

Charting

the Course

Through a

Perilous

Future

BY KEITH A. RUSSELL, CMA, PH.D.; C. S. “BUD” KULESZA, CMA, CFM;
W. STEVE ALBRECHT, PH.D.; AND ROBERT J. SACK, CPA

In 1978 a United Airlines night flight flew from Denver to Portland. In the cockpit were the pilot, copilot, flight engineer, navigator, and a visiting full captain “dead-heading” (flying along to bring back an empty plane from Portland). The flight was uneventful until the pilot attempted to put down the landing gear. Failing to get the light indicators that the landing gear was down, the pilot performed backup procedures. There was still no indication of whether the gear was down. As a last resort, the captain flew by the tower for visual inspection. The tower radioed back that it appeared the landing gear was down and locked.

Remaining uncertain about the landing gear, however, the pilot elected to circle one more time to burn off more fuel. The navigator, flight engineer, and copilot counseled against circling again because the fuel was almost gone. Knowing their voices were being recorded, several crew members stated they had counseled against the go-around decision. The visiting captain said, “I know these DC-8s, and one thing I know for sure—they don’t fly well without fuel.” He then left the cockpit, walked briskly to the last row in the passenger compartment, and assumed the crash position—head between legs and a pillow behind his head.

Upon final approach, the plane ran out of fuel, crashed into two large (empty) houses, skidded across a busy street, had its wings sheared off by trees, and broke in half. Miraculously, no one on the ground was killed, and only 12 passengers and one flight attendant (all in first class) died. At the inquiry associated with the civil suits against the pilot and airline, the flight transcripts were read. For the first time in airline history, the Airline Pilots Association (APA) declined to support the pilot. Their position was that when the pilot decided to ignore the collective wisdom that he heard that night and go it alone, he also decided to go alone into court.¹

WHY ACCOUNTING EDUCATION MAY NOT SURVIVE IN THE FUTURE

Accounting educators have been warned many times that accounting education must change to maintain relevancy, retain its position within the profession, and add value to students and business. The time to change just to be better is past. In fact, we must transform our educational programs merely to *survive*. Failure to embrace market-based changes will continue to decrease the relevance of accounting education.

Accounting education is plagued with many serious problems that if not seriously addressed and resolved will lead to its demise. Consider the following as examples:

- ◆ The number and quality of students majoring in accounting is decreasing rapidly. Students are telling us by their choice of major that they do not perceive an accounting degree to hold the same value it once did nor is it considered as valuable as certain other business degrees.
- ◆ Both practicing accountants and accounting educators would not major in accounting if pursuing their education today.

The four major professional groups with a desire to improve accounting education joined together to study the current and future problems associated with accounting education. The Institute of Management Accountants (IMA), the American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), and the Big 5 professional services firms created a Sponsors Task Force and funded the study. Each of the organizations provided two members to serve on the Sponsors Task Force: Bud Kulesza and Keith Russell (IMA), Jan Williams and Mike Diamond (AAA), Bea Sanders and Karen Pincus (AICPA), and Ellen Glazerman and Brent Inman (Big 5).

The Sponsors Task Force selected Steve Albrecht and Bob Sack to complete the research and write the study’s final report. Surveys were conducted, focus groups were held, and a significant number of one-on-one interviews were held to form the basis for the Task Force’s research and the development of the final report. The entire report is available on the IMA website at www.imanet.org.

◆ Accounting and business leaders, as well as practicing accountants, state that accounting education, as currently structured, is outdated, broken, and must be modified significantly to meet ever-changing expectations.

If action is not taken quickly, accounting education will see decreasing budgets and faculty positions as well as the very real possibility of elimination of accounting programs with majors. Accounting education could become a service function within business schools.

Earlier studies have provided ample warning of the impending, dramatic changes needed for accounting education's survival. Several well-known examples are:

◆ *What Corporate America Wants in Entry-Level Accountants* (1994); *The Practice Analysis of Management Accounting* (1996); and *Counting More, Counting Less* (1999)—IMA.

◆ *CPA Vision Project: Focus on the Horizon* (1998)—AICPA.

◆ *Future Accounting Education: Preparing for the Expanding Profession* (Bedford Report, 1986); *The Future Viability of Accounting Education* (1998); *The Accounting Education Change Commission: Its History and Impact* (1999)—AAA.

◆ *Perspectives on Education for Success in the Accounting Profession* (1989)—Big 8 firms.

The information contained in these earlier studies has largely gone unnoticed and unheeded. Accounting education continues to be delivered the way it has been for the past 20-30 years. Yet accounting practice has changed dramatically to meet the new market-based demands brought on by changes in business, that is, B2B, e-commerce, global competition and interaction, and “Web-speed” decision making. Business changes and technology have outpaced accounting education, which has led to an increasing gap between what business needs from accounting education and what it receives. This gap must be closed.

CHANGES IN THE BUSINESS ENVIRONMENT

Historically, businesses relied on accountants to prepare financial information for internal and external decision making by stakeholders, to audit the information, and to assist in fulfilling their regulatory and tax reporting requirements. Information and technology were expensive, and understanding how to compile and prepare accurate financial

reports required expertise developed through rigorous accounting education and/or relevant experience. Due to the expensive nature of information preparation and dissemination, product life cycles and competitive advantages could be managed effectively, and inefficiencies were not readily discernible.

Three recent major developments have occurred that have dramatically changed the business environment for which we prepare graduates.

1. Technology has been developed that makes information preparation and dissemination very inexpensive. Accounting technology is now low cost. We have high-speed digital and cable video and data transmission that makes information available to anyone, at any place, and at any time. We have access to hardware that produces information accurately, quickly, and easily. Software makes preparation, data, and communication tools available to individuals and entities that previously did not have access to the information they needed.

2. Globalization has significantly impacted business and how business is done. Faster methods of transportation, coupled with instantaneous information, have made the world one giant, interconnected marketplace. Consumers can buy products from firms in another country as easily as they can at the store next door.

3. The concentration of power in large market investors, primarily mutual and pension funds, has shifted the corporate balance of power. Armed with easily available and inexpensive information about firms and their competitors, large institutional investors raise the competitive bar very high and, simultaneously, decrease the period of time over which success is measured.

These three change drivers have had two major impacts on business: (1) They have eliminated the old accounting model that information and knowledge is expensive. In the new economy, anyone with the right software can become an “accountant” or “financial manager” and produce financial information for decision-making purposes. (2) They have resulted in a dramatically increased level of competition among all organizations. Institutional investors want the best performance, and they want it *now*. Global competitors often have different cost structures that will be exploited to render historically based business models obsolete.

A number of business developments leading to significant environmental changes also have

occurred. Some obvious examples are:

- ◆ Increased pace of change in the business world.
- ◆ Shorter product life cycles, resulting in shorter competitive advantages.
- ◆ Better, quicker, and more decisive actions by management.
- ◆ Emergence of new companies and new industries.
- ◆ Emergence of new professional services.
- ◆ Outsourcing of nonvalue-added, but necessary, services.
- ◆ Increased uncertainty and explicit risk recognition.
- ◆ Increasingly complex business transactions.
- ◆ Restructuring of performance evaluation, for example:
 1. Elimination/reduction in rewards for services replaced by technology.
 2. Unchanged rewards for traditional, but necessary, services.
 3. Increased rewards for services that leverage technology and globalization and assist in making better strategic decisions.
- ◆ Changes in financial reporting/relationships between financial markets and major market players.
- ◆ Increased regulatory activity.
- ◆ Increased focus on customer satisfaction.

FACULTY AND PRACTITIONERS DISAGREE

Faculty and practitioners *do not agree* on the work accounting graduates will be performing five years from now. Their thoughts can be seen in the table below.

Future Services Most Demanded

(Rank)	Faculty	Practitioners
1	audit	financial analysis
2	e-commerce consulting	financial planning
3	systems consulting	financial reporting
4	tax consulting	strategic consulting
5	strategic consulting	systems consulting

Faculty identify audit as the most important future service, yet practitioners do not rank it in the

top five. Faculty believe audit and assurance services play a bigger role in practice today than they really do.

FEWER AND LESS QUALIFIED STUDENTS ARE CHOOSING ACCOUNTING AS A MAJOR

The AICPA has, for many years, conducted an annual supply-and-demand study, polling schools and employers as to numbers of students in accounting departments and the number of offers made by potential employers.² The current “supply” numbers paint a scary picture. For more than 20 years, the number of students obtaining bachelor’s and master’s degrees in accounting has averaged about 60,000 per year. The number of accounting degrees awarded in the 1998-1999 school year, however, dropped to 47,600, a decrease of 20% below comparable numbers for the 1995-1996 school year.

The AICPA study also indicated that the number of students enrolled in accounting programs has decreased from 192,000 in 1995-1996 to 148,000 in 1998-1999, a 23% decrease. Most of the decline is in undergraduate students. The number of students pursuing a master’s in taxation has decreased from 4,000 to 2,000 during the same period. Data from the AICPA’s *Topline Report* and a Gallup Poll show that the percentage of college students majoring in accounting has dropped from 4% in 1990 to 2% in 2000, and, even more alarming, the percentage of high school students who intend to major in accounting has dropped from 4% in 1990 to 1% in 2000.³

There are a number of perceived reasons why the quantity and quality of students choosing to major in accounting have decreased, including: (1) starting salaries for accounting majors have not increased at the same rate as for other business majors, (2) students have more attractive career alternatives than in the past, (3) students are more willing to choose “risky” majors than they were in the past, (4) there is a lack of information as well as considerable misinformation about what accounting is and what accountants do, and (5) the 150-hour rule has increased the opportunity costs to become a CPA, and prospective students perceive the 150-hour program as being too narrow and nonvalue-added.

WHY ACCOUNTING PRACTITIONERS AND EDUCATORS WOULD NOT MAJOR IN ACCOUNTING AGAIN

The research conducted on this topic found that

Only 12.3% of practitioners would get either an undergraduate or graduate degree in accounting. Even more amazing is that the largest proportion of accounting faculty feels the same way...64.5% of accounting practitioners either somewhat or strongly agreed that the MBA title is more valuable [than a MACC].

almost 100% of accounting educators and 79% of practitioners had undergraduate degrees in accounting, but *most of the respondents stated they would not get an accounting degree if completing their education over again*. This is frightening, especially when considering that the profession is moving quickly toward a universal application of the 150-hour rule to become a CPA and that the most popular educational model used to prepare CPA candidates is a master of accountancy (MACC) degree. At the same time the profession is recommending a MACC degree, only 5.9% of practicing accountants would complete that degree if starting their education over today.

Six times as many practicing accountants would get MBAs as MACCs, over three times as many practicing accountants would get master of information systems degrees as MACCs, and nearly twice as many practitioners would get law degrees instead of MACCs. Taken together, only 12.3% of practitioners would get either an undergraduate or graduate degree in accounting. Even more amazing is that the largest proportion of accounting faculty feels the same way.

The preference for the MBA degree over a MACC is motivated by the nature of the degree and the degree title. In fact, 64.5% of accounting practitioners either somewhat or strongly agreed with the statement that the MBA title is more valuable.

Responses to the study's survey questions reveal, not surprisingly, that accounting practitioners view accounting education and accounting degrees much less positively than do accounting educators. This perceived gap in the value of accounting degrees between the two groups may be part of the problem and must be bridged in order for accounting educa-

tion to move seamlessly into the new millennium with the reputation as a profession that adds value to the business world.

There are two major reasons why knowledgeable accounting educators and practitioners would not major in accounting again. The two reasons are:

1. The business world has changed dramatically while accounting education has not. Accounting education is perceived in the marketplace as being too narrowly focused and backward looking and too costly for the benefits received, that is, nonvalue-added.

Accounting education spends significant time teaching recording and summarizing functions and how to prepare financial statements. Think about the typical curricula:

- ◆ The first accounting course is usually a prep course in financial accounting for intermediate accounting students and covers debits and credits and how to prepare the various components of financial statements. The second course is usually a prep course for cost accounting. In both cases, the underlying, incorrect assumption is that all students in the class will become accounting majors.
- ◆ Intermediate and cost accounting courses focus students on tracking costs and the preparation of financial reports on the basis of those costs. The classroom orientation is usually rule based and requires significant amounts of memorization.
- ◆ Advanced courses often focus on even more detail in tax, auditing, financial, and cost accounting areas.

2. The idea of a career in accounting has lost favor because of technological and competitive

changes. Businesspeople who want an interesting and rewarding career are seeking, and finding, those challenges in nonaccounting careers.

- ◆ As the work of accountants has changed, other majors, some less difficult and requiring less time, are preparing students to work as “accountants.”
- ◆ When technology performs the recording and summarizing functions, there is no significant market or competitive advantage to pursuing the traditional rigorous, rule-based curricula.
- ◆ As business demands change, more and more of the knowledge, skills, and abilities (KSAs) needed to do what “accountants” do are being taught by other lower-cost disciplines. Students studying finance and information systems, for example, can get a four-year degree and be well prepared to perform many of the services now being performed by professional service firms and corporate accountants.
- ◆ Technology has made much of what accountants do obsolete, and the demand for traditional accounting work, audit and tax, has decreased.
- ◆ Accounting careers are less attractive than other careers.
- ◆ There is less psychic income from being an accountant than there used to be, and the CPA brand is no longer as valuable.

In summary, practicing accountants and educators who would not major in accounting believe:

- (1) Accounting education hasn’t changed enough to meet the changing needs of practicing accountants,
- (2) Other majors may now be preparing students as well as or better for the work accountants do, and
- (3) Accounting education is too isolated from other business disciplines.

IMPROVING ACCOUNTING EDUCATION

First, three general observations about accounting education can be made:

1. Some schools have changed. A few schools have heeded prior clarion calls for change, but it is obvious that these changes have not been pervasive or substantive enough. These changes have resulted in increasingly larger quality differences between accounting programs.
2. Competition has arrived. In the past, public and private universities have had a monopoly on the higher education of accountants. Now, as the work of entry-level accountants has changed, other majors such as finance, information systems, computer science, logistics, strategy, and even the MBA have

become more attractive to recruiters. Also, for-profit higher-education programs, such as DeVry Institute of Technology, University of Phoenix, and University Access, are providing 24/7/365 competition.

3. The most critical element in a student’s successful classroom experience is an inspiring professor. When focus group participants were asked why they majored in accounting and what they liked most about their accounting education, the answer was always the same—an inspiring and passionate professor made the difference.

Now we’ll look at six significant problem areas for accounting education that the study identified:

1. Course content and curricula. Accounting curricula are too narrow and often outdated or irrelevant. In too many cases, curricula are driven by faculty interests and not by the market. Students are not being exposed in the right ways to the highly relevant concepts of globalization, technology, and ethics.
2. Pedagogy. The rule-based, memorization, test-for-content, and prepare-for-certification exam model is inefficient, but, more important, it does not prepare students for the ambiguous world they will encounter after graduation.
3. Skill development. The current educational models focus too much on content at the expense of skill development—skills students need to become successful professionals.
4. Technology. Accounting is still taught as if information is expensive. Information is *inexpensive*, and that part of the curriculum devoted to information gathering and recording is wasteful and sends the wrong message to students. Students are not exposed enough to the impact of technology on business and the ways that technology can be leveraged to make business decisions.
5. Faculty development and reward systems. Accounting faculty are often isolated from business school peers and, more important, from business professionals. As a result, accounting faculty become more and more out of touch with market-based and competitive expectations.
6. Strategic direction. Change in all accounting programs has not been substantive or pervasive enough, and some of the changes have been made in the wrong direction, which has led to an increasing quality gap between programs. Because accounting has not continued to show leadership and provide direction, competition has increased and

resulted in fewer resources for accounting programs.

Collectively, these six problem areas sound a clear, very loud clarion call for a dramatic change in direction on the part of accounting education.

RECOMMENDATIONS

Accounting education can no longer deny the serious problems it faces. Accounting education is a “business” that is experiencing decreased customer demand, brand loyalty is quickly disappearing, past customers are recommending prospective customers shop elsewhere, and there are significant and increasing complaints about products and services.

Frankly, whether accounting programs survive as currently structured probably isn’t that important. What matters is that students receive a high-quality, value-added education as they prepare for careers in a fast-changing world.

Three primary observations should be noted, which form the basis for the specific recommendations that follow:

1. Faculty at each school or department must decide the mission and establish a strategic plan to achieve that mission.
2. It is imperative to proactively develop a response to this educational crisis. It is recommended that a strategic planning team for each program be established, the team be adequately resourced, and completion of a plan expected in a timely fashion. The team must be composed of the most qualified, committed faculty from each program.
3. Both of the above recommendations apply to individual professors as well as programs. All accounting educators should use this crisis facing accounting education as the opportunity to evaluate themselves and establish a strategic plan for their careers.

There are several steps accounting programs and faculty must take and questions that must be asked:

- ◆ Assess/scan the environment your program faces. Some questions to be asked and answered are: Who are the employers of our graduates? What do employers expect of our program in the future? What are student strengths and weaknesses? What are faculty strengths and weaknesses?
- ◆ Consider every degree carefully. Should the program continue to offer a separate undergraduate accounting program? Should the program be combined with information systems, finance, and/or strategy degrees, for example? Should the program only offer an accounting minor? Should the program

offer a fifth year or master’s option?

- ◆ Think about a combination degree with a related discipline(s). Given the changing nature of accounting education and the business world, this sort of degree might be very attractive. The IMA and AICPA have suggested redesigning the accounting curriculum so that graduates are consultant accountants. This program would include some accounting but would also draw heavily from the related areas of information systems, finance, economics, and strategy, for example.

◆ Look hard at curriculum and course content. These questions must be asked and answered: (1) Is what we are teaching and the level of coverage consistent with business world expectations? (2) Are we teaching the important concepts in the most effective and efficient way? That is, are we pedagogically current? (3) Is there sufficient partnering with related and/or necessary courses in other disciplines? Can silos be eliminated for student benefits?

- ◆ Make significant changes in curricula and content: (1) The introductory accounting course should focus less on financial statement preparation and much more on analysis. (2) The second introductory course should creatively capture managerial topics that focus on information necessary to make decisions. (3) Intermediate accounting should be collapsed into one course, focusing more on analysis and research than on specific standards in excruciating detail. (4) Separate cost and advanced accounting courses should be eliminated, and one tax course should be developed with a focus on corporate taxes. The resulting changes would be an undergraduate curriculum covering the following subjects:

1. Accounting and its role in society—the accounting profession.
2. Analysis of accounting information. What does accounting information tell us?
3. Using accounting information (financial and nonfinancial) to make decisions.
4. Risk analysis and control.
5. Research in financial reporting—where the standards are and how to apply them.
6. Using technology in business and decision making (technology as a business aid and the impact of technology on business strategy).
7. Tax accounting (corporate and personal) and its effect on decision making.
8. Using accounting information in different industries (a case-based course using accounting information from different industries, focusing on

“While we have been long-time supporters of accounting education, if we were creating a new business school today, we would not have separate undergraduate or graduate accounting programs. At least, we would not have accounting programs that are structured as they are today.”

Steve Albrecht & Robert Sack

the nature of those industries as much as the accounting issues involved).

9. Expanded professional services (personal financial planning, forensic/fraud investigation, strategic consulting, computer software development, and sales).

10. A very few elective courses to allow some specialization.

◆ Consider carefully the pedagogy in every class. Will the delivery method(s) expect students to develop critical KSAs? Do the delivery methods rely too much on lecture and memorization? Do the delivery methods use sufficient and appropriate out-of-classroom experiences?

◆ Recognize the need to invest in faculty development. Universities cannot expect faculty who possess outdated KSAs to make the kinds of changes needed in today’s business world. Faculty must be avid readers of current business periodicals and newspapers. Faculty must be expected to engage in consulting, internships, residencies, or other real-world experiences that allow them to understand and remain current on the kinds and pace of changes in their profession. Successful consulting and internship experiences can keep faculty current and bring opportunities for students as well. In fact, these are possibly the lowest-cost ways for a university to keep its faculty current.

The message derived from the study is clear. Corporate and public accountants are working hard to transform themselves into finance professionals and professional service providers. It is now accounting education’s turn to transform itself. Failure to do so will be fatal. Accounting education must seize the moment to make needed changes, add value,

increase its relevance, and open new opportunities for students, accounting education, and the accounting profession. ■

Keith A. Russell, CMA, Ph.D., is professor of accounting, finance, and business policy at the Harrison College of Business, Southeast Missouri State University. He can be reached by e-mail at c731bua@semo.edu or by phone at (573) 651-2918.

C.S. “Bud” Kulesza, CMA, CFM, is chairman of the Institute of Management Accountants (immediate past president). His e-mail address is bkulesza@imanet.org.

W. Steve Albrecht, Ph.D., is professor of accounting and associate dean of the Marriott School of Management at Brigham Young University. He can be reached via e-mail at william_albrecht@byu.edu.

Robert J. Sack, CPA, is an emeritus professor of business administration at the Darden Graduate School, University of Virginia. His e-mail address is sackr@darden.virginia.edu.

- 1 The story of this incident was recorded by one of the founders of Franklin-Covey, who supposedly was told the story by one of the pilots on board the airplane that crashed.
- 2 *The Supply of Accounting Graduates and the Demand for Public Accounting Recruits*, AICPA, New York, 1997; *The Supply of Accounting Graduates and the Demand for Public Accounting Recruits* (supply portion), AICPA, New York, 1999.
- 3 The AICPA retained the Taylor Group to study high school and college student’s perceptions about accounting and to help identify why accounting enrollments have decreased. Their report is referred to as *AICPA’s Topline Report*.