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Divided House Revisited, Report to the spring meeting of Council, May 6, 1970

John Lawler

"The Divided House Revisted"
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Last spring, in submitting a report which carried an ominous title that is echoed in the present one, I mentioned that I was engaged in a pilgrimage within the profession -- that I was conducting a series of interviews with a number of prominent members on the current state of the profession.

I have now conferred with sixteen of them -- the managing partners of a substantial number of the national firms as well as practitioners in local and regional firms. The interviews usually lasted four or five hours, but one continued for twelve hours until the witching hour of midnight.

The conversations ranged over a vast array of topics: the public's attitude toward CPAs, the task of delineating standards of financial reporting, the performance of the APB, the need for an expanded program of research in auditing, the question of specialization, the role of the Institute and state societies -- to name only a few.

It would be impossible, in the time allotted to me, to provide you with a full review of the varied viewpoints expressed in the interviews. I can say this with confidence because I have already tried to do just that in a summary which must contain 30,000 words or more -- and even it fails to do justice to the participants in this exercise in introspection.

Consequently, rather than meander over all of the topics covered in the interviews, I would like to focus on one which seems to me to merit some thoughtful attention -- and that is the competitive element in practice.

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The interviews disclosed a considerable diversity of opinion on the degree and character of competition within the profession.

Estimates of the level of competition ranged from "excessive" to "moderate"; yet even some of those who applied the latter adjective had occasional qualms about the manner in which some firms -- naturally, not their own -- were conducting their practices.

"They," one managing partner said, "seem determined to get a 'corner' on all clients -- an ambition which strikes me as a form of madness amid the continuing shortage of competent personnel. I also suspect that these 'aggressive' tactics produce reprisals from the injured firms, and that the whole tone of practice is thus reduced."

I asked if he thought this adversely affected the over-all reputation of the profession.

The answer had -- at least to me -- some rather disturbing implications. "Well," he said, "I doubt it. I suppose that most businessmen would not be surprised because competition is a way of life with them. But, of course, the absence of any negative reaction on their part might be cited as evidence of our lack of professional stature in their eyes. They think of us as one of them. And, naturally, they don't regard themselves as bad company for anyone. But it may well be that if law firms began to act as some accounting firms commonly do, the business executive would be astonished. He considers lawyers to be professional men -- a breed apart; and he might lose respect for those who departed from the discreet, low-keyed conduct expected of members of the bar."

The degree of concern over competition within the profession should not be exaggerated.

Most of the interviewed leaders -- men associated with small as well as large firms -- denied that any dog-eat-dog struggle is occurring within the profession; on the contrary, they insisted that a remarkable level of camaraderie exists within its ranks.

Some of them took the highly realistic view that this is so simply because, in an era of unparalleled prosperity, nearly all firms have more opportunities to provide additional services to existing clients than their manpower resources permit them to undertake.

Others attributed the spirit of fraternalism to the Institute and the state societies which, in their view, have enabled the best members of the profession to work together toward common objectives and, in the process, to learn respect for each other.

Still others accepted as inevitable the internal pressures which spur firms to pursue additional growth; they regarded these forces as no different from -- and no more nor less reprehensible than -- the human impulses in every individual to seek complete fulfillment of his talents.

Most of the interviewed leaders, in other words, could be said to view with composure the current level of competition within the profession.

Nonetheless, as I mentioned earlier, there was an undercurrent of apprehension about it in a number of the interviews; and some of the leaders regarded it with extreme distaste and spoke of it with considerable emotion.

These troubled members suggested that there should be a renewed commitment to the basic ideals of professionalism -- and that every practice which might generate internal strife should be forthrightly condemned.

They mentioned the emphasis placed upon the acquisition of new clients in the promotion of staff and the advancement of partners -- noting that some firms have adopted the approach of rewarding those who bring clients into the fold by the payment of a "commission."

They lamented what, in their judgment, was a growing habit of one firm to deprecate the worth of another -- citing instances where the legal difficulties of a firm were utilized in an effort to dissuade young recruits from considering its employment offers.

They contended that each action of this kind encourages others to go and do likewise -- and that this constant escalation in what to date has been a rather subdued contest could ultimately jeopardize the profession's prestige and, indeed, might even discredit the CPAs' claim to professional status. They thought this melancholy fate might await the profession not only because an unseemly scramble for clients could bring a loss of respect, but because it could produce an erosion in the quality of service rendered by CPAs.

In order to avoid any misunderstanding, I should reiterate that those who hold these views represent a minority within the interviewed group. At the same time, however, I feel obliged to add that the fact that they do hold them -- and, particularly, that they do so with such intensity of feeling -- can be ignored only at the peril of inviting a fateful division within the profession.

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What, if anything, can be done about this situation -- assuming, as I do, that it is of sufficient gravity to require attention?

It would be sensible, first of all, to recognize that some measure of tension between practitioners is inescapable. Nor will all the friction be a product of misconduct. For example, any thriving firm -- even though its success has been achieved in an impeccable manner -- may create some envy among the less prosperous, and the latter, succumbing to a natural human weakness, will almost certainly look elsewhere than to their own deficiencies for an explanation of their lack of progress.

It seems equally sensible to realize that strong economic forces are at work in this situation.

Some of those interviewed, for example, spoke plaintively of the difficulties confronting smaller firms in attracting staff members in the face of the organized recruiting campaigns of the national firms and their handsome salary offers.

But a local practitioner made these blunt comments to me:

"It would be absurd," he said, "to expect the larger firms, in view of their own imperative need for personnel, to step aside for local firms. The latter simply have to match the offers which college graduates can command from various potential employers. If their fees cannot support higher salaries, they will have to adjust them upward -- or curtail the rendition of services which cannot justify increased charges. They have no other choice, in my opinion, than to tie the price of their product to the cost of delivering it -- except to inflict a hardship on themselves and on all those associated with them (including their families)."

There is a lot to be said for this hard-headed advice -- though this is not to say that the profession's organizations on both the state and national levels cannot help by striving to attract an increasing number of qualified students to the profession and by exploring ways of reducing the large exodus out of practice.

One other point needs to be underscored in these preliminary observations.

It seems likely that some of the criticism directed at the larger firms merely reflects a vague uneasiness over their size. Americans have long had an ambivalent attitude about size -- taking pride in the vastness of their country and its boundless capacity for material achievements, while at the same time brooding over any concentration of power and constantly championing the cause of the little man. But it is surely rank sentimentalism to assume that the small have a monopoly of virtue -- that every underdog is a noble beast -- that every Goliath deserves to be felled.

Nor can it be plausibly argued that size is incompatible with professionalism. As a professional practice grows in response to the demands made upon it, the means of directing and controlling its activities will need to be more elaborate; but this kind of organizational problem can hardly be beyond the skills of CPAs to resolve. If it is, the profession is in dire straits, for there seems little prospect that the larger firms will diminish in size, nor any justification, in terms of the public interest, in seeking to impose arbitrary restrictions on their growth or in some manner to dismantle them.

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Despite all these extenuating factors, however, it is still appropriate to ask what might be done to develop an even more congenial climate of practice.

It is no doubt a tribute -- though perhaps a misguided one -- that a good many members will assume that the question should be addressed to the Institute. Some of them appear to regard the organization as an oracle -- a source of wisdom on an infinite array of problems. Last month, for instance, the following inquiry arrived at the office:

"Gentlemen:

"Several of the female employees in our office have requested permission to wear pant suits to work. We believe this is a reasonable request but, naturally, we would not wish to permit anything which might be detrimental to the accounting profession.

"We would appreciate your advice on this matter."

This appeal, with its implied confidence in the sagacity of the "gentlemen" at 666 Fifth Avenue, is naturally flattering.

But it should never be forgotten that some problems of the profession cannot be solved -- or at least cannot be wholly solved -- by institutional action.

The creation of a healthy atmosphere in practice is one of them.

It is true, of course, that specific issues which may be creating dissension can be investigated by the Institute and, conceivably, some means may be devised to eliminate or at least minimize the risks of inter-firm collisions. The recent formation of a special committee to explore the displacement of local firms when their clients enter the securities market is a case in point. It is much too early to predict the outcome of this study; but it is reasonable to assume that the committee's work will not only provide a better insight into the dimensions of the problem, but will help to guide firms in dealing effectively with it.

This would be only the latest of a long series of efforts on the part of the Institute, aided by the state societies, to assist local firms in improving their capacities to compete successfully. A small library of practice management bulletins have been issued; considerable space is regularly devoted to the subject in the Institute's magazines; a substantial number of courses in the professional development program are aimed at increasing "billable" competence. The larger firms, incidentally, have contributed generously to all of these endeavors.

It must also be acknowledged that the rules governing relations between members in the Code of Professional Ethics -- and the actions taken to discipline members for violation of them -- have undoubtedly had a beneficial effect. Some members are inclined to deride these provisions of the Code as self-serving declarations designed merely to keep peace in the profession's family. But the maintenance of a friendly intra-professional spirit is not to be scorned. If an "anything-goes" attitude prevailed, members of the profession would not be the only victims of the resulting brawl; the public -- as mentioned earlier -- would suffer because of an inevitable degneration in the quality of accounting services.

One has to concede, however, that many of the incidents which appear to pollute the environment of practice do not lead to disciplinary action.

This is largely due to the fact that the episodes usually entail a departure from the spirit rather than a clear-cut violation of the letter of the rules.

A number of such incidents were mentioned to me in the interviews. One typical case: a top partner of a large firm which audits a small subsidiary of a major client of another firm undertakes each year to deliver the report personally to the chief executive officer of the parent company. No overt solicitation apparently occurs in the conference; but it is not surprising that the auditors of the parent company view this annual ceremony with a jaundiced eye.

It seems clear that the professional societies will always have a difficult time in acquiring detailed knowledge of such failures to abide by standards of professional courtesy -- and an even more difficult time in applying sanctions against the transgressors.

This is not to downgrade the importance of the disciplinary machinery of the profession. It performs an absolutely essential function; and, indeed, it needs to be strengthened to enhance its ability to detect and punish sinners -- particularly those who commit the most grevious sin of all: the performance of shoddy professional work.

But a disciplinary approach to the elimination of sharp competitive practices does not appear to offer a great deal of promise.

It seems more likely that better and more far-reaching results would be achieved through the missionary efforts of leaders of the profession. This would not require the enlistment of a gigantic army of angels; the good which just a few good men can accomplish often verges on the miraculous.

I saw an example of this last month when I travelled to a midwestern city to deliver a speech and spent a couple of days calling upon members in their offices. During each of these visits, I asked about the relations between practitioners in the area, and I was told by everyone that a heart-warming spirit of cooperation existed between firms of all sizes. How, I asked, had this been developed? Almost everyone mentioned a man who had been the partner in charge of the local office of a national firm. He had apparently acted upon Emerson's advice that the only way to have a friend is to be one; and his dedication to serving others, his willingness to share with them, his insistence upon giving all a fair hearing had endeared him to his professional associates. He had died several years earlier; but his gentle character still inspired those who succeeded to his leadership in the accounting community. It was obvious that they would regard any factional discord, any refusal to aid a colleague, any mean-spirited competitiveness as an affront to his memory.

I submit that this illustrates clearly what one man can achieve by the power of his example -- a power which, in this case, extended even beyond the grave.

This is a task for the leaders of the profession.

And who are they?

Well, if you seek them, look around you. They are here -- or have been here -- or will be here in the years ahead. And when you count them, do not forget to include yourself.

You -- all of you working together -- could transform this profession. By what you say or decline to say, by what you do or refuse to do, you can instill a wider and deeper allegiance to the traditions of professionalism.

You can strive to persuade your firm -- large or small -- to make greater use of the Institute and the state societies as instruments for the advancement of common objectives in staff training, in professional development, in public relations, in research, and in information retrieval. This may mean a loss of some firm identity; but the sacrifice may well be off-set by a greater cordiality between firms -- not to mention substantial economies due to the elimination of the waste of duplicate efforts.

You can seek to convince your partners and associates -- if they need to be persuaded -- that there is a world of difference between conducting an accounting practice in a businesslike manner and in managing it like a business.

You can exercise your influence to dissuade your firm -- if it is ever tempted to do so -- from participating in a growingly popular pastime: a search by clients for a firm which will be the most accommodating in the selection of reporting standards that result in the most favorable earnings per share record.

You can even run the risk of ridicule by promoting the far-out idea that members of this profession should regard themselves as a band of brothers.

All of this may be dismissed as fanciful rhetoric -- more suitable for a pulpit than this rostrum.

But I insist that these exhortations are not unrealistic.

They merely summon the leaders of this profession to redeem the soaring ambitions of its founders. They -- those pioneers of the profession -- were convinced that the accounting art would never fulfill its destiny unless it were practiced at the professional level. That requires no less than what is being advocated here: a commitment to the ideal of service above self -- and all the onerous duties that are embraced in that simple pledge.

If you, as leaders of the accounting profession, are not prepared to pay the price of professionalism, you had better recognize the cost of abandoning it. This includes the creation of a practice environment which may not only dishearten a goodly number of your present colleagues, but which may also discourage the entry into the profession of the most gifted of the younger generation -- many of whom regard a single-minded pursuit of the dollar as an objective unworthy of the human species. Seeking to endow their brief span on earth with greater meaning, they insist upon devoting it to the advancement of a cause more noble than self-gratification. They can find such a purpose in accounting if it remains faithful to its heritage; and they will scorn it if that heritage is forsaken.

The pessimists might argue that the best efforts of the best of this profession in preserving its past traditions will be insufficient to guarantee a bright future for it.

I do not accept that doleful prediction; but even if it proved to be valid, I would suggest that those who participated in the campaign to instill an even greater sense of dedication to the profession's ideals could still be of good cheer. For they would have been granted, in the words of Shakespeare, "a peace above all earthly dignity: a still and quiet conscience."

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