

Gender-Based Differences of Partners in CPA Firms: Evidence from Kentucky

Dr. James Schaefer, University of Evansville
Dr. Joy Van Eck Peluchette, University of Southern Indiana

Abstract

This paper investigates whether a relationship exists between "situation-centered" factors and the holding of partner status in a public accounting firm, and to determine if gender differences exist in the relationship between these variables. From a sample of 1227 Kentucky public accountants, it was found that the population of a county, number of other partners and associates in a firm, and years of experience are significantly related to the holding of partner status. However, women are less likely to be a partner in a firm with a large number of associates and population does not appear to influence a woman's chances of being a partner. The authors discuss the implications of these findings for practicing public accountants and provide suggestions for future research.

Introduction

Over the past decade, the upward mobility of women has been an issue of increasing concern in both the academic (Fagenson, 1993; Powell, 1993; Sekaran & Leong, 1992) and practitioner literature. With the passage of various civil rights laws in the 1960s and 1970s, women have made significant progress in gaining entrance into corporate management and many of the professions. However, there still remain many obstacles which inhibit their advancement in these fields. One profession that appears to be particularly concerned about this phenomenon is the field of accounting (Maupin, 1991; Owen, 1991, Wescott & Seiler, 1986).

Women have been entering accounting in increasing numbers since the early 1980s. Currently, most of the nation's accounting programs contain more female students than males (Maupin, 1991). In addition, women now represent 35 to 50 percent of all new employees in public accounting firms (Collins, 1991; Lehman, 1991; Owen, 1991). Despite these accomplishments in gaining entry to the profession, women have been less successful than their male counterparts in advancing within the field and attaining partner status. Although the percentage of women partners has typically been very low, this figure has changed little in recent years. Hooks and Cheramy (1989) indicate that, by the late 1980s, women represented only about three percent of the partners in the largest accounting firms.

Although the lack of advancement of women is costly to accounting firms in terms of high turnover, lost

training dollars, and decreased morale (Pillsbury, Capozzoli, & Ciampa, 1989), the issue raises a more serious question of public policy. If legislation exists to encourage the fair evaluation of women in promotion decisions, why does the percentage of women partners continue to remain so alarmingly low? While it appears that the profession made an effort to address this question when the American Institute of Certified Public Accountants (AICPA) established the Upward Mobility of Women Committee in the mid 1980s (Collins, 1991), little has been done to follow through on the committee's recommendations (Hudson, 1991). However, the widespread attention devoted to the recent Supreme Court ruling in the Hopkins v. Price Waterhouse case (Quarles & Tucker, 1990) indicates a heightened concern for this issue.

Research on the Upward Mobility of Women Accountants

When one examines research on the upward mobility of women in the accounting profession, the focus tends to be on "person-centered" limitations, such as personality and behavior (Maupin, 1991; Pillsbury, Capozzoli, & Ciampa, 1989). Some researchers, for example, have looked at differences in the grades of male and female accounting students to assess the caliber of women entering the profession (Mutchler, Turner, & Williams, 1987). Others have examined gender differences in personality traits (Earnest & Lampe, 1982; Johnson & Dierks, 1982) and managerial skills (Maupin, 1991).

The way in which men and women handle the interface between work and family has also been examined through such factors as career commitment (Levine, 1985; Reed & Kratchman, 1990), turnover (Gaertner, Hemmeter, & Pitman, 1987), and stress (Collins, 1991). While these studies have added to our understanding of this issue, a strong argument has been made for the importance of also recognizing "situation-centered" limitations for women (Maupin, 1991). This perspective includes characteristics of the work environment, such as the distribution of power within the organizational structure (Lehman, 1991), and tokenism (Bhatnagar, 1988). Women may, for example, be at a disadvantage by virtue of their number. If a woman makes partner, it may be seen as the organization's "good deed" and she becomes the token female at that level. Interestingly enough, the relevance of situational factors appears to be discounted by a large majority of male CPAs. When CPAs were surveyed as to their perceptions of both person-centered and situation-centered explanations for the scarcity of women partners, males placed a disproportionate emphasis on person-centered factors, whereas women emphasized both sets of explanations (Maupin, 1991).

Given the limited research attention which has been devoted to this "situation-centered" perspective and the role these variables appear to play in the "partnering" decision, it is the purpose of this paper to more closely examine these variables. More specifically, this study will empirically test whether a relationship exists between situational factors and the holding of partner status in a public accounting firm, and to determine if gender differences exist in the relationship between these variables.

Independent Variables

In selecting variables to be used in this study, we opted for situational factors that are available through public record for the state of Kentucky, such as the location of the firm (urban or rural), the number of other partners, the number of associates, the number of CPAs, the county population, and two demographic variables--gender and number of years of experience. While the examination of some of these variables is exploratory in nature, others are supported in the accounting literature. Each of these will now be discussed in greater detail.

Experience

To serve as partner in a CPA firm, some amount of experience is necessary. It denotes evidence that one is competent in the practice of public accounting. For many, this is one of the most important criteria for partnership since it allows an individual to refine technical knowledge through application and to acquire

the attitude and judgment necessary for a competent, practicing public accountant. According to Wescott and Seiler (1986), years of experience, from the point of entrance to partner status, can range from nine to eleven years in large firms. However, this amount is less in smaller, local firms. In the state of Kentucky, two years of public accounting experience are required for a permit to practice.

For this study, experience will be measured as number of years the individual has been a CPA (to the nearest whole number). We hypothesize that number of years as CPA will be positively correlated to the holding of partner status, but that women, with equal or more years of experience than men, are less likely to be partners.

Number of Other Partners

According to Wescott and Seiler (1986), the number of partners already existing in the firm is considered in the "partnering" decision. They indicate that existing partners review the candidate so that a balance in the number of partners is maintained in each of the firm's offices, regions, and specialty areas. This could serve as an advantage or disadvantage for the candidate. For women, however, the additional factor of tokenism can complicate this process. If a woman is granted partnership, it is likely that other women may have a difficult time being considered. The managing partners may feel that they have met their obligation to act in a socially responsible manner and allow gender bias to influence their judgment of the candidate.

Thus, we would argue that a relationship exists between the number of existing partners in a firm and the holding of partner status, but that women in firms with a greater number of partners are less likely to be partners themselves.

Number of Associates and CPAs

Although there is no empirical evidence to suggest that the number of associates and CPAs in the firm is related to partner status, this variable was included for exploratory purposes and to provide additional information as to the size of the firm. However, we would speculate that, as with the number of existing partners in a firm, a greater number of associates and CPAs might limit the opportunities for perspective partners. It is likely that women would be at an even greater disadvantage in firms with large numbers of associates and CPAs.

County Population and Location of the Firm

County population was included in our study since

one might expect the chances of an individual CPA attaining partner status to be related to the demographic nature of the area in which they practice. In heavily populated areas, the demand for CPA services would be greater since more people would be in need of tax preparation and other financial services. Moreover, areas with larger populations would have more business establishments (retail and wholesale), increasing the need for audit and other specialized public accounting services. This increased

demand for services in urban areas could result in city firms having more staff accountants per partner than rural firms, resulting in a lower proportion of CPAs being partner in city firms. It is interesting to note that the most preferred job offers by accounting students tend to be local or regional CPA firms because they perceive greater opportunities for advancement (Wescott & Seiler, 1986). Consequently, we hypothesize that the number of partners will be less in more densely populated counties and that this phenomenon would also restrict the number of female partners selected.

Sample and Methodology

Sample

The data for this study were obtained from the *Register of Kentucky Accountancy* (for the year ending June 30, 1989). The Register, which is published annually by the State Board of Accountancy of Kentucky, is a public record of all individuals and firms holding permits to practice public accounting in the state. It lists the firms by city, indicates those firms which are Personal Service Corporations (PSC), and classifies the individuals practicing in each firm as either a partner (shareholder) or an associate. In addition, the certificate number, business connection, and address for every CPA is included in this listing. By restricting our

Table 1
Descriptive Statistics
Firms With More Than One CPA for the State of Kentucky

	Partners		Associates	
	Male N=598	Female N=41	Male N=360	Female N=228
PSC	0.33 (0.47)	0.43 (0.50)	0.25 (0.43)	0.35 (0.48)
Years CPA	15.82 (8.58)	8.74 (4.29)	7.13 (8.82)	4.11 (4.11)
# Partners	3.92 (2.87)	2.94 (1.80)	5.40 (3.83)	4.44 (3.60)
# Associates	4.86 (8.50)	1.84 (3.80)	13.36 (12.60)	9.47 (11.38)
# CPA's	8.78 (10.91)	4.79 (5.11)	18.76 (16.05)	13.91 (14.61)
County Pop (000's)	289 (280)	184 (219)	423 (275)	333 (280)

Figures in parentheses denote standard deviations. County Population (for 1990) was obtained from: U.S. Bureau of the Census, *Summary Population and Housing Characteristics*, 1990.

sample to firms which have more than one CPA (in other words, eliminating sole practitioners), we obtained a data set consisting of 1,227 CPAs.

Descriptive statistics for the independent variables are found in Table 1, where the sample is partitioned by partner status and gender. One-third of the male partners practice in firms which are PSCs, while forty-three percent of the women practice in PSCs. Similarly, a smaller portion of male associates (25%) practice in PSCs than female associates (35%). When examining number of years of experience as a CPA, male partners have almost twice as much experience (15.82 years) as female partners (8.74 years). Males partners were also found to locate in counties with much larger populations (average county population of 289,000) as compared to 184,000 for female partners. In addition, male partners tend to practice in firms with almost twice as many CPAs (partners and associates combined). For males, the average number of CPAs in the firm is 8.78, whereas for female partners, it was 4.79.

For associates, the gender-based differences in terms of years as CPA, average county population, and number of CPAs (partners and associates combined) are again similar, although the magnitude of the differences is much smaller.

Methodology

In this study, the characteristics of CPAs who hold partner status in CPA firms were investigated. Since the dependent variable (whether or not the CPA is a partner) is dichotomous, two logistic (LOGIT) models were used (Pindyck & Rubinfeld, 1981). The first model tested the relationship between all of the independent variables and partnership status, while the second included interaction terms for gender with the continuous independent variables.

In order to clarify the statistical framework, let Y_i^* denote the latent propensity of a CPA to attain partner. Presumably, Y_i^* is a function of the individual CPA's abilities. However, we did not observe Y_i^* directly. Instead, we observed Y , the partner status of the CPA. Accordingly, define $Y_i = 1$ if $Y_i^* > 0$ and $Y_i = 0$ if $Y_i^* < 0$, where "i" indexes the "ith" member of the population. It is hypothesized that Y_i^* is a linear combination of observed explanatory variables and a random error, $Y_i^* = a + BX_i + E_i$, where X_i is a vector of exogenous variables, B is a vector of unknown parameters, and E is a random error term. Estimation of the coefficient parameters allows the testing of hypotheses concerning the effects of explanatory variables on the partner outcome. The estimated parameters and each CPA's explanatory variables were used to simulate actual "partnering" to judge the models' goodness of fit.

Results

The results of two LOGIT equations are presented in Table 2. The first equation is a model containing only the independent variables and the only variable which is not significantly related to partner status is PSC. As expected, women are much less likely to be partner than men, as indicated by the negative coefficient (-1.65, $p < .01$). The experience variable (YEARS CPA) has a positive coefficient (0.15, $p < .01$), indicating that years of experience enhance one's chances of being a partner. Since the number of partners variable has a positive coefficient (0.23, $p < .01$), this shows that practicing in a

Table 2
Logit Results for Predicting Partner
Firms With More Than One CPA for the State of Kentucky

	Base Model		Interactions Model
Constant	-0.17 (0.48)		-0.17 (0.44)
Gender (0=male 1=female)	-1.65 (7.99) ***		-1.88 (2.06) **
PSC	-0.00 (0.02)		0.01 (0.06)
Years CPA	0.15 (12.92) ***		0.14 (11.95) ***
# Partners	0.23 (6.18) ***		0.27 (5.72) ***
# Associates	-0.15 (9.75) ***		-0.14 (8.91) ***
LogPopulation	-0.19 (2.81) **		-0.18 (2.42) **
Gender x Years CPA			0.15 (2.75) **
Gender x # Partners			0.04 (0.29)
Gender x # Associates			-0.29 (2.64) **
Gender x LogPopulation			-0.02 (0.15)
Pseudo R-square	38%		39%

* sig. @ .10
 ** sig. @ .05
 *** sig. @ .01
 Figures in parenthesis are t-statistics.

firm with more partners increases the likelihood of being a partner. However, the number of associates variable has a negative coefficient (-0.15, $p < .01$) which suggests that practicing in a firm with more associates decreases one's chances of obtaining partner status. The coefficient for population is also negative (-0.19, $p < .05$), indicating that a CPA is more likely to be a partner in a less-populated area.

The second LOGIT equation includes interaction terms for gender with the continuous independent variables. Again, all of the independent variables are significant, except for PSC. The interaction term for gender and experience is positive and significant (0.15, $p < .05$), showing that, among the more experienced, males are more likely to be partners. The interaction between gender and number of associates in a firm is negative and significant (-0.29, $p < .05$). This finding indicates that a woman is less likely to be a partner in a firm with more associates. If one keeps in mind that the number of associates variable is already included in the

equation, this interaction suggests that the staff composition of a firm may have a differential gender-effect for attaining partner status. Two other variables--number of partners and population--were also examined as interaction variables with gender, but neither proved to be significant.

Discussion

This paper investigated the relationship between situational factors and the partner status of CPAs working in public accounting, and whether or not gender differences exist in this relationship. Our findings suggest that situational factors are indeed related to being a partner in public accounting firms. More specifically, the number of partners, number of associates, the years of experience, and county population were all found to be significantly related to partner status. A CPA is more likely to be a partner in a firm with more partners and fewer associates, located in a less populated area. Given that the investigation of some of these variables was exploratory, these findings provide empirical evidence as to the key role that "situational-centered" variables can play in the "partnering" decision process--regardless of whether one is male or female.

Our investigation of gender differences in these situational variables also resulted in some interesting findings. Considering that women have only been entering the accounting profession at the same rate as men since the early 1980s, it was not surprising to find that gender (being male) and years of experience are significant in predicting partner status. These findings are consistent with previous research. However, it is not possible to discern from our data whether women get fewer offers from firms or, because of other responsibilities, they have less of a desire for partner status, or both. Our model indicates that, for whatever reason, females are less "partner-prone" after controlling for firm size, population, etc.. The predictive model, which includes interaction terms based on gender, suggests that male partners differ from female partners in at least two important ways. Women are less likely to be a partner in a firm with a large number of associates, and population does not appear to influence a woman's chances of being a partner (although it does for men).

It is also interesting to note that, when omitting sole practitioners, there are only 41 women who have partner status in the entire state of Kentucky--six in Jefferson County (population 664,000), which includes Louisville, and eight in Fayette County (population 225,000), which include Lexington. An analysis of the firms with more than one female partner reveals that only two firms in the entire state have more than one female partner, and, in both of these firms, the two women partners are the only CPAs in the firm. This provides support for the

idea that tokenism may play a role in the admission of female public accountants to partner status.

Although much of this investigation was exploratory in nature, the findings of this study have important implications for the career success of public accountants, for human resource decisions in public accounting firms, and for future research efforts by academicians.

Implications for Public Accounting Firms

Since a number of "situation-centered" variables were found to be linked to partner status, it is important that public accounting firms be aware of the implications that these findings could have on their ability to recruit and retain CPAs. If CPAs are aware that partner status may be more difficult to attain in firms with a greater number of partners or in more densely populated counties, there may be less interest in pursuing opportunities with these firms.

These findings, particularly those relating to gender differences, also have important implications for public accounting firms. Given the low ratio of women partners found in CPA firms and the fact that only two firms have more than one female partner, firms need to be alert as to the appearance of these low numbers. At a time when social issues and diversity are being given increasing attention in U. S. organizations, public accounting firms have an opportunity to be proactive in their efforts at recognizing this issue. While we are not suggesting that partner status be granted purely on the basis of sex, it is important that firms be aware of and more sensitive to various "person-centered" and "situation-centered" factors which may be limiting women's chances for achieving such status.

Suggestions for Future Research

Both the findings and limitations of this study provide an avenue for future research in this area. Our findings suggest that various situational variables are significantly related to partner status and can help in the development of models for future investigations of "partnering" decisions in public accounting firms. In addition, our results should serve as a springboard for further examination of gender differences in the outcome of these decisions. The limitations of our study should also serve as an impetus for future research in this area. For example, this study was limited to public accounting firms in the state of Kentucky which, in turn, limits the generalizability of our findings. Replicating this study in another state with different demographics and population figures would help to strengthen our conclusions. Another limitation of this study was the number and type of variables selected for examination. Because we were limited to data on public record, we did not have

access to factors such as educational background, salary level, desire for partner status, marital status, age, membership in the state CPA society, or specialty areas which could also have an impact on the "partnering" decision.

A few of these variables have received limited research attention and should be considered for inclusion in future studies of this nature. For example, the educational backgrounds of those in large accounting firms have been examined (Montagna, 1974), but appear to be a more relevant factor in initial hiring, as opposed to attaining partner status. It may be, however, that the quality of the educational background or the value of a particular degree carries greater weight at later points in one's career. The prestige of one's graduating institution and the reputation of specific programs are factors which may play a role in the "partnering" decision.

Age is another variable which has been examined with respect to one's position in the firm (Montagna, 1974). With respect to the "normal" career path of most accountants, age is usually correlated closely with both level in the firm and number of years of experience. This raises some interesting questions with regard to women, who are more likely to have breaks in their careers during childbearing years. Since fewer accountants receive partner status after age 47 in large firms (Montagna, 1974), women who are perceived as being at an inappropriate level in the firm for their age may find that this serves as a subtle barrier to achieving partner status. Given the limited data on both educational background and age (especially for small firms), it is important that efforts be made to obtain data on these factors in future research endeavors.

The issue of specialty areas, or type of work, should be an additional factor of interest to researchers. In general, there is a trend towards specialization at the senior level in firms in such areas as auditing, taxes, or management services. Depending on the size of a firm and the type of clients it serves, some specialty areas may play a more significant role in how the firm operates and, therefore, potentially influence partner decisions. Although some initial work was done on this issue (Montagna, 1974), it requires further investigation.

Other factors which may have some relevance to the "partnering" decision are the number and size of clients, and the organizational culture of the firm. With respect to the number of clients, firms with lower annual billings have been found to have smaller staff-to-partner ratios than firms with higher annual billings (AICPA, 1991, p. 82). Also, since larger clients are more likely to gravitate towards larger CPA firms, the life of most small firms is probably shorter and more volatile. Both of these client characteristics may influence "partnering" decisions. With regard to organizational culture, some

early research on CPAs indicates that attitudes toward ethical dilemmas differ by firm size (Loeb, 1971). This finding suggests that distinct organizational cultures may exist in firms of different size which would, in turn, impact the nature of organizational decisions. ■

References

1. AICPA, *The Practicing CPA on Partners and Personnel* (edited by G. Goodard), 1991.
2. Bhatnagar, D. "Professional Women in Organizations: New Paradigms for Research and Action," *Sex Roles*, May/June, 343-355, 1988.
3. Collins, K. "Stress and Turnover in Public Accounting," Discussion Paper, 1991 Series, No. 8. Bethlehem, PA: Martindale Center for the Study of Public Enterprise, Lehigh University, 1991.
4. Earnest, K., & Lampe, J. "Attitudinal Differences between Male and Female Auditors," *The Women CPA*, July, 13-20.
5. Fagenson, E. *Women in Management* (Ed.), Sage Publications, Newbury Park, NJ., 1993.
6. Gaertner, J., Hemmeter, P., & Pitman, M. "Employee Turnover in Public Accounting: A New Perspective," *The CPA Journal*, August, 30-37, 1987.
7. Hooks, K., & Cheramy, S. "Coping with Women's Expanding Role in Public Accounting," *Journal of Accountancy*, 66-70, 1989.
8. Hudson, B. "Getting to the Top: Upward Mobility of Women in the Profession," *The Pennsylvania CPA Journal*, Vol. 61, No. 3, 26-29, 1991.
9. Johnson, P., & Dierks, P. "What are Women Accountants Really Like?" *Management Accounting*, March, 25-28, 1982.
10. Lehman, C. "The Importance of Being Ernest: Gender conflicts in Accounting," *Advances in Public Interest Accounting*, Vol. 3, 137-158, 1991.
11. Levine, M. "Work as a Central Life Interest in Male and Female Senior and Staff Accountants in Large CPA Firms", *The Woman CPA*, January, 27-29, 1985.
12. Loeb, S. "A Survey of Ethical Behavior in the Accounting Profession", *Journal of Accounting Research*, Autumn, 287-306, 1971.
13. Maupin, R. "Why Are There So Few Women CPA Partners?" *The Ohio CPA Journal*, November/December, 17-20, 1991.
14. Montagna, P. *Certified Public Accountants*. Scholars Book, Houston, TX, 1974.
15. Mutchler, J., Turner, J., & Williams, D. "The Performance of Female Versus Male Accounting Students," *Issues in Accounting Education*, 103-111, 1987.
16. Owen, E. "Women in Accounting: There is Room at the Top," *The Ohio CPA Journal*, November/December, 10-14, 1991.
17. Pillsbury, C., Capozzoli, L., & Ciampa, A. "A

- Synthesis of Research Studies Regarding the Upward Mobility of Women in Public Accounting," *Accounting Horizons*, March, 63-70, 1989.
18. Pindyck, R.S., & Rubinfeld, D. *Econometric Models and Economic Forecasts*. McGraw-Hill, New York, NY, 1981.
 19. Powell, G. *Women and Men in Management*, (2nd ed.), Sage Publications, Newbury Park, CA, 1993.
 20. Quarles, R., & Tucker, M. "Hopkins V. Price Waterhouse: Personnel Policy Implications of a Supreme Court Ruling," *Research in Accounting Regulation*, Vol. 4, 169-179, 1990.
 21. Reed, S., & Kratchman, S. "The Effects of Changing Role Requirements on Accountants," *Advances in Public Interest Accounting*, Vol. 3, 107-136, 1990.
 22. Sekaran, U., & Leong, F. *Womanpower: Managing in Times of Demographic Turbulence*, (Eds.), Sage Publications, Newbury Park, CA, 1992.
 23. State Board of Accountancy of Kentucky, *Register of Kentucky Accountancy*, 1989.
 24. U.S. Bureau of the Census, *Summary Population and Housing Characteristics*, 1990.
 25. Wescott, S., & Seiler, R. *Women in the Accounting Profession*. Markus Wiener Publishing, New York, NY, 1986.