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Editor



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THE HISTORY OF PROFESSIONALIZATION IN U.S. PUBLIC ACCOUNTANCY

Andy Garcia and James C. Lampe

ABSTRACT

This chapter develops a model of professionalism via a synthesis of three extant theories from the sociology of the professions literature. Nine components or conditions of the model are used to trace the historical development of public accountancy through an Early Era from 1850 to 1929 and a Modern Era from 1930 to the mid-1980s. The conclusion is that concerted efforts over an approximate 130 year period were needed for accountancy to achieve elite professional status in the eyes of the U.S. public. The question remaining is if accountants have forgotten the history lessons on what has been required to achieve and sustain elite professional status?

Keywords: Accounting history; structural functionalism; interactionism; critical theory; public interest; professionalization; accounting theory; auditing theory; accounting organizations; public opinion; AICPA code of ethics; AICPA membership; CPA firm revenue

Fellow-citizens, we cannot escape history. We too will be remembered in spite of ourselves. No personal significance, or insignificance, can spare one or another of us. The fiery trial through which we pass, will light us down, in honor or dishonor, to the latest generation.

The words quoted above are from Abraham Lincoln's second annual message to Congress in the midst of the Civil War in 1862. A related maxim is that we all must learn from history in order not to repeat prior mistakes. Both the quote and maxim apply equally to professions in general, and accountancy more specifically, now in the 21st century with regard to the current trials facing accountants.

The early members of public accountancy in the United States began concerted efforts to achieve professional status around the middle of the 1800s before the Civil War. Following the pattern of other professions, it took U.S. public accountants about 130 years of positive activities (professionalization) to be recognized as a profession.

Many accountants have believed that, by definition of being an accountant, they are inarguably a professional. A related belief is that practicing accountants in the United States have been, since colonization, and shall be into the foreseeable future, professionals. History tells the story differently. A brief summary of the U.S. public accountancy history is provided in the following milestone dates and events:

Early professionalization:

- 1850–1890: Expatriation of public accountants from the United Kingdom
- 1890–1929: Growth of the U.S. public accounting firms, organizations, education, training, and ethics

Modern professionalization:

- 1929–1934: Black Monday and the Great Depression
- 1933–1935: The Securities and the Securities Exchange Acts
- 1935–1975: Substantial professionalization activities (developments in: accounting and auditing standards; a code of ethics; accounting education and training; and public opinion/recognition of accountancy)
- 1975–1985: Achievement of professional status for accountancy

Deprofessionalization:

- 1980s–2002: Deprofessionalization, commercialization activities leading to the loss of professional status
- 2003–2010: Mixed professionalization/deprofessionalization activities – status quo

In this chapter, we discuss a history of successful professionalization of U.S. public accountancy for approximately 130 years from the mid-1800s through the early 1980s. A model of professionalism is summarized in Table 1. A summary of professionalization activities is presented in Exhibit 1 and is illustrated graphically in Fig. 1. The reader is encouraged to peruse the model in Table 1 and the summary in Exhibit 1 to provide an overview of the chapter before reading the more detailed discussion that follows. The purpose is to provide readers objective data to permit individual and informed decisions about if and when public accountancy has achieved professional status.

The deprofessionalization of U.S. public accountancy is discussed separately in another chapter. The contribution of this chapter is to chronicle the events affecting public accountancy in the United States from the 1850s through the early 1980s, as well as the activities and efforts of leaders in accountancy during the time period. The remainder of this chapter first discusses what it means to refer to accountancy as a profession. The Early Era of the U.S. accountancy professionalization from the mid-1800s through 1929 is presented and is followed by the Modern Era of professionalization activities through the early 1980s. It is concluded that sufficient objective evidence indicates that the U.S. public accountancy achieved professional status by the mid-1980s.

THE MEANING OF PROFESSION

The words “profession,” “professional,” and “professionalism” are highly emotive as well as having a wide range of interpretations by most people of the western world. The term “professional” is used in such a wide variety of ways in colloquial English in the 21st century that nearly every person, virtually all services provided for pay, and most products for sale, are routinely described as “professional.” The remainder of this chapter is not intended to imply that colloquial uses of the word “professional” are wrong, but rather that there is a reserved and special meaning implied when occupational groups such as highly educated and licensed physicians, attorneys, and accountants are referred to as a “profession.” We have coined an acronym that better represents the special and original meaning of a profession and developed an accompanying model: **SOCRELIST** (**SOC**ial **RE**cognition of **EL**ite **ST**atus). Readers are encouraged to think of the **SOCRELIST** model when encountering references to a profession or professional in the remainder of this chapter. Short descriptions of when and how the three classically

Exhibit 1. Summary of SOCRECELIST Conditions (Italics Represent Books or Monographs).

Theoretical knowledge-based skills (SF-1):

- No GAAP (laissez-faire) financial reporting through 1933
- Auditing primarily mathematical verification through 1930s and very procedural through 1960s
- Financial accounting (GAAP) advances via:
 - *Introduction to Corporate Accounting Standards (1940)*
 - Committee on Accounting Procedure (CAP – 1950)
 - Accounting Principles Board (APB – 1959)
 - Financial Accounting Standards Board (FASB – 1973)
- Advances in auditing theory via:
 - *Examination of Financial Statements by Public Accountants (1936)*
 - Generally Accepted Auditing Standards (GAAS -- 1939 on)
 - Statements on Auditing Procedure (SAP – 1948-1972)
 - *The Philosophy of Auditing (1961)*
 - Statements on Auditing Standards (SAS-1972)

Code of ethical conduct (SF-2):

- By-Laws (AAPA) or appendix (AIA) through 1938
- Separate codification of rules (1938–1964)
- Code of ethics based on principles (since 1973)

Education and training (SF-3)

- No accountancy programs in universities and colleges (1900)
- More than 300 schools offering degrees in accounting (1927)
- Greater standardization of curriculum (AAA – 1935)
- All states require bachelor degree and hours in accounting to sit for Uniform CPA exam (1963) More standardized CPE requirements and in-firm training advances (since 1960s)
- More standardized CPE requirements and in-firm training advances (since 1960s)
- More advanced accounting education in schools of accountancy (since 1970s)

Need by public/public recognition (IN-1, IN-2):

- Highly client advocacy oriented (pre-1933)
- Growth of industry versus agrarian economy
- Corruption in manufacturing firms and financing
- Service to and protection of public mandated by SEC (1934)
- Move away from laissez-fair client-oriented financial reporting to concern for public interest 1940s–1970s
- Auditors first responsibility as “watchdog” for the public (1934–1970s)
- Growth in public opinion of worth or accountancy services (1940–1980)

Perceived beneficial by the public (IN-3):

- Less than 30% of business leaders and fewer general public recognize accountants as having elite status in 1947

Exhibit 1. (Continued)

- In 1970s, 100% of business executives and most of the general public recognize the honesty, ethics and prestige of accountants

Organized by one or few large organizations (CT-1):

- State society domination through 1917
- Formation of dominant national organization
 - AAPA to AIA (1917)
 - Merger of AIA with ASCPA (1936)
 - Reorganization to AICPA (1959)
 - AICPA as standard setter in accounting, auditing, and ethics (1940s–1970s)
- Growth in size, influence, and revenues of Big Eight firms (1940s–1970s)

Licensure (CT-2):

- CPA laws enacted 1898–1933
- Primarily state society developed CPA exams and licensure before 1933
- National CPA exams since 1917
- SEC requirement of licensed CPA for audit opinions (1934)
- Statutory legal closure of public accountancy services (1940s–1970s)

Self-regulating autonomy (CT-3)

- ASR-4 provides accounting and auditing standard setting responsibility to approved accountancy groups (1938)
 - No promulgated accounting/auditing procedures (pre-1930s)
 - GAAS (1939)
 - AICPA-APB (1959)
 - SAPs (1948–1972)
 - SAS (1973)
 - Principles based ethics promulgation (1973)
 - FASB (1973)
-

recognized professions first achieved professional status provide further understanding of ***SOCRELIST***:

1. A select few church educated monks made additional vows to join a separate order such as the “Benedictine Monks.” After the public, (a) recognized the monks to be differentiated from the rest of society, (b) acknowledged their additional education, and (c) believed they provided selfless service, then professional status was conferred. The separately recognized monks became referred to, by the public, as “professed” monks due to the profession of their faith. Although priests and monks had been around since New Testament times, “professed monks” were not recognized until the 14th century. This is the first known reference to English word usage of the term “profession.” In subsequent years professional status has been assigned to most religious clerics in general.

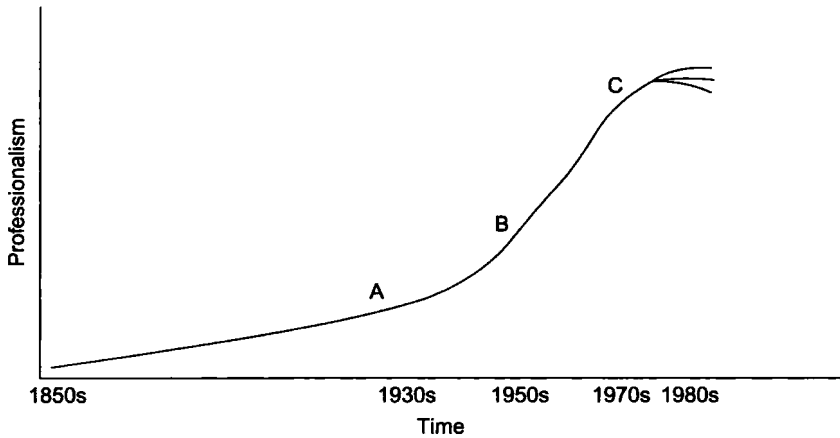


Fig. 1. Professionalism in Public Accountancy.

2. Barristers (legal system practitioners) were present in the English system both in the Anglo-Saxon Period (pre-1066) and in the Norman Law Period. Under both systems, persons called "serjeants" or "sutors" were appointed by lords, barons, or other influential persons to represent those accused of crimes. Many of the serjeants accumulated vast wealth by accepting bribes or other favors from those they represented. In the 16th century, written laws were developed and uniformly administered across the entire United Kingdom. By the mid-1600s, barristers were required to be educated and trained in the law and had formed a guild of practitioners pledging service to society. Since the late 1700s, barristers (attorneys) have been considered as one of the "classic professions."
3. Barber-surgeons, blood letters, and charlatan drug peddlers have been present in civilization (similar to clerics and barristers) since biblical times. Only after well-educated and scientifically based physicians in the Western world were provided monopolistic powers by the state did the U.S. public recognize and refer to doctors as professionals in the late 18th century.

The importance of and elite status accorded to professions by society is exemplified by the introduction of the first three and classically recognized professions, which provide goods of incommensurable value:

- they save our souls – provide salvation,
- they settle our disputes – provide justice,
- they heal our bodies – provide health, and
- each took hundreds of years to be recognized by society as a profession.

The **SOCRELIST** model posits that society has recognized that the first three and continuing professions, relative to the laity, have: advanced education, skills not held by others, a formal license prohibiting others from practicing the restricted services, and general recognition that society is benefited because the professions exist. Although there is less than 100% agreement by all U.S. citizens about these matters, they are all commonly held beliefs by many in the U.S. society and indicate that the adjective “professional” has been used with special meaning for these three occupational groups.

For other professions, such as accountancy, there is less common agreement by society about recognized elite status. Therefore, more in-depth study is required to make an objective determination if and when society has conferred special and elite recognition upon public accountants. Strong emotions tied with the colloquial use of the term “professional” further cloud the issue. Openly stating that a person or occupational group lacks professional status is regarded as an insult. When a person asks the direct question – “Do you mean to say that my hard working and honest father (mother, aunt, uncle, etc.,) is not a professional?” – and the answer is – “No, I respect them and appreciate their service, but do not consider them to be a professional” – very strong negative emotions are raised. The first objectives of this chapter are to introduce terminology that more clearly defines aspects of professionalization and to provide a more objective determination of professional status.

It is obvious that not all members of the U.S. society think the same about an occupational group. Similarly, not all members of an occupational group have the same level of skill or other observable traits. When persons in society believe that the members of an occupational group are working toward professionalism, it is referred to as a time of “professionalization.” When of society members believe that practitioners of a profession are not adhering to the requirements to sustain professional status it is referred to as a period of “deprofessionalization.” During the period of the U.S. public accountancy history through the 1970s, mixed activities of both professionalization and deprofessionalization have been present, but the overall trend has clearly been toward professionalism.

Theories of Professionalism

The subjects of when, how, and why professional status is conferred on an occupational group have been studied and written upon by sociologists and

anthropologists since long before the establishment of the American colonies. A rich “sociology of the professions” base of literature has been generated and cannot be adequately reviewed in this chapter. A basis of the sociology research and writings has been that differing individuals in society have differing conditions for assigning elite professional status to an occupation. Prior research has resulted in several theories that explain how most of society makes up their minds. The extant sociology of the professions literature can be sparsely summarized by a dichotomous grouping of three theories representing different approaches in explaining how and when society confers elite professional status on an occupational group:

Functionalists:

- (1) structural functionalism,
- (2) interactionism, and

Monopolists:

- (3) critical theory.

Structural Functionalism

Structural Functionalism is the earliest introduced theory of professionalism. It uses a “characteristics” or “traits” approach to describe how society distinguishes between an occupation and a profession. In order to achieve professional status, an occupational group or industry must be recognized as being structured to achieve the functional end of altruistic and beneficial service to society – i.e., the professed monks. Millerson (1964) has attempted to summarize numerous previous publications by various researchers over many years concerning the traits needed to achieve public recognition of professional status. A paraphrased summary list of Millerson’s required traits is:

- A profession involves a skill based on theoretical knowledge.
- Attaining the skill and knowledge requires extensive education and training.
- New entrants to the profession must demonstrate competence.
- Integrity is maintained by adherence to a code of ethics.
- A strong service ethic oriented to the public good exists.
- The profession is organized and self-regulated.
- Autonomy (independence, integrity and objectivity) in professional judgments exists at both the individual and group levels.

Interactionist Theory

Places primary emphasis on the consequences of the occupational group's interaction with society in determining how and when professional status is conferred on an occupational group (Elliot, 1972). The most basic statement of interactionism is that professional recognition is provided to an occupational group when the public becomes aware (is convinced) that the members of, and practice services provided by, the occupational groups are: (1) differentially recognizable from the laity, (2) substantially beneficial and improving the overall good, and (3) needed by society.

Functionalists versus Monopolists

Is a dichotomy of approaches in defining professionalization (Abbott, 1988) that is helpful in distinguishing the three theories presented in this chapter. In this dichotomy, structural functionalism and interactionism are combined as compatible theories with the common thread that a profession is structured to achieve the altruistic function of public service. Evidence of the popularity of the functionalist approach is that all of 20 occupations identified as free white collar professions in the United States and Great Britain have a code of professional ethics (conduct) that states the altruistic theme (Abbott, 1988, p. 16). For example, the AICPA Code of Professional Conduct preamble states:

principles of the Code of Conduct of the American Institute of Certified Public Accountants express the profession's recognition of its responsibilities to the public ... even at the sacrifice of personal advantage.

Although a vast amount of the current literature of the professions still embraces the collegial functionalist view of professions, several recent researchers and writers have emphasized an "asymmetry of expertise" in the functionalist theories. Clients and members of society are required to trust the profession, whereas the profession is encouraged by codes of conduct, but not required, to place the public and client above self-interest.

Eliot Friedson (1970) argues that dominance and authority, not altruistic functions, are the hallmarks of a profession. Berlant (1975) agrees with the structure portion of structural functionalism, but posits that the primary goal is not altruism, but rather the reverse – monopoly. Magali Larson (1977) depicts professions as explicit market organizations with the purpose of dominating a specific area of social concern. The so-called "monopolists"