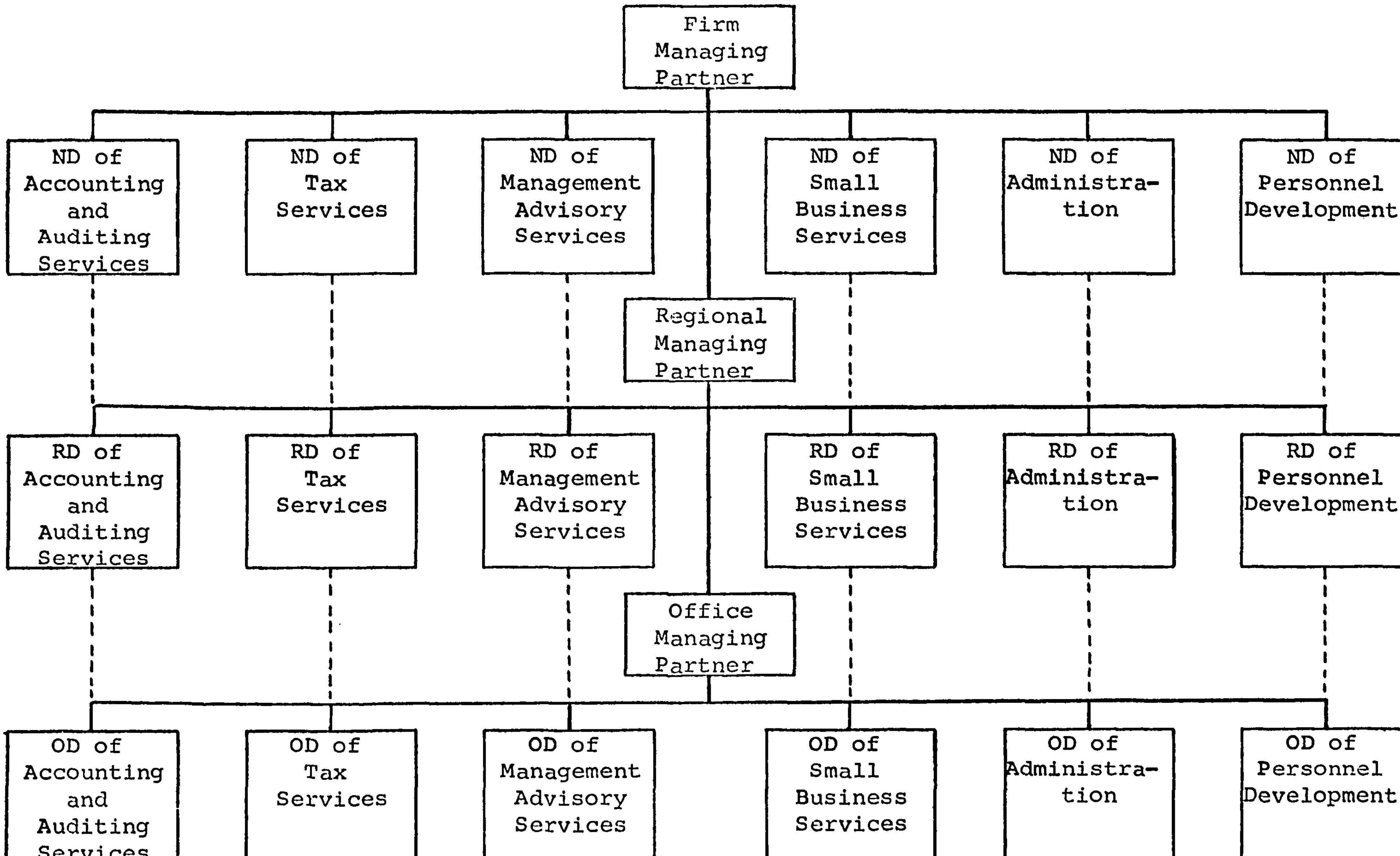


Fig. 3.4.--Line and Staff Relationships Between National, Regional, and Office Personnel for Domestic Operations

others have a wide spectrum of regional directors. The appointment of regional managing partners is the first step toward regionalization. This is usually a part-time position before it evolves into a full-time position without client responsibilities. At this point, regional managing partners have more time for client relations, practice development, and the uniform application of management committee policies. Regional managing partners then appoint regional directors of accounting and auditing. This position follows the part-time to full-time evolutionary course. As benefits of these changes become apparent, regional directors are appointed in other areas. This structure dictates that regional directors have line responsibility to regional managing partners and staff responsibility to their national counterparts.

Figure 3.4 depicts the duplication of national office positions in all regions and offices. In addition to regional duplication, office managing partners appoint office directors as counterparts of regional directors. The part-time responsibilities of office directors provide practice offices with resident experts on technical items. Although these experts are not expected to answer all questions that arise, they are more familiar than office partners with appropriate firm publications and have access to appropriate regional personnel. This structure also dictates that office directors have line responsibility to office managing partners and staff responsibility to their regional counterparts.

Although national directors have staff relationships with regional and office directors, firm managing partners provide them with appropriate authority. For example, if a national director of administration changes a firm's chart of accounts, regional and practice offices must accept the decision even though it comes from a staff position. This type of change must be firm-wide for a firm to be a viable entity.

Figure 3.4 expands easily to include any functions that management committees want duplicated at regional and practice office levels.

Subunits of the Firms

Regions, offices, and departments are the most common firm-wide subunits; industry specialization is present to varying degrees. Coordination and integration of these four subunits are achieved when appropriate criteria for their establishment are present.

Criteria for Establishment.--Specific criteria for establishing each of the four subunits vary considerably. The principal criterion for establishing regions is managerial efficiency. Regional managing partners must be able to effectively supervise their regions both professionally and administratively. Specific criteria include the numbers of offices and their geographic dispersion within prospective regions, the volume of fees in individual offices and aggregate fees within prospective regions, and the availability of regional managing partners who are effective leaders.

There is great diversity concerning attractive locations for new offices. The most frequent criterion is the presence or influx of existing clients into a city. Another criterion, potential service to new clients, is evaluated in terms of affirmative answers to the following types of questions:

1. Can offices reach break-even levels of operations relatively soon?

2. Can offices be profitable within three years?

3. Can professional staffs of 75 be assembled within 5 years?

These types of questions are significant because most firms want to provide a full spectrum of professional services in each practice office within a relatively short period of time.

Population and population trends are also criteria for the establishment of offices, although different firms interpret them differently. For example, some firms want to have an office in each of the nation's top 50 marketing areas; others want to have an office in all cities with a population of 500,000 or more. One firm expressed a distinct preference for cities in the 100,000 to 400,000 population range (it had succeeded in cities of this size). Another firm wants to locate wherever opportunity is present. It was emphasized that many firms are overlooking locations in medium, as well as large, cities which have opportunities for exceptional growth.

Several firms consider billings necessary to justify new offices. Although one firm opened an office with annual billings of $30,000, this figure is an exception for the firm and for the profession. A more representative range of annual billings is from $150,000 to $300,000.

Other criteria for selecting office locations include:

1. Value added by manufacturing (a significant correlation exists between this figure and the location of offices)

2. Demand deposit activity

3. Number of employers with work forces in excess of 200

4. State capitals (impact of revenue sharing)

5. Outstanding local firms available for mergers (declining since merger activities of the 1960's)

6. Availability of leadership

7. Other national firms (absence of firms decreases interest; presence of two or three other firms increases interest)

Because of their long-range impact, office location decisions are significant and complex. Some current changes in the relative size of firms are attributed to past decisions; that is, present vitality depends to some extent on decisions made ten to fifteen years ago. Therefore, current office location decisions affect the future.

Most firms indicated that they require audit and tax departments before they open new offices since these areas generate the momentum necessary for real growth. However, four firms indicated that they require a full complement of professional departments before they open new offices.

Strong office managing partners and local autonomy affect departmentalization. Approximately one-fourth of the firms indicated that office managing partners decide the extent of departmentalization of tax and management advisory services. Of course, national directors encourage the establishment of departments in their areas as soon as they are economically justified. Offices also rely on larger offices for expert advice on particular problems (particularly in the management advisory services area).

Office size affects departmentalization significantly. The largest offices of one firm have four or five audit departments; each department is responsible for a particular group of industries. Although individuals specialize to a considerable degree, another firm does not have formalized departments in order to emphasize its generalist approach to the practice of public accounting.

Most firms view industry specialization as an opportunity to improve the quality of service to existing clients in given industries. In addition, approximately one-half of the firms try to develop additional industry specialization by anticipating economic and business trends which provide opportunities for professional services. For example, the banking industry started to use the services of public accounting firms relatively recently. Responsibility for this area generally rests with national directors of practice development.

Numerous criteria exist for the formal establishment of industry specialization. An industry must be growing before industry specialization is attractive enough to justify its expensive development. In addition, certain firms are well established in particular industries and it is difficult or impossible for other firms to compete. Therefore, the identification of emerging industries is a key ingredient in successful industry specialization. One firm decided to concentrate on this type of industry and has enjoyed phenomenal success.

An industry must be reasonably well dispersed throughout the country for industry specialization to merit firm-wide commitment. Unless large numbers of offices can provide services to an industry, industry expertise at the local level is appropriate.

Another criterion for the establishment of firm-wide industry specialization is some minimum level of firm competence with the industry. Otherwise, industry specialization is too long-range and expensive to be practical.

Coordination and Integration.--After firm-wide regions, offices, and departments are established, they are coordinated and integrated via line organizations. Coordination and integration of industry specialization, however, is not directly related to line organizations.

There are three basic approaches to firm-wide coordination and integration of industry specialization. One approach concerns two kinds of national directors for industry specialization. National directors either report directly to firm managing partners or, more often, they report to national directors of practice development (who report to firm managing partners).

Another approach to coordination and integration of industry specialization involves committees. Committee members are sometimes selected from each region. Although they were historically audit personnel, the trend is to have tax and management advisory services personnel on each industry committee. This additional input strengthens committees and increases their likelihood of achieving their over-all goal of enhancing quality client service.

Several firms coordinate and integrate industry specialization via the Standard Industrial Classification Code. This Code is the basis of client classification and is utilized for periodic computer runs which assist practice offices locate needed expertise. Information contained on these runs, in congruence with the Standard Industrial Classification Code, includes the following: client name, type of organization (corporation, partnership, or sole proprietorship), whether publicly held, indication of client size, fiscal year, office that provides service, engagement partner, and type of service rendered. Firms utilizing this approach are pleased with it because it distributes available in-house information and, once established, maximizes in-house expertise.

Partners indicated that the subunits of their respective firms are effectively coordinated and integrated via their line organizations. Many partners offered no specific suggestions for improving the coordination and integration of the subunits of their firms. However, those partners who did offer suggestions recommended stronger regional structures and better firm-wide communication. They want stronger regional offices to reduce the span of management and to enable practice offices to become stronger entities. They want better firm-wide communication to enhance client service and to increase firm identity (i.e., the one-firm concept). Partners specifically want procedures established which insure that all partners in need of particular information receive it (i.e., to preclude communication gaps caused when office managing partners decide what information to share with office partners).

Procedures for Amending Organizational Structures

Procedures for amending firm organizational structures are amazingly uniform throughout the profession. Since organizational structures must reflect firm managing partners' styles, they are usually given great latitude in designing the structures with which they are most comfortable. This is especially true in national offices. However, it is customary for firm managing partners to consult with their management committees on matters of major substance. It is also customary for management committees to have exclusive power to make firm-wide changes (i.e., regional expansion or contraction).

Substantive changes which affect partnership agreements must be approved by firm partners. Although these changes are relatively infrequent, they have been necessary on several occasions. For example, a decision to vest firm administration in management committees might be made by firm partners if firm managing partners had held this authority.

Procedures for amending organizational structures are classified as those at the discretion of firm managing partners, management committees, or partners. Although such a classification is useful, the impact of firm managing partners on their management committees must be emphasized. They are members of these bodies in all firms and are frequently their chairmen. Likewise, management committees have tremendous influence on partners. Therefore, structural changes originated by firm managing partners are almost always implemented. In fact, in one firm partners have approved, without exception, all proposed organizational changes.

Desirable Changes

Approximately three-fourths of the partners indicated that no changes are necessary in the organizational structures of their respective firms in order for them to attain their personal career objectives. The partners expressed confidence in their firms' responses to growth and to internal and external environmental changes.

Partners in four of the firms requested greater partner participation in the decision-making processes of their firms.

One partner wants practice office partners to participate more in the administration of their offices. Another partner wants partners to be consulted more frequently before policy decisions are finalized. Other partners want general partners to assume some of the prerogatives currently held by management committees (i.e., expanding the nominating process to include all partners). These suggestions reflect partners' desires for more democratic firm administration.

Summary

The organization charts, which depict a synthesis of current charts, reflect changing firm objectives and the litigation environment. When organizational structures are amended, firm managing partners are very influential. Firm-wide subunits must be established on the basis of the best criteria available. After they are established, they must be coordinated and integrated to render quality client service. Coordination and integration of regions, offices, and departments follow the line organization; industry specialization is not directly related to the line organization. Firms' partners understand and agree with the coordination and integration of the subunits of their respective firms.

Line and Staff Relationships

Most enterprises use the terms line and staff to distinguish between those who are concerned with achieving enterprise objectives and those who provide advice and counsel to facilitate the accomplishment of those objectives. However, these terms have a somewhat different meaning in public accounting firms.

The Line and Staff Distinction

Firm managing partners are responsible for both line (as heads of line organizations) and staff (as office managing partners of national offices) activities, as noted in some firm directories. Figure 3.2 depicts staff advising and counseling activities which national offices perform. Figure 3.4 depicts similar staff activities of regional and practice offices. All other professional personnel are members of line organizations, as depicted in Figures 3.1 and 3.3.

Problems Precipitated by the Line and Staff Distinction

Because professional personnel who understand their respective roles are involved, the majority of firms do not encounter problems with the line and staff distinction.

Those firms which reported occasional problems with the line and staff distinction identified three specific problem areas. One area involves communication. For example, problems arise when office managing partners fail to communicate to engagement partners awareness of and knowledge about services available from national offices. Another type of communication problem arises when line personnel assume that staff personnel have accepted responsibility for a client (i.e., when a highly technical situation involves extensive consultation). However, line personnel are always responsible for client affairs; staff personnel are consulted only for expert advice.

Differences of professional opinion between office partners and national office partners are another source of potential line and staff conflict. For example, disagreements about technical reporting items for clients in financial difficulty or about evaluations of prospective clients must be resolved. In these situations, the judicious exercise of professional judgment is necessary in order to balance practice office satisfaction and technical requirements of firms and the profession.

Personnel deployment decisions also cause potential line and staff conflict. Line personnel know where particular individuals are needed (headcount emphasis); staff personnel know the expertise of these individuals. As a result, transfer decisions can be very difficult to finalize.

Conflicts resulting from communication (or lack thereof), professional opinions, and personnel deployment must be alleviated. Since most national office partners have gone up the line organization, their judgments are valuable. However, inputs from those close to situations are important because they are often in a better position to understand individual problems. Unless line and staff conflicts are handled properly, partners' motivation, incentive, and stature are damaged. Because of potential harm to firms, serious conflicts merit the attention of firm managing partners; extremely serious conflicts merit the deliberations of management committees.

Needed Additional Staff Activities

Two-thirds of the firms indicated satisfaction with staff support currently provided line organizations. Although national directors want additional funding for their respective areas, firm priorities and budget limitations influence the expansion of staff activities.

Two firms expect to increase staff positions such as controller, general counsel, and continuing professional education director in regional offices. However, another firm indicated that regional duplication of national office functions is too expensive. This firm views regional managing partners as communication links between practice offices and national offices.

The following suggestions for additional staff activities were mentioned by at least one firm:

1. Increase competency in auditing clients' sophisticated computer installations.

2. Analyze via computers clients' financial statements; include meaningful comparisons with prior fiscal periods and industry statistics.

3. Insure minimum levels of partner-client interaction by more monitoring of practice offices (office managing partners should meet with each client at least four times a year).

4. Computerize personnel records and make them available to those responsible for preparing special analyses and reports.

Although not complacent about developing additional staff activities, most firms are satisfied with their present levels of staff activity and anticipate no major changes in the immeiate future.

Partners' responses paralleled firms' responses concerning needed additional staff activities. That is, partners recognize both the desirability of such activities and the financial limitations associated with implementing them.

Partners recognize a need for expanded research activities in solving clients' problems. Specific examples include auditing clients' computer-based information systems and operational auditing. These areas of practice development, in addition to the development of continuing professional education programs, merit special competencies of professional staff personnel. In addition, several office partners want improved clerical and/or secretarial assistants to free them of many day-to-day administrative details.

Assistants-to

Approximately three-fourths of the firms, as well as most partners, indicated that the title assistant-to does not exist within their organizations. This title is absent because firms prefer simple, uncluttered organizational structures and because the talents of professionals are better utilized via line and staff organizations.

Three firms reported isolated uses of the assistant-to title in the administration of their firms. Firm managing partners in each of these three firms have an assistant-to, but to perform very different functions. One of these firms selects an assistant-to in order to groom him for major firm-wide responsibilities. Another firm selects an assistant-to who arranges meetings for the firm's managing partner. The third firm bestows the title on a few top secretarial personnel. However, partners generally considered executive or administrative secretaries to have the title assistant-to because they answer routine correspondence and coordinate clerical aspects of personnel administration. Partners also indicated that secretarial personnel with the title assistant-to have no inherent authority or responsibility. That is, the extent of their authority and responsibility is related to their experiences with their firms and their superiors inevitably retain final authority and responsibility for their work.

Summary

Firms make a distinction between line and staff activities. That is, all national office personnel (although firm managing partners also head line organizations) and all regional office personnel (although regional managing partners are also in line organizations) comprise staff organizations. Line organizations are comprised of all other professional personnel. The majority of firms do not have problems precipitated by this distinction. Although most firms and partners recognize the desirability of additional staff activities, they also recognize the financial limitations associated with implementing them. The staff title assistant-to is conspicuously absent in the public accounting profession.

Partner Authority and Responsibility

Although different firms assign varying amounts of authority and responsibility to particular classes of partners, there is inherent authority and responsibility in the title partner. Therefore, firms recognize the importance of balancing partner authority and responsibility.

Types of Partners

Ten of the twelve firms indicated that they are general partnerships (one class of partners). The other two firms indicated that they have more than one class of partners.

Several of the firms which currently have general partnerships historically had several classes of partners. Examples of these classes include:

1. National partners located in national offices with firm-wide professional and administrative responsibilities. They had firm-wide proprietary interests.

2. Regional partners located in practice offices with engagement partners and some regional responsibilities. They had proprietary interests in their offices and in surrounding offices (suboffices or offices within a geographic region).

3. Office partners located in practice offices. They only had proprietary interests in their offices.

These classes of partners have been eliminated in the firms which currently have general partnerships. The firm-by-firm transition from these classes of partners to general partnerships happened gradually. Some firms became general partnerships over 50 years ago, other firms accelerated the process in the 1960's, and one firm completed the transition in the spring of 1974. General partnerships make the one-firm concept feasible. That is, uniform quality control standards are implemented which insure that clients receive the same quality of service in all offices.

Two firms have more than one class of partners. One of these firms has general and special (have no capital investments; receive a very restricted share of profits) partners. A majority of the special partners might be classified as managers in some firms and are expected to become general partners. A minority of the special partners entered the firm via mergers and some are not expected to become general partners.

The other firm which has more than one class of partners has four categories: proprietary, non-proprietary, advisory, and special partners. The proprietary partners are the general partners of the firm. The non-proprietary partners, like the special partners in the preceding firm, do not have capital investments, may or may not advance to proprietary partners, and might be classified as managers in some firms. The advisory partners are retained by the firm's management committee as consultants when they reach retirement age. The special partners have no proprietary interest and only participate in firm profits from particular areas of practice.

Criteria for Admission to Partnership

Firms recognize the significance of admission to partnership decisions because of both their immediate and future effects (new partners eventually become firm leaders). One firm indicated that partnership decisions are the second most important decisions a firm makes; the most important decisions involve signing the firm's name on audited financial statements.

Generally, the first step toward admission to partnership is taken one year to eighteen months before the proposed admission. This provides firms with sufficient time to carefully screen prospective partners. Office managing partners start the process by completing recommendation for partnership forms. These forms, complete with the recommendations of all office partners in a position to evaluate the nominees, are forwarded to regional managing partners (where applicable) for their endorsements. They then forward the recommendations either to firm managing partners or to management committees (or admission to partnership subcommittees). At national offices, nominees are evaluated with their peers. Although final admission decisions usually reside with management committees, some management committees screen prospective partners and then prepare ballots which are submitted to partners for their votes.

Although data-gathering instruments vary considerably from firm to firm, the general criteria for partnership decisions vary only slightly. Some firms utilize letters which cover specific topics; others utilize open-ended questionnaires and/or highly structured recommendation forms (nominees are ranked according to specified scales such as strong, adequate, or needs improvement) similar to annual evaluation forms.

The following general criteria for partnership decisions reflect a comprehensive approach to evaluation:

1. Client Relations

    a. Rapport with clients
    b. Expand services to existing clients
    c. Obtain new clients

2. Technical Competence

    a. Sound professional judgment
    b. Decision-making ability
    c. Good communication skills
    d. Render quality client service
    e. Imaginative problem solving
    f. Expertise in a specific area
    g. Commitment to continuing professional education

3. Administrative Ability

    a. Recruit and develop personnel
    b. Delegate and supervise work
    c. Plan and organize work
    d. Lead personnel
    e. Utilize time effectively
    f. Bill and collect from clients

4. Personal Characteristics

    a. Moral character
    b. Health
    c. Dedication to office and firm objectives
    d. Professional and civic activities
    e. Breadth of interest
    f. Acceptance of responsibility
    g. Self-starter
    h. Wife and family

Because firms view partnership decisions as firm-wide decisions, they are interested in whether or not prospective partners are willing to relocate. They are also interested in the motivation of nominees. Specific professional development programs completed within the last three years and/or in progress provide one index of further professional growth. And, in order to determine how they are regarded in their offices, some firms ask recommending partners what nominees should be doing in five years.

Several firm recommendation forms include questions about office billings per partner and partner to professional staff ratios within nominating offices. However, firms reported that partnership decisions are not based on these questions (i.e., growing practices offset potential dilution of earnings because of partnership decisions).

Limits of Partner Authority and Responsibility

Firms assign partners authority and responsibility commensurate with their positions. Firm manuals and letters from firm managing partners reflect the responsibility of particular positions and designate the authority necessary to accomplish the responsibility inherent in the positions. Approximately 90 percent of the partners reported that their respective firm organizational structures provide them with the proper balance between authority and responsibility. In addition, 70 percent of the partners indicated that additional authority and responsibility would not facilitate the discharge of their professional obligations. The authority and responsibility of engagement partners and office managing partners illustrate this situation.

Engagement partners are responsible for all aspects of client service. Therefore, all professional (starting with developing and/or approving audit programs) and administrative (culminating with billing and collecting) decisions concerning clients are their responsibility. Although some firms assign each client two partners (engagement partners and advisory partners), engagement partners retain full responsibility for their clients.

If engagement partners need additional administrative commitment authority, they go, as far as necessary, to office directors, office managing partners, regional managing partners (where the majority of difficult problems are satisfactorily solved), and national directors of administration. They refer to office operating plans (where applicable) and consider the impact of requests on both offices and firms. They recognize that internal and/or external environmental changes necessitate departures from original operating plans. If situations remain unsolved, they then go to firm managing partners. Because of an administrative problem, client billing and collecting, one firm has a firm-wide credit manager.

If engagement partners need professional assistance, they also follow their line organizations. However, after obtaining the approval of office managing partners, they might go directly to appropriate specialists in regional and national offices for highly technical assistance. If situations remain unsolved, they then go to firm managing partners. However, one firm managing partner reported that unsolved problems reach his desk infrequently--approximately six times a year.

Regardless of the level of consultation, engagement partners maintain full authority and responsibility for their clients. Engagement partners must comply fully with all firm policies and with all authoritative sources such as Accounting Principles Board opinions, Financial Accounting Standards Board statements, and Securities and Exchange Commission accounting releases. In addition, engagement partners are responsible for signing the name of their firm on audited financial statements.

Office managing partners are the chief executive officers of their respective offices and have full responsibility for all professional and administrative decisions. Without such practice office autonomy, office managing partners are ineffective leaders.

Most firms require autonomous practice offices to develop annual plans which incorporate their objectives. These plans are comprehensive documents which encompass such topics as client service, personnel, practice development, and practice economics. Depending on the firm, they cover from one to six years, although the current year is most significant. After national offices accept these plans, they serve as control devices and the management by exception principle becomes operative. Therefore, office managing partners possess commitment authority, commensurate with their operating plans, to employ new personnel and make disbursements. For example, after personnel needs are determined, office managing partners or their designated representatives recruit personnel.

Partners understand their commitment authority. Although they acknowledge their legal right to bind firms as members of partnerships, they emphasize the importance of consultation prior to such action. Since office managing partners are responsible for all professional and administrative aspects of their offices, partners consult with them in order to provide a unified approach to personnel and disbursement decisions.

Because the acceptance of new clients provides great opportunities and encompasses substantial risks, firms are careful when they accept new clients. There are several practice categories of new clients:

1. Unaudited Financial Statements
2. Audited Financial Statements
    a. Non-Securities and Exchange Commission registrants
    b. Securities and Exchange Commission registrants

3. Tax

4. Management Advisory Services

Firms usually complete prospective client evaluation forms on all prospective clients unless office personnel have known them for extended periods of time. Firms want information from prospective clients' credit reports, bankers, attorneys, underwriters, former accountants, financial statements, and persons who referred them to the firm. Prospective clients with considerable potential for exposure receive extensive investigations; therefore, private investigators are utilized if necessary.

Generally, all new clients are approved by at least two partners--usually engagement partners and office managing partners. In addition, office directors of tax and management advisory services must approve clients in these areas. Consequently, it is not unusual for three office partners to be involved in decisions to accept new clients.

In eight of the twelve firms, prospective audit clients who are subject to Securities and Exchange Commission filings or who expect to be subject to such filings must be reviewed above practice offices. Two of these eight firms permit regional managing partners to make the ultimate decisions, while six firms require that national offices (or representatives of national offices such as members of management committees) make the ultimate decisions. The four firms which permit the acceptance of Securities and Exchange Commission clients by practice offices expect them to carefully analyze all pertinent facts in order to preclude adverse situations.

Partners also understand their commitment authority as it relates to new clients. They exercise discretion even when they have authority to commit their respective firms, usually by consulting with other office partners and appropriate regional and national personnel.

Line organizations must be followed to approve such specific commitments as leases and leasehold improvements, major contributions, and capital expenditure investments. They are also followed if situations arise for which specific procedures have not been established. Partners indicated that they follow their line organizations, as depicted in Figures 3.1 and 3.3, when they need additional administrative commitment authority.

Firms make every effort to insure that administrative and professional policies are understood and uniformly applied. Occasionally, however, situations arise which require exceptions. One firm indicated that it is the responsibility of partners to work through the firm's normal channels in order to obtain exceptions they think are necessary.

Six of the twelve firms reported trends toward more centralization of authority and responsibility in national offices; the partners of five of these firms also reported trends toward more centralization. Although the trend was labeled unfortunate, such factors as firm growth (and the ensuing need to obtain coordination and control), computer analysis of firm data (the need for uniform reporting), and the ever-increasing use of sophisticated scientific techniques (statistical sampling, regression analysis, etc.) make this trend inevitable. However, two other firms reported trends toward less centralization of authority and responsibility in national offices; the partners of these firms reported trends toward more centralization. Another firm reported a neutral trend in this area (it is already highly decentralized and plans to remain so); however, its partners reported a trend toward more centralization. The remaining three firms reported trends toward less centralization of authority and responsibility in national offices but toward more centralization of authority and responsibility in regional, rather than practice, offices; the partners of one of these firms also reported a trend toward less centralization. These three firms expect their regional offices to become considerably more important during the next few years.

In the aggregate, partners responded by a margin of nearly 3 to 1 that their firms' trends are toward more centralization of authority and responsibility in national offices. However, in the aggregate, partners responded by a substantial margin that they prefer less centralization of authority and responsibility in national offices.

Partner to Professional Staff Ratio

The partner to professional staff ratio is one indicator of firm philosophy because it suggests the number of subordinates partners are expected to supervise effectively. The partner to professional staff ratios of the twelve firms range from 1 to 3 to 1 to 14; the median is 1 to 7. The partner to professional staff ratios indicated by each firms' partners range from 1 to 3 to 1 to 15; the median is 1 to 6. The discrepancies between firms' and partners' ratios vary from a low of negative 1.0 to a high of positive 2.6; the median is 0.0, which indicates the degree of understanding between firms and partners.

When asked to indicate the ideal partner to professional staff ratio, the six firms with ratios above the median of 1 to 7 clustered in three groups:

1. Three firms expect their partner to professional staff ratios to remain the same; their present ratios represent their ideal ratios.

2. Two firms expect their partner to professional staff ratios to decrease because of the growing complexities of professional practice.

3. One firm expects its partner to professional staff ratio to increase during the next few years.

In the aggregate, these six firms indicated ideal partner to professional staff ratios of approximately 1 to 9.

Without exception, the six firms with partner to professional staff ratios below the median of 1 to 7 reported ideal ratios higher than present ratios. These discrepancies between present and ideal ratios vary from a low of .5 (i.e., the actual ratio is 1 to 3 and the ideal ratio is 1 to 3.5) to a high of 2.0 (i.e., the actual ratio is 1 to 6 and the ideal ratio is 1 to 8). Although the absolute values of these potential increases appear small, substantial administrative changes would be necessary if the ideal ratios were achieved (i.e., partnership admission standards would have to be raised appreciably because the bases are in the hundreds and thousands). In the aggregate, these six firms indicated ideal partner to professional staff ratios of approximately 1 to 5. The ideal partner to professional staff ratios indicated by each firms' partners range from 1 to 5 to 1 to 12; the median is 1 to 10. Partners in all nine firms reported higher partner to professional staff ratios than the firms did. The discrepancies between firms' and partners' ratios vary from a low of .6 to a high of 2.5; the median is 1.5 (i.e., a firm prefers a ratio of 1 to 8.5 and its partners prefer a ratio of 1 to 10). The discrepancies in these ratios might reflect firms' concerns about quality control and partners' concerns about earnings.

Several firms suggested that no ideal partner to professional staff ratios exist in public accounting firms because of the importance of client mix. For example, if one client generates $500,000 of annual revenue, fewer partners are required per professional staff member than if 100 clients each generate $5,000 of annual revenue. Therefore, partner to professional staff ratios depend on firm philosophy, client mix, and size of practice offices.

Summary

Most firms are general partnerships. Therefore, their partnership admission decisions are significant because new partners eventually become firm leaders. Firms and partners are cognizant of the importance of assigning partners authority and responsibility commensurate with their positions. Firms and partners frequently utilize their line organizations to make personnel and disbursement commitments and to gain approval of new clients; hence, one-half of the firms reported more centralization of authority and responsibility in national offices. Partner to professional staff ratios are important because they indicate the number of subordinates partners are expected to supervise effectively.

Committee Structure

The scope of committee activities varies considerably from firm to firm. Approximately one-half of the firms prefer to make individual assignments rather than committee assignments. Although these firms indicated that national office staff personnel are better equipped to handle specific assignments than committees, they do appoint committees when firm-wide input is needed. The scope of committee activities in the remaining firms varies from those which utilize them occasionally to those which view them as opportunities to utilize in-house expertise to the over-all advantage of firms. In these cases, committee chairmen significantly affect their success by effectively selecting members, determining agendas, and defining scopes of committee activities.

Major Committees

Firms and partners reported that major committees, when analyzed according to whom they report, are composed of: partners, management committees, firm managing partners, and national directors.

Firm management committees and nominating committees report to firm partners since they own the firms. In addition, one firm indicated that its units committee reports directly to firm partners, although it is more common for units committees to report to management committees.

Several types of committees report to management committees. In addition to units committees, subcommittees of management committees are frequently formed. These subcommittees handle routine items, especially between regularly scheduled management committee meetings, to enable management committees to concentrate on major policy decisions.

Most firms have committees for each of the functional areas of their practices, as well as committees for administration, personnel development, practice development, and international operations. These committees report directly to management committees in several firms, although it is more common for them to report to national directors of their respective areas.

Two firms have special committees which report to management committees. One firm has several project- and result-oriented committees charged with planning improvements in all areas of the firm's practice and administration. These committees are more than advisory bodies. Because a great deal of latitude is prerequisite to their success in analyzing and recommending changes, they are not chaired by national directors or members of the management committee. This approach provides opportunities for input from a broad cross-section of partners. The second firm established a nine-member advisory committee to advise its management committee. This committee solicits suggestions from personnel at various levels within the firm and organizes their responses for the management committee.

Only two firms reported internal audit committees which report directly to management committees.

The numbers and types of committees which report to firm managing partners reflect the leadership styles of these individuals. National office committees usually report to firm managing partners. While these committees are composed of national office personnel (i.e., staff personnel), they are also major executives in their respective areas. In most firms, these senior-level executives have committee meetings once a month with firm managing partners as chairmen. One firm managing partner also has an advisory committee composed of approximately 30 partners who have been partners at least two years but not more than eight years. This committee allows partners not represented on the national office committee to provide input since someday they will provide the firm's leadership.

Some firm managing partners have several committees which report directly to them, such as committees for firm mergers and acquisitions, international operations, profit-sharing plans, and continuing professional education curricula. However, firm managing partners in several firms do not have any committees which report directly to them.

National directors of the functional areas, administration, personnel development, practice development, and international operations usually have committees which provide advice and counsel on current operations and anticipate future changes. One role of these committees is to keep national offices abreast with practice office needs. For example, one firm described its accounting and auditing committee as one which alerts the "ivory tower" (national office) when it is moving away from the realities of practice.

Special industry committees usually report to national directors of practice development. However, the importance of these committees is directly related to the extent of industry specialization within firms. That is, one firm with industry specialization in over 70 industries has more special industry committees than those firms with less industry specialization.

Committees to administer partner investment funds and Keogh plans illustrate other types of committees which are major committees in particular firms but which are not major committees in all firms.

Selection of Members

As depicted in Figure 3.1, partners elect members of firm management committees. Then, although the procedures vary from firm to firm, management committees usually propose slates of nominees for memberships on nominating committees. These slates are sometimes presented at annual partners' meetings where partners make further nominations from the floor and elect nominating committees. Management committee members usually cannot serve on nominating committees.

The purpose of a committee is the most important criterion utilized to determine its membership. Such criteria as technical expertise, representation from different geographic areas, and representation from offices of different sizes are weighted differently to emphasize characteristics which make particular committees most effective. For example, technical expertise is vital when selecting members of accounting and auditing standards committees. Representation from different geographic areas is important in maintaining the one-firm concept and in helping merged offices become integral parts of firms. Administrative committees especially need representation from practice offices of all sizes.

Committee chairmen determine the appropriate criteria for memberships on particular committees before they recommend partners to firm managing partners. Firm managing partners then make committee appointments. However, if major committees are charged with responsibilities such as establishing firm policies, management committees confirm these appointments in order to give committees the necessary organizational support.

Generally, partners do not understand how committee members are selected. Therefore, they indicated a need for improved communication concerning the screening and selection of committee members. Some partners indicated that their line organizations provide the input for committee member selection. Other partners attributed selection to visibility within firms or to outstanding expertise within fields. One firm reported that it polls all partners to determine their committee interests. However, none of its partners referred to such a poll; they indicated that the management committee appoints committee members.

Committee Assignments

Management and nominating committees report directly to firm partners. Management committees are responsible for determining and administering basic firm policies. They:

1. Determine the number of units held by each partner.
2. Determine the capital contribution of each partner.
3. Execute legal documents necessary to borrow money, mortgage property, lease office space, etc.
4. Determine the individuals who are elected to partnership.
5. Elect firm managing partners.
6. Advise and consult with firm managing partners on firm-wide professional and administrative policies.

Nominating committees are charged with preparing slates of nominees to fill next year's vacancies on management committees. The number of nominees on slates usually equals the number of vacancies on management committees. In order to provide as much input as possible, one firm asks its partners for their recommendations and prepares its slate of nominees from their responses.

Most other committees which firms utilize are advisory in nature; their purpose is to provide increased input and broader bases of information for ultimate decision-makers. Advisory committees usually cannot take action themselves; rather, they recommend action they deem appropriate to management committees or to individuals (firm managing partners or national directors) who established them and gave them their charges. One exception to this generalization involves accounting and auditing standards committees. In some firms, these committees take relatively independent action when establishing firm policies on accounting principles and auditing procedures.

Firms and partners reported that the names of numerous advisory and industry committees reveal their primary missions. Each position on Figure 3.2 (with the exception of general counsel and regional managing partners) has committees which report to holders of those positions. Advisory committees are charged, within their respective areas, with reviewing current firm practices, planning for anticipated changes, and suggesting priorities for the allocation of firm resources. Industry committees are charged, within their particular industries, with informing entire firms about current developments, providing specialized knowledge to those serving clients, and enhancing firm reputations by developing appropriate contacts.

Firms sometimes have other committees, such as editorial boards for external publications. In addition, ad hoc committees are formed when specific assignments affect several areas of firms. These committees are usually composed of representatives from each of the most involved areas. For example, when firms are studying overtime policies, national directors of personnel development and administration, as well as regional or office managing partners, are appointed to these ad hoc committees.

Partners primarily reported assignments to committees in their respective offices. Such committees are frequently ad hoc and are established to solve difficult problems. In addition, assignments to office committees such as personnel development, which parallel national office activities, are made to assist with implementation of firm-wide policies.

One firm has a very limited committee structure because it indicated that, if a problem merits serious consideration, it merits full-time rather than part-time attention. Therefore, this firm utilizes its national office staff to perform activities which other firms assign to committees. This firm's evolutionary transition from the committee approach to the full-time national office staff approach is representative of other evolutionary changes in public accounting firms.

Strengths and Weaknesses of Committees

Strengths and weaknesses of the committee approach identified by firms and partners differ little, if any, from those identified by other professional groups. In fact, one partner indicated that he doubted that the strengths and weaknesses of committees in public accounting firms differ from those in other organizations.

The most frequently cited strength of the committee approach is the increased expertise which results from group deliberation. When the best individuals available are appointed to committees, the interchange of ideas and information is enhanced. As a result, firm leaders benefit from their advice and counsel.

Committees also provide excellent forums for the discussion of technical ideas. Although national office personnel make the final decisions, the committee approach allows both national office and practice office needs to be considered. Furthermore, this balanced approach enables practice offices to object to policies before they are finalized.

By providing broader bases of support, committees contribute to the development of the one-firm concept and enhance firm esprit de corps. In fact, some firms view committee structures as components of their participative management philosophies. Committees also help keep all personnel informed of current developments and provide the incentive necessary for some individuals to complete assigned tasks.

Weaknesses of the committee approach are related to structures of committees. When committee chairmen have the authority necessary to accomplish goals within specified periods of time, their results are good; without such authority, they usually encounter substantial difficulties.

Another weakness of committees is the difficulty of finalizing decisions. Committees may reach impasses, make low-level decisions because of repeated compromises, or feel compelled to offer recommendations when they are not warranted. Then, if their recommendations are rejected too frequently, morale suffers.

<u>Summary</u>

The scope of committee activities within firms is related to firm managing partners' evaluations of the strengths versus the weaknesses of the committee approach. Major committees are those which report to partners, management committees, firm managing partners, and national directors. Management and nominating committees are usually elected and other committees are usually appointed to fulfill their specific assignments.

Communication

The various communication media which exist within firms must be utilized in a timely, efficient manner. Otherwise, the benefits of two-way communication are diminished.

Downward Communication

Downward communication includes publications (non-technical and technical) from national offices to practice offices. The most common non-technical publications are quarterly house organs designed to keep all personnel informed about current developments within firms. Their goal is to encourage readership among personnel and their families (recipes are sometimes included for wives), clients, and other interested parties (college professors). They frequently feature a particular city and, if any technical articles are included, they are general interest articles. While some firms include news of local offices in these publications, others have separate publications to accomplish this purpose. These separate publications carry more detailed office news and are restricted to in-house distribution.

Another non-technical publication is firm managing partner newsletters. They are published at various intervals (weekly to monthly) and are usually written for two audiences. One type of newsletters, exclusively for partners, covers such topics as financial results, changing liability insurance coverage, summaries of recent management committee meetings (one firm includes the minutes of the meetings, which partners consider to be important sources of information), partner transfers, and new policies (this is the best media for notifying partners of significant changes in firm policies before notifying professional staff members). Another type of firm managing partner newsletters varies from firm to firm. It includes topics such as industry statistics, international developments, and new clients. Some firms limit its distribution to partners and managers (one firm includes seniors) and other firms distribute it to all personnel.

One firm has a unique publication. It has an independent consulting firm prepare annual reports which present the costs and benefits of its fringe benefit program. Since this program is expensive, the firm wants to remind its personnel of present (hospital insurance) and future (retirement income via the pension plan) fringe benefits. This report is mailed to the home addresses of all personnel so that spouses understand and appreciate the firm's total compensation package.

Ten firms reported another type of non-technical publication--practice office newsletters. Although larger practice offices are more likely to have local newsletters, some relatively small offices also have them. These are highly effective communication devices because they concentrate on items of interest at the local level. They report information about new personnel, birthdays, marriages, new babies, next month's out-of-town assignments (to facilitate scheduling meetings), office athletic team results and standings, clients gained and lost, and positions of firm alumni. Because firms want technical releases to originate from national offices, items of a technical nature are generally excluded.

Although two firms do not have local newsletters, the tax departments of one firm distribute general interest tax items to all professional personnel. However, this type of publication is more technical than those previously mentioned.

The most common technical publications are those which deal with the areas of practice. Therefore, most firms have accounting and auditing, tax, and management advisory services newsletters or bulletins which are organized to update firm manuals. Some firms have Securities and Exchange Commission newsletters, although other firms regard this area as part of accounting and auditing. Pamphlets on specific topics (cost control techniques for various industries, computer selection techniques, and medicare) are also published when they are needed. These publications represent major research investments, especially for those firms which have extensive industry specialization. One firm estimates that it issues monthly news releases for an average of 50 to 75 industries.

Another technical publication concerns international business. These publications concern clients' problems with international operations and are becoming more important as foreign markets expand. In addition, client newsletters are issued to help maintain client contact and to provide client executives with insight about current and anticipated accounting and reporting changes, as well as suggestions for appropriate actions.

Information retrieval is a major concern because of the vast volume of technical materials available. Unless firm publications are readily available, much of the investment in developing them is wasted. Therefore, firms are making every effort to improve information retrieval. For example, one firm developed an in-house equivalent of the American Institute of Certified Public Accountants' <u>Accountants' Index</u>. This annual publication is reported to surpass the <u>Accountants'</u>

Index because of its comprehensive nature (in-house as well as outside publications are included). Each professional staff member receives a personal copy of the current edition. Although this effort is only a few years old, the results have been most satisfactory.

Other firms have developed various information retrieval systems to deal with the problem. Various filing, cross-referencing, and indexing systems are utilized. In order to personalize all communication, one firm prints each recipients' name and office number on each item of communication from the national office. Then, the recipient knows immediately that the communication pertains to him.

Upward Communication

National offices recognize the importance of upward communication from practice offices and want to respond to their suggestions. Therefore, they seek upward communication from two groups--partners and other professional personnel.

The most common upward communication device cited by firms and partners is partners' meetings. These meetings have several different formats. Annual partners' meetings provide opportunities for partners to question firm policies and suggest modifications they deem appropriate. In addition, there are regional and office partners' meetings. The substance of these meetings is then forwarded to national offices.

One firm reported that its firm managing partner and other representatives from the national office meet with partners each spring at regional meetings which usually last three days. During this time, each office managing partner has an opportunity, via an individual meeting with the firm managing partner, to ask questions. Typical topics of conversation include next year's tentative units allocations for partners and the management committee's explanations for not accepting partnership recommendations.

Two firms have had independent management consultants conduct in-depth surveys within their firms. These surveys protected the anonymity of respondents, but provided the firms with information useful in capitalizing on areas of strength and improving areas of weakness.

Another firm requires all partners, on an annual basis, to analyze their accomplishments and plan their future professional development. They also have an opportunity to make recommendations about firm goals and operations. Therefore, this self-administered personnel evaluation emphasizes the future development of both partners and their firm.

Some firms have other procedures to promote upward communication such as enclosing acknowledgment of receipt forms with correspondence and stating deadlines for responses to inquiries. These steps preclude the necessity of follow-up, which all involved personnel want to avoid.

Partners reported another type of communication in addition to those reported by firms. Partners recognize the importance of close communication with national offices. Therefore, partners in all nine firms utilized the telephone as an informal means of facilitating good communication. That is, national offices are expensive operations established to serve firms, so partners utilize them via telephone when questions arise which merit their attention.

Partners indicated the availability of several communication channels for suggestions they want management committees to consider. In fact, a surprisingly large number of partners feel free to take their suggestions directly to firm managing partners, individual members of management committees, or to entire management committees. However, the majority of partners discuss suggestions with office managing partners first and then follow their line organizations as depicted in Figure 3.1. Or, for technical questions in the functional areas of practice, partners often follow their staff organizations as depicted in Figure 3.4.

National offices also seek information from other professional personnel (those below partners). Because this form of upward communication is typically limited to offices, firms emphasized the importance of selecting the right partners to serve as office managing partners.

Practice offices have meetings for partners, managers, and entire professional staffs at various time intervals (weekly and monthly, although the latter is more common). The format of these meetings varies considerably. They are usually held in firm offices, but partners and managers do meet for dinner occasionally. One firm reported that a buffet dinner for all professional staff members is held each month in a partner's home. After dinner, the group discusses whatever topics it selects. Although good leadership is prerequisite to productive discussions, the exchange of information and building of rapport is beneficial.

In an effort to keep posted on practice office activities, the national office of one firm must receive copies of all office newsletters and minutes of all office meetings. Copies of these communications are then distributed to the firm managing partner, the national director of administration, and, in some cases, the management committee.

Personnel development programs also constitute a major source of information from other professional personnel (those below partners). Personnel evaluations (at the conclusion of each major assignment and at the end of the year) constitute a major source of positive and negative upward communication. In addition, several firms utilize the "buddy" approach. Professional staff members are assigned to partners or managers who can help them resolve professional and personal problems. Furthermore, some firms have found that their educational programs are excellent forums for exchanging information. One firm sets aside time for the specific purpose of answering staff members' questions. While the questions are frequently penetrating, the firm appreciates this opportunity to disseminate factual information and to preclude problems associated with communication passing through several layers of management.

Summary

Firms and partners recognize both the importance of achieving and the difficulty of maintaining meaningful two-way communication. Downward communication media is both non-technical and technical, while upward communication is received from partners and from those professional personnel below partners.

International Operations

Public accounting firms have responded to their clients' international growth by developing professional services where they are needed. The scope of their international operations has contributed to the growth of the firms.

Control

When professional organizations grow, control becomes more difficult and more important. Most United States firms have established international control via an affiliation with counterparts in other countries. However, some firms have established such control by developing overriding partnerships which are concerned with professional and administrative (but not financial) matters. One firm has an international partnership which allocates units on an international basis.

The widespread acceptance of an affiliation approach indicates that it is a satisfactory solution to a difficult problem. There are, however, different approaches to affiliation. Some affiliated firm work is accepted as if it had been performed by United States offices. For other affiliated firms, referring firms design audit programs and carefully review working papers for engagements. Regardless of the approach, affiliation is expected to be strengthened as the significance of international business expands. In fact, one firm is considering converting its international association into an international partnership as its international clientele grows and as it gains more experience with affiliation as a form of organization.

Bonds between United States firms and their foreign affiliates are continuously being strengthened. For example, professional personnel and publications are exchanged, selected training programs are offered where affiliated firms have common needs, and partners of affiliated firms are invited to attend partners' meetings in the United States. Representatives of United States firms also visit their foreign affiliates in order to professionally and administratively evaluate them. It is generally agreed that these activities contribute to increased understanding among affiliates and thereby enhance firm capabilities to deliver quality client service on an international basis.

Constraints on the International Use of Firm Name

Although one international firm name is virtually unanimously preferred, nationalism and its resulting political overtones prevent it. Therefore, firms have formed several types of affiliations and/or working relationships with counterparts throughout the world. The following types of relationships indicate a descending order of preference:

1. A foreign firm is an integral part of a United States firm (i.e., is regarded as an office of the United States firm when permitted by foreign laws).

2. An affiliated firm retains its local name but includes some derivative of a United States firm name.

3. An affiliated firm practices under its own name but has an affiliation with one or more United States firms.

Nationalism dictated the establishment of the third alternative. Since it existed in the Philippines since World War II, one of that country's firms has affiliated with numerous United States firms. Nationalism is also causing problems in other parts of the world, especially in South America. One firm had to discontinue practice in one of these countries recently. Although this is a serious trend at a time when international practice is becoming more important, firms will continue to serve their clients unless the situation deteriorates significantly.

Clients are not concerned about nationalism as long as the professional aspects of the engagement are handled on a timely basis, are in compliance with United States standards, and financial statement opinions are issued by United States firms.

Financial Arrangements

Earnings of United States and foreign practices are not pooled in approximately three-fourths of the firms. However, they do share expenses, usually on a pro rata basis, which involve the international practice (i.e., international manuals, house organs, and firm directories).

The firms which do pool United States and foreign earnings report that they are insignificant and that, after defraying international expenses, they are reinvested in the originating practice in an effort to develop it further.

Therefore, while United States and foreign practice earnings are technically pooled, no pooling realistically takes place because of the lack of earnings and the low expectation of earnings in the immediate future.

An exception to these generalizations must be noted. One firm regards all of its activities as part of a single international entity. Therefore, all partners are keenly interested in the operation as a whole rather than in isolated profit centers. This approach precludes numerous organizational stress points. National partners are designated in each country in order to make this international entity operationally sound. The policy has been carried out so effectively that over 20 percent of the firm's partners are non-United States citizens.

Summary

International operations are relatively insignificant from a financial standpoint. However, they are very important and merit serious attention from a practice development standpoint. Firms must have international capabilities because their clients are expanding into international activities. Therefore, firms are expected to expand international operations in the future. Because affiliation is the most common method of expansion, United States firm names are often altered or omitted in other countries.

Growth, Continuing Professional Education, and Research

The scope of firms' approximate growth rates, commitments to continuing professional education, and commitments to research is significant. However, there are some inherent limitations in the data obtained.

Some information systems provided only part of the requested data on a firm-wide basis. For example, some firms currently calculate billable hours for professional staff and partners but did not do so five years ago. Therefore, percentages could not be calculated for these firms.

In addition, some firms provided actual results and others provided the best estimates available for continuing professional education and research commitments. Those firms which provided estimates exercised great care in making them, so they indicate the relative emphasis which these areas receive. For example, some firms calculated estimates of continuing professional education commitments via firm policies. If firms require each professional staff member to devote a minimum of 40 hours per year in continuing professional education programs, a 2 percent time commitment exists (40 hours/2000 hours). Reasonable estimates of continuing professional education commitments are then obtained by combining personnel time and actual out-of-pocket expenditures. Two firms followed a similar approach in order to estimate their research commitments. They estimated firm commitments to research via an approximate percentage of total personnel engaged in research activities.

Definitions of continuing professional education and research differ among firms. The respondents were asked to define continuing professional education as all direct and indirect costs associated with the administration, development, and presentation of these programs other than opportunity costs of participants and instructors. They were asked to define research as all research costs not billable to clients, such as the development of firm responses to exposure drafts, industry specialization programs, and general programs for auditing computer-based information systems. Firms using broader definitions naturally reported larger percentage research commitments.

Merger philosophies vary from firm to firm. Some firms grow entirely from within, others grow via mergers, and many grow by combining the two approaches. These merger activities influence percentages of change as they relate to growth.

Although all participants are large national firms, their sizes vary considerably. These diverse beginning bases also affect percentages of change as they relate to growth. Therefore, absolute growth of two firms might be similar but, on a percentage basis, one might appear to be making far more progress than another. In fact, it is possible for firms with large absolute gains to experience small percentage gains.

The following figures and percentages are most meaningful when thought of as approximations for the profession. That is, undue significance should not be placed on any one figure or percentage and generalizations should be made only judiciously.

Growth Rates

Table II reports the approximate minimum, maximum, and median percentage growth rates in the areas of fees, billable hours, professional staff, and partners which firms have experienced in the last five years.

All firms experienced healthy growth rates in professional fees. Growth rates range from 50 percent to 400 percent; the median is 125 percent (approximately one-half of the firms are relatively near the median). The maximum growth rate exceeds the minimum growth rate by a multiplier of 8.

The growth rates in billable hours range from 10 percent to 300 percent; the median is 65 percent (there is not a significant cluster around the median). This area experienced the widest dispersion--the maximum growth rate exceeds the minimum growth rate by a multiplier of 30. The firm which reported the 10 percent growth in billable hours indicated

TABLE II

APPROXIMATE PERCENTAGE GROWTH RATES OF FEES, BILLABLE HOURS, PROFESSIONAL STAFF, AND PARTNERS DURING THE LAST FIVE YEARS

Area	Number of Respondents	Minimum Percent	Multiplier	Maximum Percent	Median Percent
Professional Fees (Gross)	12	50	8	400	125
Billable Hours (Staff and Partners)	8	10	30	300	65
Professional Staff (Numbers)	11	10	25	250	75
Partners (Numbers)	12	40	7	280	90

that the 1969 economic downturn had a significant impact and that the last few years had been much better growth periods. One firm which did not respond to this question reported that it is not concerned with total billable hours; it considers its headcount figure to be accurate and assumes that, over the long run, its utilization ratio will be approximately constant. In seven of the eight firms which reported both figures, growth in professional fees far exceeded growth in billable hours (the eighth firm reported approximately equal figures). Firms attributed this trend to inflation and to the increasing need for higher level personnel on engagements.

Growth rates for professional staff members range from 10 percent to 250 percent; the median is 75 percent (there is not a significant cluster around the median). The maximum growth rate exceeds the minimum growth rate by a multiplier of 25.

Growth rates for numbers of partners range from 40 percent to 275 percent; the median is 90 percent (approximately one-half of the firms are relatively near the median). The maximum growth rate exceeds the minimum growth rate by a multiplier of 7. Nine firms reported partner growth which exceeds professional staff growth, two firms reported professional staff growth which exceeds partner growth, and one firm only reported partner growth, which precluded a comparison between the two percentages.

Continuing Professional Education

Respondents were asked to define continuing professional education as all formal programs such as those sponsored by the American Institute of Certified Public Accountants, state societies of certified public accountants, and in-house training programs. Firms reported that they spend from 2 percent to 7½ percent of gross fees on continuing professional education; the median is 5 percent. Three firms reported the 7½ percent figure and one firm, which is below the median, characterized its commitment as inadequate. Therefore, it is currently exploring ways of increasing its continuing professional education commitment.

Of the 85 participating partners, 72 (approximately 85 percent) indicated that the commitments of their firms to continuing professional education are approximately correct. In addition, 10 partners (approximately 12 percent) indicated that the commitments should be increased. Recommended increases range from a low of 5 percent to a high of 100 percent; the median is 50 percent. The remaining 3 partners (approximately 3 percent) indicated that commitments should be decreased. Recommended decreases are 10, 25, and 25 percent.

The responses from ten firms concerning the hours per year an average partner invests in continuing professional education cluster in four distinct categories:

1. One firm indicated that its average partner invests less than 40 hours per year in continuing professional education activities.

2. Three firms indicated that their partners invest 40 hours per year in continuing professional education activities.

3. Three firms indicated that their partners invest over 40 hours per year but less than 80 hours per year in continuing professional education activities.

4. Three firms indicated that their partners invest 80 hours or more per year in continuing professional education activities.

The median of the ten firms is approximately 45 hours per year invested by an average partner in continuing professional education.

One firm, which did not report the hours per year an average partner invests in continuing professional education, indicated that the matter is receiving serious study. In fact, a report, expected to recommend 40 hours per year of continuing professional education, was scheduled for the next management committee meeting.

In order to compare each firm with its partners, the median number of hours per year each firms' partners invest in continuing professional education was calculated. The median partner investment equals or exceeds the firm estimate in seven firms, one firm's estimate is twice that reported by its partners, and such a comparison is not possible for the remaining firm because it did not estimate its partners' investment in continuing professional education.

After calculating the median number of hours per year each firms' partners invest in continuing professional education, the range of the medians is from 40 to 175 hours per year; the median of these medians is approximately 70 hours per year. However, the hours each firm estimated its partners invest in continuing professional education range from less than 40 to 90 hours per year; the median of these medians is 45 hours per year. The discrepancy between the partners' investment of 70 hours per year and the firms' estimate of 45 hours per year invested in continuing professional education probably reflects a broader definition of continuing professional education by partners than by firms.

When all 85 participating partners are placed in one population, the median is 80 hours per year invested in continuing professional education. This median reflects the substantial portion of partners who invest more than two weeks per year in continuing professional education, as indicated in Table III.

Firms' responses indicated that they are enthusiastic about continuing professional education and will therefore increase its emphasis in the future.

TABLE III

PARTNERS' APPROXIMATE PERCENTAGE INVESTMENTS IN CONTINUING PROFESSIONAL EDUCATION

Investment	Percent
Less than 40 hours per year	13
40 hours per year	14
More than 40 hours but less than 80 hours per year	13
80 hours or more per year	60

Research

Firms generally do not capture research commitments on a firm-wide basis. Although they have general ideas about national office research involvements, they consider them as insignificant in their total research efforts. However, they do not know the extent of research in their regional and practice offices. These offices incur research costs such as salaries and out-of-pocket expenditures when personnel prepare responses to exposure drafts, study research conducted by national offices, and participate in American Institute of Certified Public Accountants' and state societies of certified public accountants' activities.

The percent of gross fees allocated to research in six firms ranges from less than 1 percent to approximately 8 percent; the median is 3½ percent. However, the firms intend to substantially expand their research commitments in the future.

Of the 85 participating partners, 65 (approximately 77 percent) indicated that the commitments of their firms to research are approximately correct. In addition, 13 partners (approximately 15 percent) indicated that the commitments should be increased. Recommended increases range from 5 percent to 100 percent; the median is 25 percent. However, 2 partners (approximately 2 percent) indicated that the commitments should be decreased by 25 percent. An additional 5 partners (approximately 6 percent) were undecided about their firms' appropriate research commitments.

<u>Summary</u>

Public accounting firms are experiencing substantial growth. This growth must be assimilated into over-all organizations in order for firms to continue to provide quality service to their clients who are also experiencing growth. Firms recognize that, in order to render quality client service to existing clients and to new clients, they must invest time and resources in continuing professional education and research. Therefore, the importance of these areas is expected to increase substantially in the future.

Recommendations For Strengthening Organizational Structures

The Firm Interview Guides and Partner Questionnaires sought firms' and partners' recommendations concerning methods of improving organizational structures.

Firms' Recommendations

Firm managing partners or their designated representatives completed the Firm Interview Guides. Since these are the personnel who have influenced current organizational structures and who are in a position to implement changes they deem appropriate, approximately one-half had no recommendations to make and anticipated no substantative changes in organizational structures. However, they emphasized that future changes would be like past changes--evolutionary--and would result from changes in firm size and in the environment.

Five firms recommended stronger regionalization, including firms with relatively strong regional structures and a firm without a regional structure. Because regionalization moves high-level expertise as close as is feasible to client-serving practice offices, firms are more responsive to client needs and the quality of service is enhanced. This, in turn, leads to further firm growth.

Other recommendations mentioned by at least one firm include the following:

1. The span of management of firm managing partners should be reduced. For example, instead of regional managing partners reporting to firm managing partners, they would report to national directors of domestic operations. They would then report to firm managing partners.

2. Firm specialization should be increased in both the functional areas of practice and in industry programs.

3. National offices should be expanded so that they would be competent to deal with highly technical questions.

4. Management committees should have some positional members, such as regional managing partners, in addition to elected members.

5. Committees should be utilized more in order to obtain a broader base of input on major professional and administrative decisions.

Partners' Recommendations

Of the 85 participating partners, 42 (approximately 49 percent) reflected their satisfaction with their respective firms' organizational structures by indicating that they do not need to be changed. In fact, several of these partners cited the advantage(s) of their current structures and indicated that they are proud of them.

The most frequently cited recommendation made by those partners who suggested changes concerned more democratic forms of organization. In fact, at least one of each firms' participating partners included a comment in this broad area.

Partners recommended numerous ways to make their firms more democratic. They want to participate more actively in policy decisions and indicated that this would increase their sense of proprietary pride and thereby benefit both firm practice development and their professional development. Therefore, some partners suggested that management committees should be expanded to include better cross sections of partners. For example, a partner in a highly regionalized firm suggested that its management committee have at least one representative from each region (currently, this is impossible in his firm because its regions greatly exceed positions on its management committee). Another partner recommended the expansion of his firm's management committee to include partners other than the oldest partners from the largest offices. One partner suggested that more items currently handled by management committees should be submitted to partners for their votes.

As another way to make their firms more democratic, other partners suggested the establishment of better channels of communication between management committees and partners. That is, partners would understand management committee decisions better if they communicated the reasons for the decisions to partners (one partner pointedly said that he is tired of one sentence explanations of management committee decisions).

Some partners indicated that more local autonomy is the way to make firms more democratic. That is, office partners administer their offices better by responding appropriately to local conditions than partners who reside in national offices. In fact, one partner deemed less structure throughout organizations appropriate because strong national offices at times perpetuate themselves to the detriment of over-all partnerships.

All participating partners want their firms to prosper to the fullest extent possible and most partners indicated that increased democratic forms of organization are the best means to this end. However, a few partners suggested that stronger national offices and management committees are the best means to this end.

The next most frequently cited recommendation made by those partners who suggested changes concerned increased emphasis on strong regional organizations. Partners in firms with relatively strong regional structures and in firms without regional structures suggested increased regionalization. That is, partners involved in all degrees of regionalization expressed interest in expanded regional structures. However, partners in two firms are concerned with overhead and suggested either the elimination of regional activities or the consolidation of regional activities in national offices.

Other suggestions made by at least one partner include the following:

1. All national office personnel should devote full-time attention to firm-wide administration and should be relieved of client responsibilities.

2. Management committees should place more emphasis on determining long-range (10 year) goals and objectives.

3. All practice offices should possess enough management advisory services expertise to detect client problems which lend themselves to management advisory services solutions.

4. Prestigious retired executives should be brought into firms as consultants in their areas of expertise. They would enhance quality client service, improve general knowledge and expertise, and provide recognition for firms.

5. Positions should be established between partners and managers to recognize partnership potential. These individuals would attend office and perhaps regional meetings, but they would not attend annual partners' meetings.

Summary

Firms and partners are basically satisfied with their respective firms' organizational structures. The major recommendation made by firms concerned stronger regionalization. The major recommendation made by partners concerned stronger forms of democratic organization and stronger regionalization. Firms' and partners' other recommendations are relatively isolated and are not of great concern to either group.

Summary

This chapter reports, via generalizations with significant exceptions indicated, the empirical evidence captured by the Firm Interview Guides and Partner Questionnaires. This empirical evidence, in conjunction with the appropriate accounting and management literature, forms the basis of Chapter IV, which proposes an organizational structure for large public accounting firms.

CHAPTER IV

A RECOMMENDED ORGANIZATIONAL STRUCTURE

The purpose of this chapter is to propose an organizational structure for large public accounting firms. It encompasses the relevant accounting and management literature presented in Chapter II and the empirical evidence reported in Chapter III. It parallels the Firm Interview Guides and Partner Questionnaires where applicable.

Organization Charts

Organization charts reflect the channels through which firm subunits are coordinated and integrated. However, a firm should establish specific objectives which facilitate the accomplishment of its over-all objective--rendering high-quality client service--before it designs its organizational structure. Since partners are more committed to firm objectives when they provide input for their determination, a firm should formalize a process whereby partners participate in establishing objectives. A subcommittee of the management committee should be responsible for this process by distributing an annual questionnaire to all partners which seeks their comments on past, present, and future objectives. This process should result in a more comprehensive statement of objectives and in increased dedication to the attainment of objectives. Then, an organizational structure should be designed to facilitate the accomplishment of the objectives.

Charts

Organization charts should be utilized as a valuable starting point in understanding present organizational structures and in planning future evolutionary changes because they depict formal reporting relationships. They also serve a clarification role within a firm.

A firm should have an organization which emphasizes a strong regional structure. Such a structure brings expert advice and counsel as close as possible to client-serving practice offices, as recommended by both firms and partners. Furthermore, a firm should have an organization which emphasizes strong, autonomous practice offices. Such offices are necessary in order to achieve high-quality client service.

A viable firm should have a line organization as depicted in Figure 4.1. Each position on the organization chart should have complete line authority for all professional and administrative matters on the level below it. Because partners own a firm and should elect the management committee, they are shown at the top of Figure 4.1. The management committee

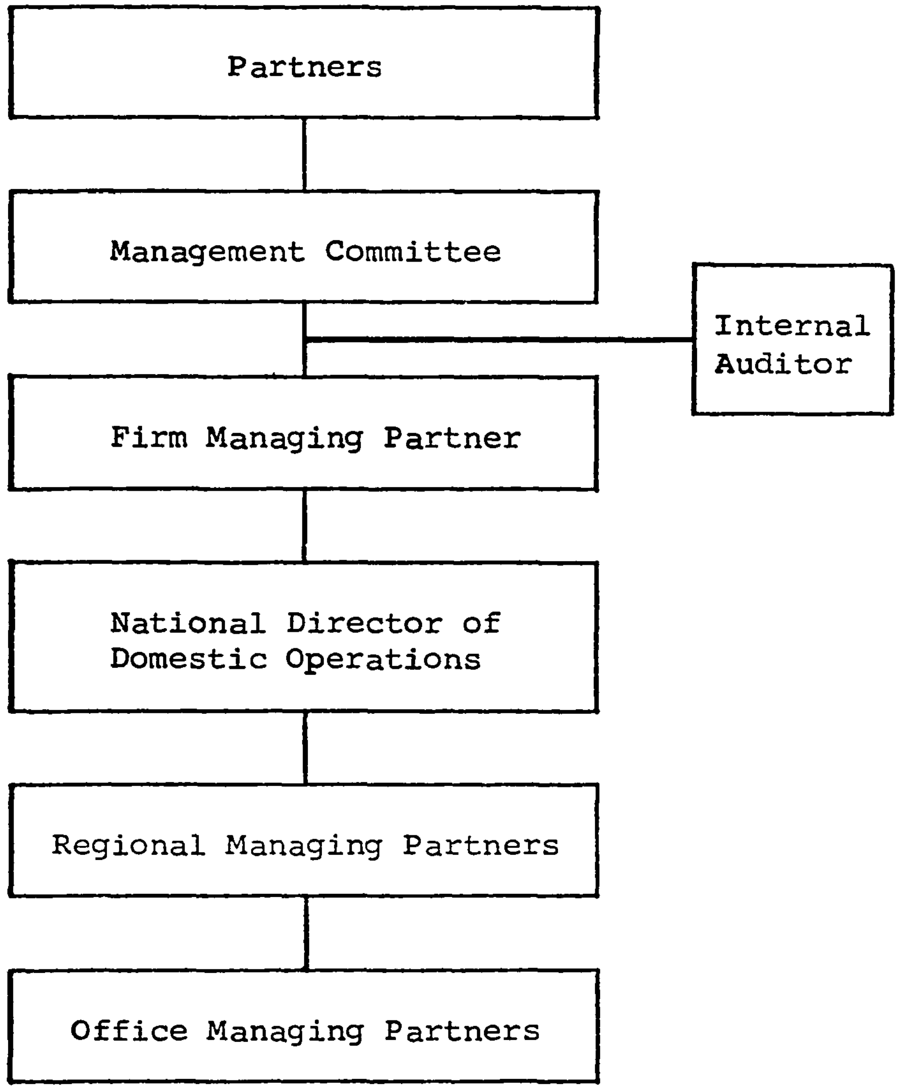


Fig. 4.1.--Domestic Line Organization

communicates directly with the internal auditor and delegates authority for implementing its policies to the firm managing partner. He then delegates authority to the national director of domestic operations, who delegates authority to regional managing partners. Office managing partners receive their authority from regional managing partners.

A strong national office, as depicted in Figure 4.2, should be established to assist the firm managing partner in discharging his responsibilities to the management committee and to provide the line organization with the expert advice and counsel it needs. Since the management literature suggests that a high-level executive should supervise a maximum of eight subordinates, Figure 4.2 recommends that eight directors report directly to the firm managing partner. This recommendation, which represents a significant decrease in the number of personnel reporting directly to the firm managing partner as reported in Chapter III, allows the firm managing partner to use his time and energy more effectively.

Each of these positions is responsible for several activities. The following list illustrates these activities:

National Director of Accounting and Auditing Services

1. Accounting and Auditing Research
2. Securities and Exchange Commission Consultation
3. Library Maintenance
4. Small Business Services

National Director of Tax Services

1. Tax Research
2. Policy and Planning

National Director of Management Advisory Services

1. Computer Applications
2. Mathematical Applications

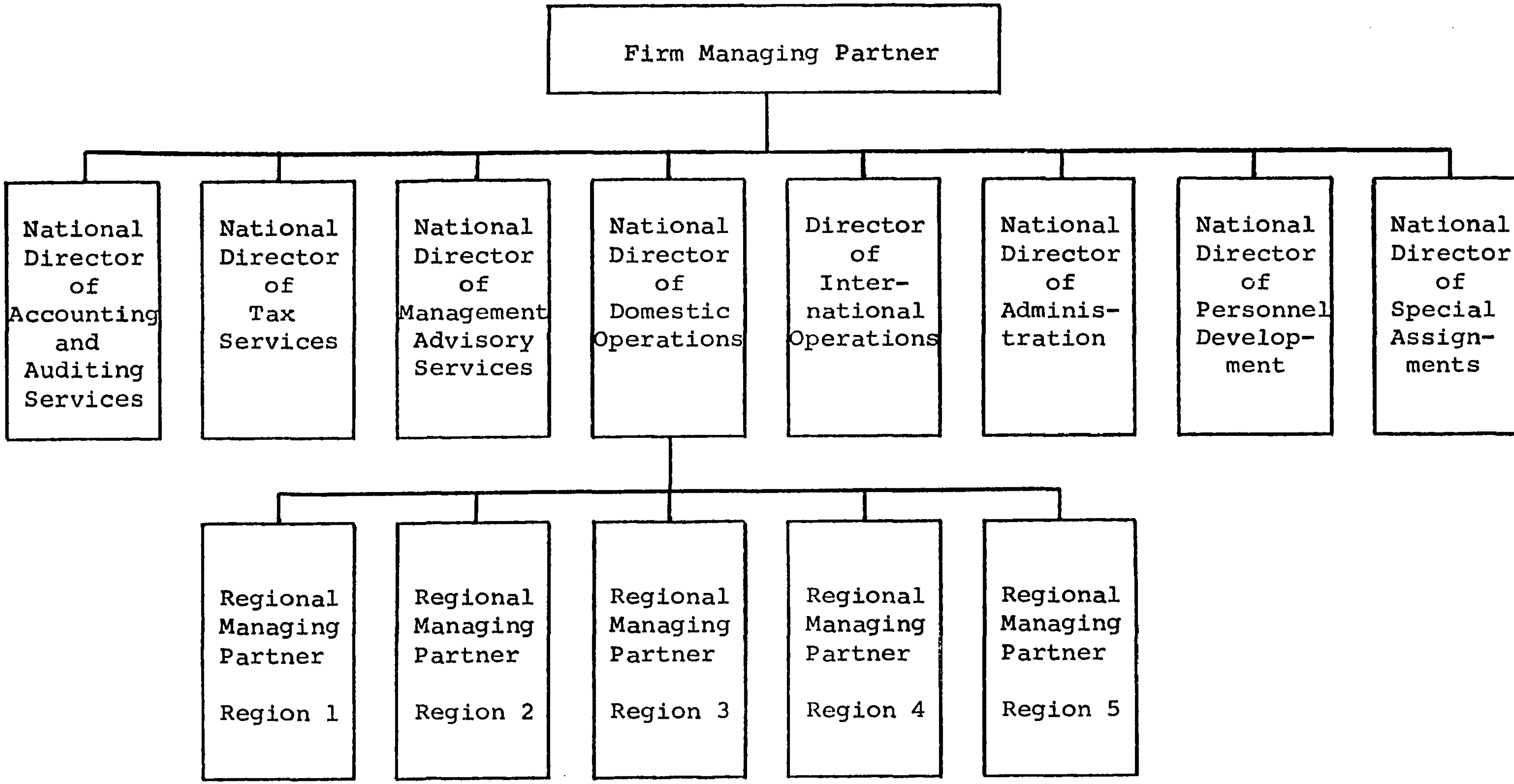


Fig. 4.2.--National Office Organization

National Director of Domestic Operations

1. Responsible for the operation of all domestic practice offices
2. Receives reports from five regional managing partners concerning professional and administrative aspects of the offices under their supervision

Director of International Operations

1. Regional managing partner for foreign offices
2. Liaison partner with affiliated firms

National Director of Administration

1. Controller
2. Purchasing Agent

National Director of Personnel Development

1. Recruiting
2. Continuing Professional Education

National Director of Special Assignments

1. Litigation
2. Research (conceptual)
3. Practice Development
4. Planning

Regional Managing Partners

1. Monitor professional and administrative activities
2. Suggest cities for expansion
3. Investigate prospective merger candidates

The national directors of accounting and auditing, tax, and management advisory services have both domestic and international responsibilities.

The supervision and review of all work performed by the small business services departments are logical activities of the national director of accounting and auditing services since increased exposure in this area makes close monitoring of quality control mandatory.

The director of international operations should parallel that of regional managing partners of foreign offices. However, when this type of office is precluded, he should become a liaison partner with affiliated firms. Because of its inherent benefits, a firm should strive to have its own offices where they are needed and permitted since this approach results in more integrated world-wide operations.

The national director of special assignments should be an individual the firm managing partner can rely on to coordinate such diverse but highly significant aspects of a firm's practice as litigation, research, practice development, and planning. For example, the firm's general counsel should report actual and/or potential firm litigation as well as current litigation developments affecting the accounting profession to the national director of special assignments.

In addition, the national director of special assignments should coordinate firm research, although there should be a broad-based, firm-wide committee to advise the research department. The research department should be conducted much like an in-house Financial Accounting Standards Board; it should be concerned primarily with conceptual matters. It should review and approve responses to professional and regulatory bodies' exposure drafts prior to their release from a firm in order to insure the development of sound position statements. This department should conduct research the firm managing partner requests and the national directors of the functional areas should seek assistance from it when they are investigating theoretical problems in their respective areas.

The national director of special assignments should also coordinate practice development and planning activities in order to maximize current opportunities and anticipate trends that affect the practice of public accounting.

Each of these eight positions in the national office should be a full-time position without client responsibilities. Therefore, the national office should be separated administratively and physically from any practice office in the city in which it is located.

Figure 4.3 depicts the recommended structure for practice offices. Office managing partners are the chief executive officers of their respective offices. Therefore, practice office personnel have line responsibility to office managing partners and staff responsibility to any regional counterparts. Regional managing partners and the national director of domestic operations should not undermine the line authority of office managing partners.

The office directors recommended in Figure 4.3 should be

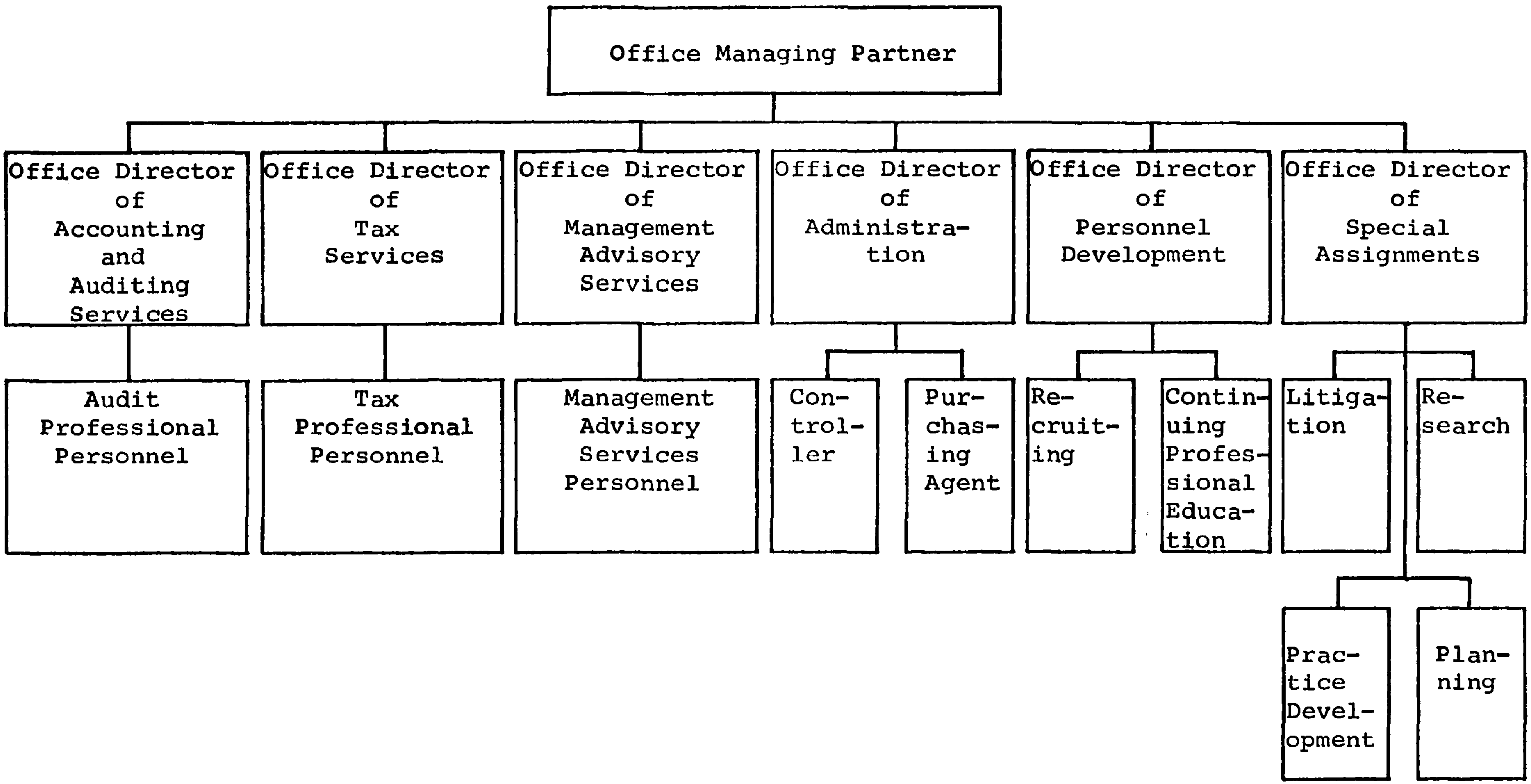


Fig. 4.3.--Practice Office Organization

part-time positions except for those which are most significant (such as office director of accounting and auditing services) in the largest practice offices. Otherwise, part-time office directors should be liaison representatives who coordinate information in their respective areas between office partners and their regional and national office counterparts. Office directors should be able to answer many questions concerning their particular areas. However, when they cannot provide satisfactory answers to difficult questions, they should obtain the approval of the office managing partner to consult appropriate regional personnel.

Office directors of the functional areas of practice, administration, and personnel development should devote most of their time to client service. Because their function should be to disseminate and coordinate information, office directors of special assignments should devote almost all of their time to client service. Office directors of special assignments in large offices should delegate some of their responsibilities. For example, they might designate a partner to help them review all litigation items received from the regional office since the only general counsel is located in the national office. Likewise, when research is needed, they might designate the partner or professional staff member who is most informed in a specific area to provide the information. Furthermore, while all personnel should be responsible for practice development, they might designate an office coordinator for this area. In addition, they might seek the assistance of all office partners in developing future plans to be submitted to the management committee via the line organization.

This recommended office structure should provide autonomous practice offices the degree of in-house expertise they need to conduct their practices without continuous consultations with regional personnel. However, this structure should be monitored closely tc insure that the cost/benefit ratio of practice office overhead remains within acceptable limits as established by the partners of the firm.

Figure 4.4 depicts recommended line and staff reporting relationships when national office positions are duplicated in regions and offices. The unity of command principle is important when line and staff relationships are involved. That is, practice office directors report to their office managing partners, regional office directors report to their regional managing partners, and national office directors report to the firm managing partner. Staff relationships are established to provide advice and counsel throughout the firm on professional and administrative matters. Therefore, the national office positions depicted in Figure 4.2

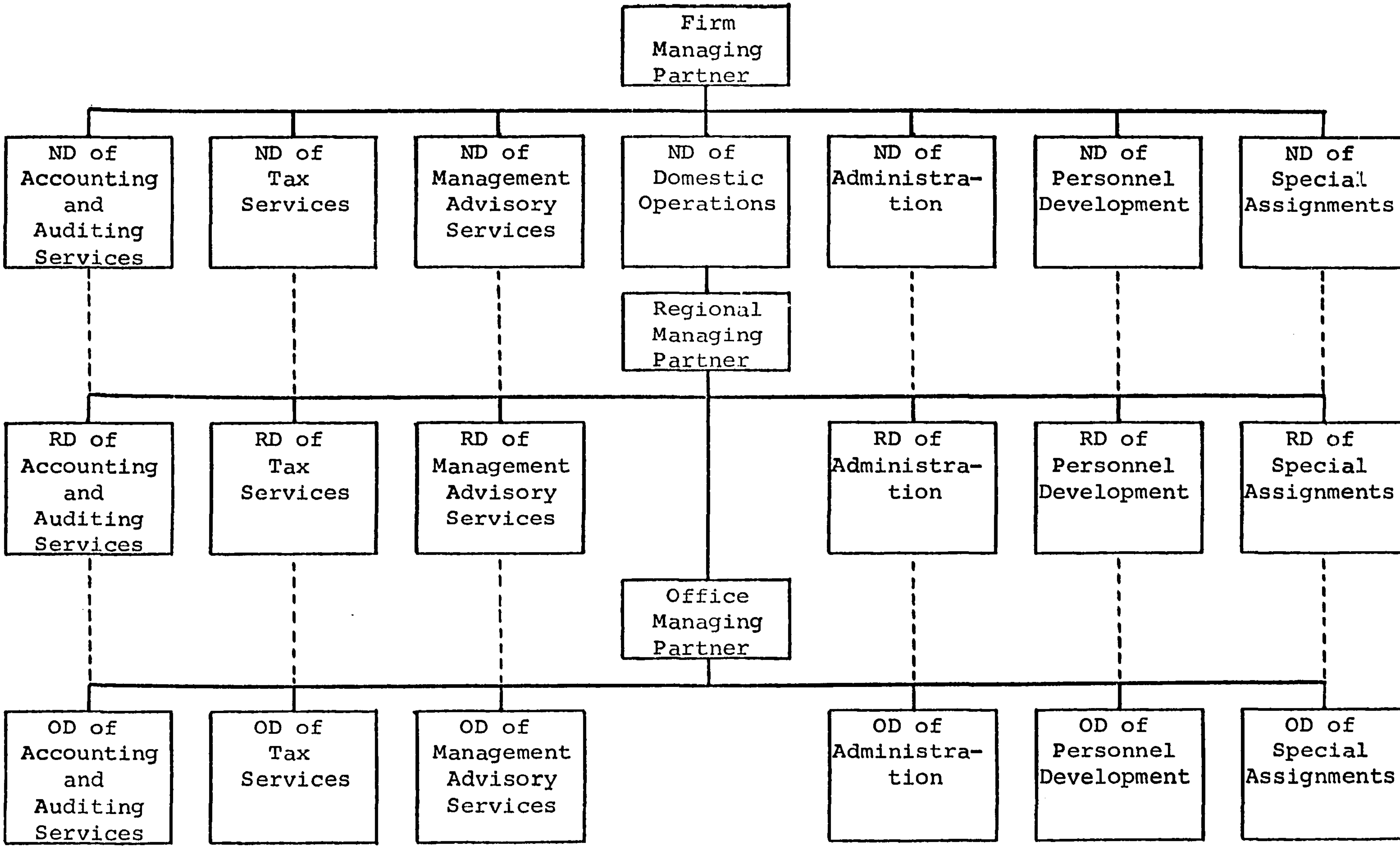


Fig. 4.4.--Line and Staff Relationships Between National, Regional, and Office Personnel for Domestic Operations

have line responsibility to the firm managing partner and staff responsibility to the rest of the firm (except for the national director of domestic operations who occupies a line position between the firm managing partner and the regional managing partners). Figure 4.4 depicts the staff relationships between national office personnel, who counsel rather than command personnel below them, and their regional and practice office counterparts.

Regional managing partners should be responsible for all professional and administrative aspects of their regions, as office managing partners should be responsible for their offices, as depicted in Figure 4.3. Regional directors have line responsibility to their regional managing partners and staff responsibility to their national office counterparts. Practice economics dictates that regional managing partners should occupy the only full-time position in the regional office. Although the exact percentage allocation depends on the circumstances, regional directors should devote most of their time to client service and the remainder of their time communicating with their national office and practice office counterparts in their respective areas. Regional directors of the functional areas of practice, administration, and personnel development should devote the majority of their time to client service. Regional directors of special assignments should devote even more time to client service. Therefore, regional offices should be located with a practice office in their respective regions. Regional directors should be selected carefully since they are responsible for their directorships and for client service.

Regional activities such as advising, counseling, and monitoring quality control should be strengthened as practice offices within regions expand. Although regional directorships gradually require more time, the cost/benefit ratio should be monitored closely to prevent excessive regional office overhead.

Subunits of a Firm

The major subunits of a firm that require coordination and integration are regions, offices, departments, and industry specialization programs. The criteria discussed in Chapter III for the establishment of these subunits should be utilized.

The line organization should be adhered to strictly in coordinating and integrating regions, offices, and departments. For example, engagement partners should be responsible to office directors of their respective areas for all professional and administrative aspects concerning their clients. Office directors then report to office managing partners. The line organization continues, as depicted in

Figure 4.1, to the management committee. Line personnel are responsible for all clients they are assigned; since staff positions are utilized for advice and counsel, consultation with them does not affect client responsibility.

Industry specialization is not directly related to the line organization. Therefore, the most effective way to coordinate and integrate industry specialization programs is to use the Standard Industrial Classification Code. Each office should classify its clients by the Code and the national office should consolidate the clients of all offices via a computer run. After this data file is developed, each office should report clients gained and lost to the national office each month. The national office should send each practice office a quarterly, up-dated run. The run provides enough information so that partners can quickly identify a firm authority in a particular industry. In addition, industry background information can be obtained quickly when partners are conducting preliminary discussions with prospective clients. Furthermore, in-house expertise can be utilized in solving a particularly complex problem.

The national office planning partner (who reports to the national director of special assignments) should utilize this computer run to determine existing industry competencies and to evaluate the feasibility of providing professional services to additional industries. If a solid, although small, base of expertise presently exists within a firm, expansion in a particular industry might be relatively inexpensive. Or, if such a base does not exist, expansion into a particular industry might be relatively expensive. In addition, business and professional developments should be reviewed continuously for potentially substantial markets if a firm wants to utilize its opportunities to expand industry specialization.

Procedures for Amending Organizational Structures

Large public accounting firms operate in a dynamic environment; therefore, they must respond to change. However, changes should be evolutionary since radical departures from past policies are disruptive. The election of a new firm managing partner requires those changes in organizational structure which he deems appropriate. Therefore, a firm managing partner should possess the authority, in consultation with the management committee, to make those organizational changes he deems necessary. More specifically, he should possess almost total authority to organize the national office. As changes move farther and farther from the national office (i.e., opening or closing practice offices, expanding or contracting regions, etc.), the management committee should assume a more active role to insure that new policies do not have a disruptive effect on a firm as a whole.

Changes affecting certain basic organizational aspects of the firm, such as the management committee selection process, should be incorporated into the partnership agreement. Therefore, such changes should be submitted to the partners for their approval.

Line and Staff Relationships

Figures 4.1 and 4.3 depict line relationships and Figure 4.4 depicts line and staff relationships. These relationships have somewhat different meanings in public accounting firms than in other enterprises.

The Line and Staff Distinction

Staff activities in public accounting firms are limited to those which provide advice and counsel to line personnel. Full-time staff positions generally should be limited to the national office. That is, national directors and their immediate subordinates should be able to provide adequate advice and counsel for a firm with the assistance of part-time regional and practice office directors. The vast majority of personnel should be line personnel who are responsible for client service.

Since the purpose of public accounting firms is to serve clients, as many firm personnel as possible should be located in practice offices. That is, if someone in a practice office develops a generalized computer program for auditing the trust department of a bank, he should not be promoted to the national office to develop other highly specialized programs. Rather, he should remain in his practice office and continue to serve clients. However, the national office should notify all practice offices of the availability of the program and the practice office in which the program was developed should receive adequate compensation. This procedure allows as many professionals as possible to remain in practice offices where they remain attuned with client service. If every technical expert were promoted to the national office, it would become a reservoir of highly specialized personnel who could perform only very limited duties. The cost/benefit ratio usually does not justify this procedure.

Procedures for Minimizing Problems Precipitated by the Line and Staff Distinction

The best protection against misunderstandings between line and staff personnel is to have their respective roles clearly defined in a firm administrative manual. Strict adherence to line and staff relationships, as depicted in Figure 4.4, should preclude many problems.

On occasion national directors need functional authority throughout the firm. That is, they need to communicate, from a staff advisory position, information throughout a firm concerning their respective areas. While they should not have to follow the line organization in such situations, it should be available if problems arise in terms of compliance with their directives.

Partner Authority and Responsibility

A firm should recognize the importance of assigning partners authority and responsibility commensurate with their positions.

Types of Partners

Since partners own a firm, it should be conducted as a general partnership (only one class of partners). This recommendation coincides with partners' suggestions that firms should be organized more democratically.

Criteria for Admission to Partnership

Although a firm should determine its own criteria for admission to partnership decisions, those reported in Chapter III should be among the criteria included in such decisions. Regardless of the specific criteria selected for evaluating prospective partners, however, the procedures for admission to partnership decisions should include participation by all partners. Such an approach provides a broad base of input and strengthens the esprit de corps of partnerships.

Office managing partners should initiate admission to partnership decisions by preparing recommendation for partnership forms. These forms should provide strong, average, and weak evaluation ranges and ask various open-ended questions. They should be designed so that partners throughout a firm can determine the strengths and weaknesses of prospective partners. All office partners should endorse each nominee unless office size precludes their first-hand knowledge of a nominee's strengths and weaknesses. Forms should be forwarded to regional managing partners for their endorsement. They should forward all forms from their regions to the national director of domestic operations. After he contributes any information concerning the nominees, all forms should be submitted to a subcommittee of the management committee. This subcommittee should organize the information and submit it to all partners for their comments about each nominee. This step provides for a relatively uniform evaluation of nominees on a firm-wide basis. After the partners respond, the subcommittee should evaluate each nominee, prepare a ballot, and submit it to the partners. Nominees should become partners only if they receive a majority vote. Although this procedure is time-consuming and involved, it is necessary if partners are to participate to the extent they desire in the selection of new partners. In fact, since partners want a greater degree of participation in all decision-making processes, this is a logical area to expand to include them. Other areas should be opened gradually for their meaningful input.

Limits of Partner Authority and Responsibility

Regardless of partners' assignment(s), the proper balance between authority and responsibility should be maintained. The principle of parity of authority and responsibility should exist throughout a firm; it should be applied equally for the firm managing partner and for engagement partners.

When partners need approval to make additional professional and administrative commitments, they should obtain it via the line organization, as depicted in Figures 4.1 and 4.3. However, when partners need assistance with highly technical questions, they should obtain approval from their line superior to consult with the appropriate regional or national office staff personnel, as depicted in Figure 4.4.

Because centralization and decentralization of authority and responsibility have inherent advantages, a large public accounting firm should utilize both approaches. That is, for administrative purposes, a firm should be highly centralized; for professional purposes, it should be highly decentralized.

Modern technology enables the national office to relieve regional and practice offices of many administrative tasks. Therefore, a firm should centralize its administrative matters. Although data ultimately reach the national office, practice offices should submit their data to their regional offices. Regional offices should forward all data to the national office. The national office should handle inter-office transactions, calculate, analyze, and interpret the data, and prepare firm-wide, regional, and practice office analyses via the computer. It should distribute comparisons between forecasted results and actual results to appropriate partners (i.e., regional managing partners and office managing partners should receive firm-wide results in addition to the results of their respective regions and offices). Regional managing partners and office managing partners should compare the progress of their respective areas with that of the firm and apply the management by exception principle. That is, regional managing partners should concentrate on offices which need special attention; office managing partners should work more closely with departments which need special attention.

Client-serving professionals are in the best position to provide high-quality client service. Therefore, a firm should decentralize its professional matters. Such decentralization enables engagement partners to make decisions (starting with developing the audit program and concluding with signing the audit report), with advice and counsel from the staff organization, that they deem appropriate.

Partner to Professional-Staff Ratio

Client mix affects the ideal partner to professional staff ratio because it dictates the type of professionals needed to provide outstanding professional service. Usually, offices with larger clients have larger partner to professional staff ratios (a higher proportion of juniors, seniors, and managers are utilized on large engagements than on medium and small engagements). Offices with smaller clients have smaller partner to professional staff ratios (a higher proportion of partners is utilized because each client, regardless of size, must have an engagement partner). Therefore, offices with a preponderance of large clients should have a partner to professional staff ratio of approximately 1 to 9. Offices with a preponderance of medium and small clients should have a partner to professional staff ratio of approximately 1 to 4 or 5. However, professional constraints such as quality control preclude the establishment of an arbitrary partner to professional staff ratio for each office. Rather, local conditions should dictate the best ratio for a particular office.

Committee Structure

The committee structure provides a unique opportunity for a large cross section of partners to become involved in firm activities. If properly utilized, this opportunity should result in a more cohesive group of partners and should substantially strengthen the one-firm concept.

The management committee should be elected by partners and should be composed of enough members to permit firm-wide representation. Although each management committee should not be expected to have such representation, it should have enough positions so that each region and national directorship area potentially could be represented. However, management committees should be composed of the most outstanding partners available regardless of their location or duties. The management committee should be composed of 12 to 16 individuals in order to provide a broad base of input.

There should be at least two subcommittees of the management committee. One subcommittee should be involved with admission to partnership decisions. Another subcommittee should be charged with recommending unit allocations (either increasing or decreasing) to partners based on their annual evaluations.

The nominating committee, which recommends a slate of nominees to fill management committee positions, should be elected each year at the partners' meeting to serve during the next year. Partners should be allowed to make nominations from the floor; the management committee should not propose a slate of nominees for the nominating committee. The final slate of management committee nominees proposed by the nominating committee should have at least twice as many names as there are positions available so that partners have adequate choices when they vote.

Each national director and the director of international operations depicted in Figure 4.2 should have a committee in their respective areas to provide input and to analyze problems. Criteria for selecting members to serve on these committees should include at least the following:

1. Geographic distribution (so that one region does not dominate firm decisions).

2. Offices of various sizes (so that problems are analyzed from the vantage point of all offices).

3. Recently merged partners (so that the one-firm concept is enhanced and new partners actively participate in the firm).

In addition to the above committees, special task forces and/or ad hoc committees (national, regional, or office level) should be appointed when they are needed. Such committees should deal with specific problems assigned them and should be dissolved upon the completion of their work.

The specific selection criteria and the selection processes for all committees should be clearly explained to the partners so that they understand this important area. In addition, a national office partner should seek each partners' first, second, and third choices for those committees which are appointed. After individual interests and firm needs are matched as closely as possible, the results should be forwarded, with the recommendations of appropriate national office partners, to the firm managing partner. Then, the management committee should confirm all appointments to firm-wide committees.

Communication

Timely, two-way communication is essential in an effective, viable organization. Furthermore, partners are keenly interested in improved communication.

Downward Communication

Although the volume of downward (technical and non-technical) communication is adequate, an effective retrieval system is prerequisite to organizing this mass of publications in a manageable, useful form. Therefore, each office should have a computer-generated index of all firm publications. While the initial investment in such a system is expensive, annual up-dates are relatively inexpensive and easy to obtain if the index is on computer tape. Therefore, each office should have an index and should receive the annual up-date.

Partners should be fully informed about all professional and administrative firm decisions. As the owners of a firm, they have a right and they need to know this information. Therefore, a copy of the minutes of all management committee meetings should be sent to every office and made available to each partner. This recommendation provides the partners with information they need; it also provides for the rapid dissemination of management committee decisions throughout the firm. In addition, all other firm-wide committees (except the nominating committee since its minutes should be confidential) should distribute their minutes to all partners.

Each item of communication which leaves the national office should have the name of the recipient printed at the top. This personalized procedure assists in distribution, enhances morale, and indicates that the communication pertains to the recipient.

Firms incur tremendous costs when they provide their personnel with fringe benefits. However, personnel often regard salaries and bonuses as the total compensation package. Therefore, in order to remind personnel of additional compensation, an annual report concerning the costs and benefits of the fringe benefit program should be prepared (utilization of an independent firm enhances credibility).

This report should be mailed to the home address of all personnel so that spouses also understand the fringe benefit program.

Upward Communication

Specific steps should be taken to insure that good upward communication also exists. It should not be left to informal devices such as open-door policies or to more formal devices such as personnel evaluations.

A firm-wide WATS line should be considered as one method of upward communication. Practice office partners should feel free to utilize it for discussions with personnel throughout the firm.

Specific time for question and answer periods at all firm meetings, from the annual partners' meeting to staff training programs, is another source of effective upward communication. Such face-to-face communication disseminates information with a minimum amount of distortion. In addition, misunderstandings can be quickly and easily clarified because the information does not pass through several levels of personnel before it reaches the inquirer.

An annual in-house survey should be conducted as a mode of upward communication. In addition to determining partner input concerning firm objectives, the survey should include other areas such as partners' committee choices.

An independent (to assure the anonymity of the respondents) consulting firm should be retained approximately every three years to conduct an attitude survey within a firm. Such a survey provides respondents with an opportunity to express themselves on various topics and to offer suggestions. Although this type of survey might be limited to partners initially, it should be expanded gradually to include all professional personnel. The results of the survey would provide the management committee with some suggestions which it elects to implement and with others which are impractical. However, the success of such a survey is measured by the opportunity it provides the management committee to obtain candid information rather than by the number of changes it institutes.

Office directors serve as communication links between their regional counterparts and partners in their practice offices; regional directors serve as communication links between their national office counterparts and their practice office counterparts. Although office and regional directorships are part-time positions, they provide a local source of information concerning difficult questions. And, if they cannot provide the answers, they are acquainted with their counterpoints at the next level. Therefore, with the approval of their line superiors, they obtain necessary advice and counsel. The line and staff relationships which permeate a firm, as depicted in Figure 4.4, should be a most effective communication device.

Continuing Professional Education and Research

As public accounting firms grow, they should continue to place a great deal of emphasis on continuing professional education and research.

Continuing Professional Education

When explaining a major new educational program, the president of an industrial company documented the need for continuing professional education by indicating that:

> Our new plan reaffirms the fundamental fact that an organization's strength, creativity, and possibilities for sustained and future growth are heavily dependent upon its capacity to develop the talents and potentialities of its people.[1]

This attitude is as applicable to public accounting firms as it is to industrial concerns.

Continuing professional education programs are receiving increased attention by the accounting profession. In fact, only seven states had required or voluntary continuing professional education programs last year; eighteen states have such programs this year.[2] Firms should increase their

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[1]"Family Education at Kimberly-Clark," Business Week, May 25, 1974, p. 62.

[2]American Institute of Certified Public Accountants, Continuing Professional Education 1974-1975 (New York: American Institute of Certified Public Accountants, 1974), p. 1.

emphasis on continuing professional education as the profession does so.

In 1969, ten national public accounting firms and the Governmental Accounting Office had a median investment in continuing professional education of 4.5 percent of their gross fees. However, these figures might be high because some firms possibly included the opportunity cost of staff time rather than the cost time.[1] In 1974, ten (two firms did not provide this data) of the twelve firms participating in this study estimated a median investment of 5 percent of gross fees in continuing professional education; 85 percent of the participating partners indicated that their firms' investments are approximately correct. However, continuing professional education should be increased as firms grow, as stronger quality control programs are required to maintain a constant level of professional service, and as the complexities of practice continue to increase. Therefore, a continuing professional education investment of 5 percent of gross fees should be considered as the minimum investment a firm can afford to make.

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[1]Robert E. Seiler and Wayne A. Label, "Staff Training Programs: An Analysis of Change, 1966-72," The Journal of Accountancy, CXXXVI (August, 1973), pp. 91-92.

Research

External environmental changes, such as the replacement of the Accounting Principles Board with the Financial Accounting Standards Board, are causing firms to give research increased attention. Six (six firms did not provide this data) of the twelve firms participating in this study estimated a median investment of 3½ percent of gross fees in research; 77 percent of the participating partners indicated that their firms' investments are approximately correct. Increased research activity is mandatory in order to respond meaningfully to exposure drafts of various professional and governmental organizations, maintain and enhance industry expertise, and conduct meaningful in-house research concerning new and improved client service techniques in all areas of practice. Therefore, a research investment of 4 to 5 percent of gross fees should be made by a firm in order to enhance quality client service.

Summary

This chapter proposes an organizational structure for large public accounting firms. The proposed structure abides by the relevant accounting and management literature presented in Chapter II. It also encompasses, via the empirical evidence reported in Chapter III, good characteristics of present organizational structures and changes recommended by firms and partners.

The focal points of the recommended organizational structure are an increased emphasis on regional structures and an increased use of democratic procedures.

Strong regional offices bring high-level expertise as close as feasible to client-serving practice offices. As a result, practice offices obtain the support, advice, and counsel they need.

A broad definition of democratic procedures should be utilized to provide partners with increased voting privileges and opportunities to add meaningful input to the decision-making process. Therefore, certain management committee prerogatives, such as admission to partnership decisions, should be submitted to partners for their votes. Partners should receive more communication which explains management committee actions and should be allowed to express their opinions via in-house and independent surveys.

CHAPTER V

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

The purpose of this chapter is to present the summary, conclusions, and recommendations concerning the organizational structures of large public accounting firms.

Summary

The purpose of this study is to explore the organizational structures of large public accounting firms. Because it is the first in-depth study in this area, it is an exploratory study.

Procedures

Twenty-five of the largest public accounting firms received a letter (Appendix C) which requested their participation in the study. Twelve firms elected to participate.

Data were obtained from personal interviews and mail questionnaires. Personal interviews, based on the Firm Interview Guide (Appendix A), were conducted with twelve firm managing partners or their designated representatives between December 19, 1973, and January 25, 1974.

Nine of these twelve firms agreed to have Partner Questionnaires (Appendix B) mailed to their partners. From these nine firms, 114 partners were selected to receive Questionnaires. Between February 13, 1974, and May 13, 1974, 88 (77 percent) of these 114 partners responded; 85 (75 percent) of the responses were usable.

Data captured by these two data-gathering instruments were subjected to thorough analysis:

1. A Firm Interview Guide was completed in detail for each participating firm from the cassette recordings made during each interview.

2. A Partner Questionnaire was completed which summarized the responses of each participating firms' partners.

3. The Firm Interview Guide (step No. 1) and the summarized Partner Questionnaire (step No. 2) were compared on a firm-by-firm basis.

4. Generalizations were formulated with significant exceptions indicated. The results of this step appear in Chapter III.

5. A recommended organizational structure was developed. It abides by the relevant accounting and management literature presented in Chapter II and encompasses the empirical evidence reported in Chapter III. The results of this step appear in Chapter IV.

Results

The results of the study include the following:

1. Historically, the election of new firm managing partners and growth encouraged regionalization, the establishment of general partnerships, and the development of national offices which are

functionally and operationally independent of the practice office located in the same city are the events which precipitated major changes in organizational structures.

2. Firms coordinate and integrate departments, offices, and regions via the line organization. They coordinate and integrate industry specialization programs via national directors of practice development, firm-wide industry committees, or the Standard Industrial Classification Code (utilized to identify in-house expertise).

3. Firms designate most professional personnel as members of the line organization, which extends from firm managing partners to professional practice office personnel. However, firms designate national and regional office personnel as members of the staff organization because they serve advisory functions in firms.

4. Firms recognize the importance of balancing partner authority and responsibility commensurate with their positions. Firm manuals and communication from firm managing partners inform personnel of appropriate authority and responsibility inherent in each position. Partners (90 percent) reported that their firms provide them with the proper balance between authority and responsibility.

5. The scope of committee activities varies considerably from firm to firm. Major committees include management committees and nominating committees, which report to the partners; subcommittees of management committees (units and admission to partnership), which report to management committees; national office committees, which report to firm managing partners; and committees for the functional areas of practice, administration, personnel development, practice development, and international operations, which report to national directors of the respective areas.

6. Firms establish effective two-way communication via downward communication (non-technical and technical publications) and upward communication (from partners and professional personnel below partners). Various

kinds of meetings provide the greatest exchange of two-way communication for partners. For professional personnel below partners, the major sources of upward communication include various kinds of meetings and personnel development programs which include personnel evaluations and educational programs.

7. Firms are involved in international operations in order to provide quality client service to growing numbers of international clients. Firms prefer to have foreign firms as integral parts of United States firms when permitted by foreign laws. However, affiliation agreements with domestic firms located in foreign countries are frequently necessary. Earnings from foreign operations are relatively insignificant and generally are not pooled with United States earnings. Those firms which pool earnings usually reinvest them in the country of origin for practice development purposes.

8. All of the firms which participated in the study are experiencing healthy growth rates in the areas of professional fees, billable hours, professional staff, and partners. The median growth rates in these four areas for the last five years are 125, 65, 75, and 90 percent respectively. Commitments to continuing professional education, as a percent of gross fees, range from 2 percent to 7½ percent; the median is 5 percent. Commitments to research, as a percent of gross fees, range from less than 1 percent to approximately 8 percent; the median is 3½ percent. Firms indicated that both of these areas will receive increased emphasis in the future.

9. Firms and partners are basically satisfied with their respective firms' organizational structures. However, some firms indicated that stronger regional structures would strengthen their firms. Although partners also recommended stronger regional structures, they most frequently suggested more democratic forms of organization for their firms. They want management committees expanded to provide broader input bases, partners to vote on more items currently handled by management committees, and better channels of communication established between management committees and partners. Other recommendations made by firms and partners were relatively isolated and apparently are not of great concern to either group.

Conclusions

The hypothesis of the study is:

H_1: There exists within the public accounting profession a typical organizational structure which is characteristic of large, successful firms.

The hypothesis is accepted because of the following:

1. Historically, the same events have precipitated major organizational changes in firms.

2. Each of the firms uses its respective line organization to effectively coordinate and integrate its departments, regions, and offices into a unified entity.

3. Each firm regards most of its professional personnel as members of the line organization and its national and regional office personnel as members of the staff organization (because of their advisory functions).

4. All firms recognize the importance of balancing partner authority and responsibility and of providing authority and responsibility commensurate with each partner's position.

5. Firms have management and nominating committees which report to partners and firm-wide committees which report to national directors.

6. Firms achieve effective two-way communication by having downward technical and non-technical publications and by having upward communication via meetings of various kinds.

7. Each firm has developed associations with offices in foreign countries. Foreign offices are as closely associated with United States firms as the laws and customs of their respective countries permit.

8. All firms are experiencing growth and are committed to increasing continuing professional education and research programs.

9. Firms generally indicated the benefits of regionalization; partners generally indicated that they

want both more democratic forms of organization and stronger regionalization.

Some might respond that the acceptance of this hypothesis was predestined; that they already recognized the typical organizational structure of large public accounting firms. Such a response only serves as a useful test of validity;[1] the need for empirical documentation remained.

Recommendations

There are two kinds of recommendations which logically result from the study. That is, there are recommendations concerning a recommended organizational structure and recommendations for future research.

Organizational Structure

Significant characteristics of the recommended organizational structure include the following:

1. Organization charts should reflect:

    a. An internal auditor who reports directly to the management committee.

    b. A national director of domestic operations to whom regional managing partners report in order to reduce the firm managing partner's span of management.

    c. An individual in each region and office who is responsible for communicating information to and from the national office.

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[1]Greiner, p. 44.

2. The line organization should be composed of as many professionals as possible who remain in practice offices serving clients. The staff organization should be limited to full-time personnel in the national office.

3. All partners in a firm should be general partners. Furthermore, administrative functions should be centralized in the national office; professional functions should be decentralized in practice offices.

4. The committee structure should be such that:

   a. Partners make nominations from the floor and then elect the subsequent year's nominating committee rather than ratify a slate submitted by the management committee.

   b. The nominating committee nominates at least twice as many individuals as there are vacancies on the management committee so that partners have meaningful choices.

   c. National directors have firm-wide committees of specialists in their respective areas to provide advice and counsel.

5. Communication between the management committee and partners should be strengthened so that partners are adequately informed. One practical way to accomplish downward communication is to distribute the management committee minutes to all partners. In addition, upward communication should be increased via formal procedures (various kinds of meetings and in-house and independent surveys).

6. Because of the growing complexities of professional practice, continuing professional education and research should receive larger aggregate budgets (growth and inflation necessitate this) and an increased percentage allocation of gross fees.

<u>Future Research</u>

Because of their significant role in our economy, large public accounting firms should be the topic of additional studies. Therefore, the following possible studies are recommended:

1. The morale, sense of accomplishment, and career satisfaction of partners and professional staff should be evaluated in terms of the partner to professional staff ratio. Firms with high ratios (1 to 15), medium ratios (1 to 8), and low ratios (1 to 3) should be compared to determine significant differences.

2. An analysis of the most effective motivational techniques at various personnel levels (partner, manager, senior, and junior) should be conducted. Such a study should provide the profession with information which would enable it to maximize performance at all levels.

3. The philosophies of management (Theories X, Y, Z, or combinations thereof) which firms utilize should be determined. Then, partner and professional staff career satisfaction for various types of firms should be investigated to determine if a particular philosophy maximizes personnel satisfaction or has a significant impact on personnel turnover ratios within firms.

4. In order to determine similarities and differences between large firms and regional firms, a study limited to regional firms should be conducted following a similar format. Such a study should provide comparisons between the two kinds of firms.

5. This study should be replicated in eight to twelve years in order to document organizational structures of large public accounting firms at that time and to determine changes which have occurred during that time.

Concluding Comments

This study explored the organizational structures of large public accounting firms. However in-depth it might have appeared to the firm managing partners or their designated representatives who participated in the interviews and to the partners who completed the Partner Questionnaires (both groups gave generously of their time), a single study in this area answers only a relatively few questions. However, the study hopefully serves a useful purpose because it empirically documents the organizational structures of large public accounting firms and contributes to the academic community and to various user groups via an increased understanding of the modus operandi of such an economically vital profession.

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Appendix A

THE UNIVERSITY OF OKLAHOMA
DIVISION OF ACCOUNTING

FIRM INTERVIEW GUIDE

THE ORGANIZATIONAL STRUCTURES OF SELECTED LARGE PUBLIC ACCOUNTING FIRMS

CONFIDENTIAL

SECTION A - IDENTIFICATION

1. Name______________________________________

2. Title______________________________________

3. Firm Name__________________________________

SECTION B - HISTORICAL DEVELOPMENT

1. The current organizational structure of the firm was finalized in__________(approximate date).

2. List the dates and reasons for the MAJOR changes in the development of the firm's current organizational structure.

____

____

____

3. Major organizational changes which have been tried and subsequently proved unsuccessful are:

____

____

____

4. List the procedures for amending the firm's organizational structure.

____

____

____

SECTION C - ORGANIZATION CHARTS

1. A copy of your firm-wide organization chart and manual would be helpful.

2. (a) Firm objectives have been determined by______________

____

(b) Indicate how firm objectives have influenced organizational structure__________________________________

____

____

3. Discuss the organizational structure of your firm as it relates to the over-all firm and its various departments or divisions.

(a) Type of work: Audit, Tax, Management Advisory Services, SEC, Small Business, etc.____________________________

____

____

(b) Industry specialization____________________________

____

____

(c) Regional divisions__________________________________

____

(d) Regional specialists________________________________

____

4. List the criteria for establishment of the following subunits of your firm.

   (a) Departments (Audit, Tax, Management Advisory Services, SEC, Small Business, etc.____________________

   (b) Industry specialization____________________

   (c) Regional divisions____________________

   (d) Operating offices____________________

   (e) Other (please specify)____________________

5. Give the method(s) of integration and coordination of the firm's subunits into the over-all structure.

SECTION D - LINE AND STAFF RELATIONSHIPS

1. (a) Distinguish between line and staff operations within your firm____________________

(b) Additional staff activities you would like implemented include____________________

2. List problems which arise because of the line and staff distinction.

3. Duties of assistant-to positions include:

SECTION E - PARTNER AUTHORITY AND RESPONSIBILITY

1. (a) Is your firm a general partnership (only one class of partners)? Yes or No (circle one)

   (b) If no, list types (office, regional, national, etc.) of partners____________________

2. For each type of partner, the bounds of partner authority and responsibility are:

3. (a) Individual partners can commit the firm for:

	YES	NO	LIMITATIONS
1. New Personnel	___	__	__________
2. New Clients	___	__	__________
3. Disbursements	___	__	__________
4. Other - __________	___	__	__________
______________	___	__	__________

(b) Approval for additional commitments is obtained from:

____

____

____

4. (a) The ratio of partners to professional staff is_____.

   (b) The ideal ratio of partners to professional staff would be_____.

5. Your firm's trend toward centralization of authority and responsibility is toward more or toward less centralization (circle one).

6. List the steps that are taken to insure that the appropriate authority is granted when responsibility is increased.

____

____

____

7. Qualifications for admission to partnership include:

____

____

____

SECTION F - COMMITTEE STRUCTURE

1. (a) Your firm's MAJOR committees

   ARE and report TO (titles) and are responsible FOR

____________	______________	____________
____________	______________	____________
____________	______________	____________
____________	______________	____________

   (b) The process for selecting committee members is______

   ____

   ____

   ____

2. (a) Standing committee assignments include____________

   ____

   ____

   (b) Committee and individual assignments are distinguished (or differentiated) by________________________

   ____

   ____

   (c) Committees are advisory (circle one): Yes or No

   (d) Committees have the power to act (circle one): Yes or No

3. Strengths of the committee approach are:

   ____

   ____

   ____

4. Weaknesses of the committee approach are:

____

____

____

SECTION G - COMMUNICATION

1. List the in-house communication media of your firm.

____

____

____

2. As the span of management increases, office and regional communication is increased by:

____

____

____

3. Steps taken to insure two-way communication include:

____

____

____

SECTION H - GROWTH, CONTINUING PROFESSIONAL EDUCATION, AND RESEARCH

1. Based on the following criteria, your firm's percentage growth rate for the last five years is:

	PERCENTAGE
(a) Gross professional fees	________
(b) Billable hours (staff and partners combined)	________
(c) Number of professional staff	________
(d) Number of partners	________

2. The percentage of gross fees allocated to continuing professional education is_____percent.

3. Your average partner spends approximately_____hours per year in formal continuing professional education activities sponsored by the firm, the AICPA, or the state society.

4. The percentage of gross fees allocated to research is _____percent.

SECTION I - RECOMMENDATIONS FOR STRENGTHENING ORGANIZATIONAL STRUCTURE

1. (a) Give changes you would like to see in the firm's organizational structure____________________________

____

____

____

____

(b) Benefits of these changes would be__________________

____

____

____

____

FIRM INTERVIEW GUIDE ADDENDUM

1. What impact has the current litigation environment had on your firm's organizational structure?

2. International Operations

   (a) How is world-wide control of operations achieved?

   (b) What constraints are present on the use of a firm name world-wide? Have these been successfully overcome?

   (c) Are earnings of domestic and world-wide operations pooled?

Appendix B

THE UNIVERSITY OF OKLAHOMA
DIVISION OF ACCOUNTING

PARTNER QUESTIONNAIRE

THE ORGANIZATIONAL STRUCTURES OF SELECTED LARGE PUBLIC ACCOUNTING FIRMS

CONFIDENTIAL

Your responses on this Questionnaire will be held in strict confidence. They will NOT be summarized and reported to the management of your firm. In fact, neither you, your office, nor your firm will be identified in the dissertation or in any other report or publication.

GENERAL INSTRUCTIONS

Since your firm has reviewed this Questionnaire and agreed to participate, the question of confidentiality hopefully has been eliminated. However, if you deem a question unanswerable either because of its confidential nature or because the answer is unknown, please mark the question C (confidential) or U (unknown) and proceed to the next question.

SECTION A - IDENTIFICATION
(For research control purposes only)

1. Name______________________________

2. Title______________________________
   Examples: Audit Partner, Management Advisory Services Principal, Managing Partner for Natural Resources, etc.

3. Firm Name______________________________

SECTION B - ORGANIZATION CHARTS

1. Changes in organizational structure which would facilitate your attainment of personal career objectives would be:

   ____

   ____

2. Give the method(s) of coordination of the firm's subunits (departments, operating offices, regional divisions, etc.) into the over-all structure.

____

____

____

3. Suggestions for improving coordination are:

____

____

____

SECTION C - LINE AND STAFF RELATIONSHIPS

1. Areas where additional staff (as distinguished from line) would facilitate the discharge of your obligations include:

____

____

____

2. Duties of assistants-to working directly under you include:

____

____

3. The scope of authority and responsibility of assistants-to is:

____

____

____

SECTION D - PARTNER AUTHORITY AND RESPONSIBILITY

1. Describe the nature of your authority within the firm.

____

____

____

2. Describe the nature of your responsibility within the firm.

____

____

____

3. (a) You can commit the firm for:

	YES	NO	LIMITATIONS
1. New Personnel	___	___	___________
2. New Clients	___	___	___________
3. Disbursements	___	___	___________
4. Other - ___________	___	___	___________
___________	___	___	___________

(b) Approval for additional commitments is obtained from:

____

____

4. (a) The ratio of partners to professional staff is_____.

(b) The ideal ratio of partners to professional staff would be_____.

(c) Titles of subordinates who report directly to you are:

____

____

5. Your firm's trend toward centralization of authority and responsibility is toward more or less (circle one) centralization.

6. The firm's present organizational structure provides or does not provide (circle one) you with the proper balance of authority and responsibility.

7. Your preference is for more or less (circle one) centralization of authority and responsibility.

8. Additional authority and responsibility would or would not (circle one) facilitate the discharge of your obligations.

9. To whom (by title) do you report?________________________

SECTION E - COMMITTEE STRUCTURE

1. (a) The committees you serve on

   ARE and report TO (titles) and are responsible FOR

   ________________ ____________________ _______________

   ________________ ____________________ _______________

   ________________ ____________________ _______________

   (b) The process for selecting committee members is______

   ____

   ____

2. Strengths of the committee approach are:

   ____

   ____

   ____

3. Weaknesses of the committee approach are:

   ____

   ____

   ____

SECTION F - COMMUNICATION

1. List the communication media of your firm.

____

____

____

2. Steps taken to insure two-way communication include:

____

____

____

3. Give the steps or channels through which a suggestion of yours would proceed assuming it required consideration by the highest policy makers (Executive Committee or other top-management group) of the firm.

____

____

____

SECTION G - CONTINUING PROFESSIONAL EDUCATION AND RESEARCH

1. You would characterize your firm's commitment to continuing professional education as:

   (a) Approximately the correct emphasis.
   (b) Would like to see it increased by_____percent.
   (c) Would like to see it decreased by_____percent.

2. You spend approximately_____hours per year in continuing professional education activities.

3. You would characterize the firm's expenditures on research as:

   (a) Approximately the correct emphasis.
   (b) Would like to see it increased by_____percent.
   (c) Would like to see it decreased by_____percent.

SECTION H - RECOMMENDATIONS FOR STRENGTHENING ORGANIZATIONAL STRUCTURE

1. (a) Give changes you would like to see in the firm's organizational structure

(b) Benefits of these changes would be

Appendix C

The University of Oklahoma 307 West Brooks, Room 200 Norman, Oklahoma 73069

Division of Accounting
College of Business Administration

September 28, 1973

Mr.
Title
Firm
Street
City, State

Dear __________:

I am at the dissertation stage of my Ph.D. program at The University of Oklahoma and am considering a research topic which can fill a void in our literature and consequently make a contribution to our profession. Because of the empirical nature of the investigation, I am seeking the participation of ________(firm name)________.

The formal and informal organizational structures of large public accounting firms will be the focal point of this investigation. Because one of the objectives is to determine whether a "typical" organizational structure exists, such areas as line and staff relationships, the span of management, committee structures, and channels of communication will be studied.

All segments of our profession can gain through an increased understanding of strengths, as well as possible weaknesses, of current organizational structures of large public accounting firms. That is, practitioners will have the opportunity to reconsider their organizational structures in view of the findings of the study and the academic and business communities will be able to better understand the internal functioning of the public accounting profession.

Mr. __________
Page 2
September 28, 1973

This study can be undertaken only if firms are willing to participate. This participation would consist of a personal interview with a partner involved in organizational matters. Also, a random group of firm partners would be asked to respond to a mail questionnaire.

Copies of the tentative Firm Interview Guide and Partner Questionnaire are enclosed for your review. Although tentative, they are near final form and indicate the nature of research and the type of questions being considered. Your suggestions concerning possible changes (whether additional questions, deletions, or both) will be both carefully considered and greatly appreciated.

Strict confidence will be maintained; no firm or partner will be mentioned by name or office. Of course, a copy of the dissertation will be sent to all firms that participate.

Some firms have suggested that this study is needed by our profession and have already indicated their desire to participate. Your careful consideration of the proposed study, its methodology, and your willingness to participate will be appreciated. I look forward to hearing from you at your earliest convenience.

Sincerely,

Gerald Smith, CPA

Enclosures

Appendix D

The University of Oklahoma 307 West Brooks, Room 200 Norman, Oklahoma 73069

Division of Accounting
College of Business Administration

February 11, 1974

Mr.
Title
Firm
Street
City, State

Dear Mr. ___________:

I am at the dissertation stage of my Ph.D. program. Your firm has agreed to participate in my study concerning the organizational structures of large public accounting firms. The enclosed Partner Questionnaire is one part of my study.

Because the Partner Questionnaire seeks to determine your firm's organizational structure from your vantage point, please do not discuss your responses with other members of your firm before you complete the Questionnaire.

Rather than filling in the form yourself, you might prefer to dictate your responses and have your secretary transcribe them in straight-copy form. If you follow this procedure, please reference each response to its section and question number.

I would like to emphasize that no partner, office, or firm will be identified in the study. Furthermore, your responses will not be available to any partner of your firm. Because your responses will be held in strict confidence, you are free to give candid and thorough answers.

Mr. __________
Page 2
February 11, 1974

Each participating firm will receive a copy of the completed study. Your cooperation is most appreciated. I sincerely thank you for your interest and effort.

Sincerely,

Gerald Smith, CPA

Enclosures: Mr. __________ Memorandum
Partner Questionnaire

Appendix E

Firm's Interoffice Memorandum

To The Partners Of ______________(Name of Firm)______________:

Our firm has agreed to participate in a study concerning the organizational structures of selected large public accounting firms which Gerald Smith, a Ph.D. candidate at The University of Oklahoma, is conducting. The enclosed Partner Questionnaire is one part of this study.

As you complete the Partner Questionnaire, please give answers which are candid and thorough (complete anonymity of partners, offices, and firms has been assured). Your prompt response to the Partner Questionnaire will facilitate the completion of this study.

A copy of the completed study will be available via our firm's library. Therefore, you will be able to compare your individual responses with those of other partners (reported on an aggregate basis) within our profession.

Please give prompt attention to this Questionnaire.

The University of Oklahoma 307 West Brooks, Room 200 Norman, Oklahoma 73069

Division of Accounting
College of Business Administration

Appendix F

March 21, 1974

Mr.
Title
Firm
Street
City, State

Dear __________:

Although you are especially busy at this time of year, I hope that you will have time to help me complete my research study at The University of Oklahoma. I think you will find that the time commitment will not be as great as it might at first appear.

A 100 percent response rate is important in my study because a very small sample of partners was selected--only __ from your firm. Therefore, each one is highly significant.

Since your firm agreed to participate in my study, I would very much appreciate it if you would complete the Partner Questionnaire as soon as your schedule permits. Another Questionnaire is enclosed for your convenience.

Please mail your confidential response to:

Gerald Smith
Division of Accounting
The University of Oklahoma
307 West Brooks, Room 200
Norman, Oklahoma 73069

Mr. __________
Page 2
March 21, 1974

Your prompt response will help me complete my study this summer and will be most appreciated.

Sincerely,

Gerald Smith, CPA

Enclosure