

# The Coming Accounting Crisis

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## ABSTRACT

*The accounting profession is facing a potential crisis not only from the overall shortage of accounting faculty driven by smaller numbers of new faculty entering the profession as many existing faculty retire but also from changes that have been less well documented. This includes: (1) changes in attitude towards the roles of teaching, service and research and (2) changes in performance measurement and compensation. If not adequately addressed, many institutions may have difficulty staffing adequate sections of accounting courses. Implications could include an even greater increase in teaching by non-tenure track faculty, which could have significant implications for accreditation and potentially on the quality of accounting education*

## INTRODUCTION

The accounting profession faces a two-fold dilemma: (1) the shortage of accounting faculty, and (2) changes in the demographics of accounting faculty including attitudes, motivations, and rewards. If not adequately addressed, the profession could soon find itself facing a crisis. When potential disaster can be foreseen, a warning should be sounded. Often warnings that are unheeded become prophetic. A recent accounting example is the famous memo penned by Enron's vice president for corporate development, Sherron Watkins, warning company leadership of the danger ahead if they continued their present course. The company eventually went bankrupt and Ken Lay, the recipient of the memo, has since been tried and found guilty of conspiracy and fraud. The hope of a warning is not simply to pursue an academic exercise but to avert danger and to provide a course of correction. The motivation for the present commentary is not a desire to expound and criticize but rather is a practical desire to increase dialogue and search for solutions with the best interests of our profession in mind.

The author contends that although the roots of the looming problem facing our profession originate in the academy, they also extend to students, accounting firms and, ultimately, the accounting profession as a whole. Some of these warnings signs have already been alluded to or have been directly discussed, but only in part. Other signs have not, to the author's knowledge, been previously stated in the literature. The purposes of this commentary are to argue and document more comprehensively the warning signs that need to be sounded in the accounting profession, to increase dialogue about this impending problem, and, ultimately, to provide practical analysis and possible solutions to help avert greater difficulties ahead.

Two primary arguments will be put forth. The first is that a dramatic shortage of accounting faculty exists to meet the future demands of accounting education. The second is that the demographics within the profession are changing, which in turn is affecting expectations for teaching, service and research as well as performance measurement and compensation. From these arguments, implications will be discussed and potential solutions will be put forward.

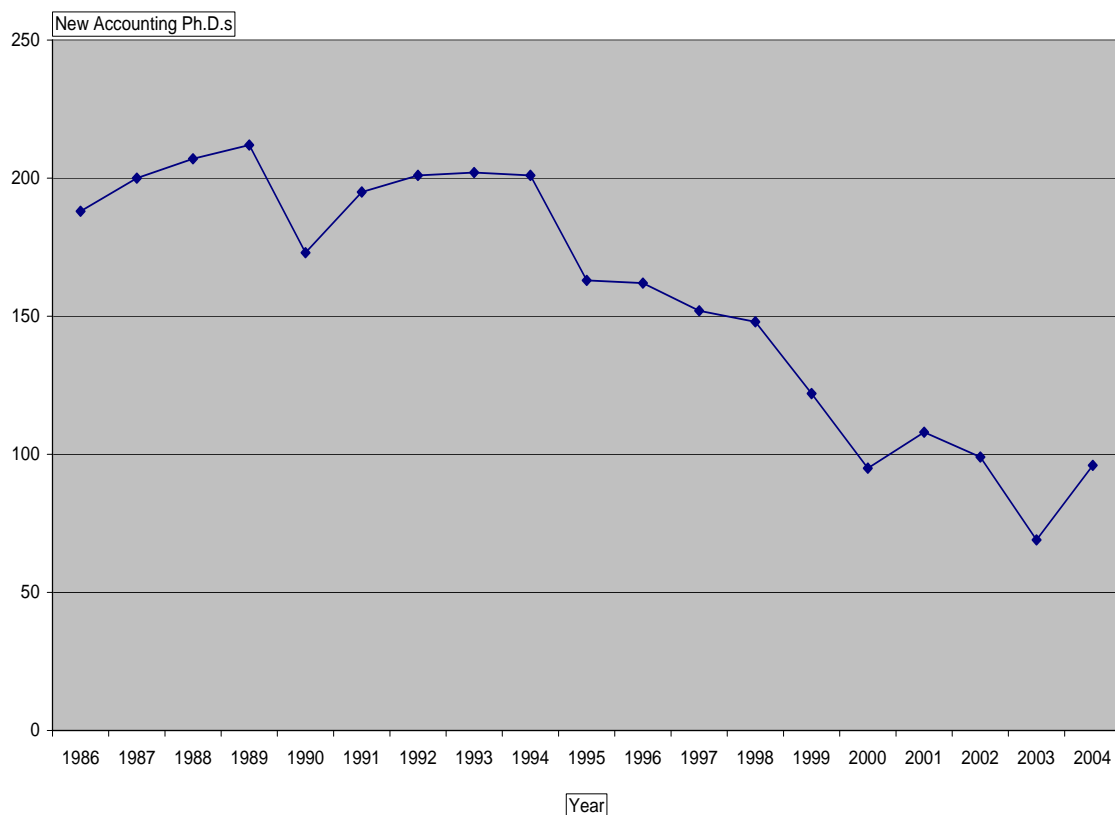
## THE SHORTAGE OF ACCOUNTING FACULTY

A shortage of accounting faculty has in some ways been a continual problem. However, recent evidence indicates the problem has been growing worse over time. In 2002, AACSB's Management Education Task Force concluded (AACSB 2002, 2) "The most critical problem facing business schools today is the insufficient number of new Ph.D.s being produced worldwide." The decline in accounting is particularly acute. The number of new Ph.D.s in accounting is now less than half of what it was a decade ago as shown in Exhibit 1. As recently as 1994, over 200 new accounting Ph.D.s were awarded per year. However, since 2001 fewer than 100 new Ph.D.s have been produced per year including 69 in 2003 and 96 in 2004 (Hassleback 2006). The suppliers of doctoral education may also be

diminishing. Taking the same years as above, 70 different institutions actually granted new accounting Ph.D.s in 1994 compared with 38 in 2003 and 42 in 2004 (Hassleback 2006). Beyond looking at the new faculty entering the profession, overall membership in the American Accounting Association has declined approximately 18% in the last decade with only 8,003 members in 2004 compared with 9,800 in 1994 (Rayburn 2005).

The recent research report of the AAA/AAPLG *Ad hoc Committee to Assess the Supply and Demand for Accounting Ph.D.s* (the Plumlee Report) comprehensively examines the supply side of the equation. While concluding that there are only about half as many accounting faculty as are necessary to meet the profession's needs, they also examine the shortage by specialization (Plumlee et al. 2006). They find the problem is particularly severe in audit and tax with each meeting less than 20% of the demand (Plumlee et al. 2006). While still facing a shortage the strongest area is financial. Interestingly, while this decrease in faculty is projected, some publications have reported that accounting is the major with the strongest demand by employers (Tatikonda and McKnight 2005). In recent years the number of accounting graduates with bachelor degrees, MBA specializations in accounting, and masters of accounting degrees have all increased (Williams 2005) at the same time the number of new faculty has been declining rapidly.

**Exhibit 1 – Number of New Accounting Ph.D.s By Year<sup>1</sup>**



<sup>1</sup> Data Source: 2006-2007 Prentice Hall Accounting Faculty Directory compiled by James R. Hassleback.

**EFFECTS OF CHANGES ON ACCOUNTING FACULTY**

If we as a profession can readily acknowledge the accounting faculty supply problem, we need to also consider how those who make up the current and future supply of faculty will be affected by changes within the profession. Not only is the number of faculty significantly decreasing, but the relative make-up of accounting faculty is dramatically changing as well. One key aspect of change can be demographic related and includes age, gender, national origin, educational backgrounds and work experience. All of these factors are important and are analyzed in the Plumlee Report.

In addition to demographic change and the shortage itself, changes within educational institutions are affecting accounting faculty as well. The focus of the commentary is on two other important areas of change: (1) changes in attitude towards the roles of teaching, service and research and (2) changes in performance measurement and compensation. These aspects of change have not been as well documented as the shortage itself, so they may be more controversial.

Historically, the role of the faculty member was, for most institutions, that of teaching accounting information. As new standards arise, whether they be financial, audit, tax or technology driven, faculty need to invest time to stay up to date with current accounting standards. Accounting is not entirely unique from other disciplines in this regard but the time required to interpret and understand the changing body of accounting knowledge is still a matter of some consequence in the allocation of limited faculty time. In addition to the teaching component, accounting faculty have traditionally had relatively heavy and somewhat unique service roles. In addition to general service activities such as committee work, faculty meetings and accreditation, many institutions have enjoyed close ties with public accounting firms, companies, and professional organizations such as the AICPA. Accounting faculty at many institutions have frequent informal meetings with these constituencies as well as periodic scheduled meetings with formal advisory boards. Most accounting departments also support Beta Alpha Psi and/or other student accounting organizations. The exhaustive components of this list involve many common elements but will vary in some aspects by institution. Example activities are compiled in Exhibit 2.

**Exhibit 2 – Service Activities For Accounting Faculty.**

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- University level committees
  - College level committees
  - Department level committees
  - Committees within the profession (e.g., AAA, IMA)
  - Accreditation (College level)
  - Accreditation (Departmental, specific accounting standards)
  - Interaction with firms (informal and formal, including Advisory Boards)
  - Faculty meetings (College level, Departmental)
  - Advising (General, Departmental, Career)
  - Beta Alpha Psi (and/or other student organizations)
  - Case Competitions
  - Recruiting new faculty
  - Letters of recommendation
  - Scholarships and awards
  - Internships
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Beyond the supply problem, the smaller number of new faculty entering institutions are frequently protected from much of the teaching and service burden to focus primarily on research activities. While many institutions may be stretched, existing faculty are often expected to take up much of the teaching and service roles. However, this type of work can be seen as a commodity adding limited value to the organization. “Marketability” of faculty is increasingly being driven primarily by quality and quantity of publications. This emphasis on research can create an environment where the attitude of many new faculty and even existing faculty is to limit or avoid teaching and service

activities. As more senior faculty retire, a question arises as to who will take on these significant responsibilities that have historically been an extremely important part of a faculty member's responsibilities at most institutions.

There is also the issue of performance measurement and compensation. If "marketability" and higher financial compensation are dictated primarily by research performance, and teaching and service are viewed as commodities of limited value, this creates a potentially dangerous atmosphere for accounting education. As the shortage of accounting faculty worsens, putting faculty at an ever increasing premium, it is likely that the tendency of accounting faculty to focus on research rather than teaching and service may become even more pronounced over time. Faculty who choose to invest significant time in teaching and service may find themselves with lower performance reviews, decreased likelihood of obtaining tenure, disproportionately lower salaries, and less marketability for new employment.

## **IMPLICATIONS**

As the accounting education profession faces a large number of retirements and a dwindling supply of new faculty, one obvious implication is that many institutions could have difficulty simply staffing adequate sections of accounting courses. One response to this is to hire greater numbers of non-tenure track faculty in the form of visitors, adjuncts and instructors. Indeed, the relative percentage of non-tenure track faculty across universities is growing (Ehrenberg and Zhang 2005; Ehrenberg 2004). Several implications could possibly stem from this, including potential accreditation problems. Arguably, since these individuals will often not have had doctoral level training and will often not have a long-term commitment to the institution; teaching may be of lower quality. In some cases, these individuals will have other employment that will necessarily allow them to only be on campus for a limited number of hours. Thus far, very limited empirical research has examined these issues. However, Ehrenberg and Zhang (2005) find preliminary evidence that a greater use of non-tenure track faculty may reduce graduation rates. Implications to service may be even more problematic. Besides the difficulties listed above, for some institutions these individuals cannot serve on academic committees, vote at faculty meetings or take part in other crucial service activities.

In addition to the utilization of more non-tenure track faculty is the issue of allocation of resources to tenure track faculty. If the promotion and tenure requirements for new faculty are based heavily on research and they are "protected" from teaching and service, they will disproportionately invest their time into these activities relative to teaching and service. However, this disproportionate emphasis on research can create tension with existing faculty. If performance metrics for compensation and promotion to full professor for existing faculty are anchored primarily on research, a lack of external incentives exist to motivate faculty to engage in these activities. Finally, the element of "marketability" and faculty turnover is another factor. Faculty members with relatively higher research performance are valued more by the market than those with relatively higher teaching and service performance. Another interesting factor that affects all faculty members in the role of research is the relatively fewer publication outlets for accounting faculty relative to other business disciplines such as finance and management (Rayburn 2005; Swanson 2004).

Increasingly, all levels of faculty are facing an environment with a lack of external incentives to engage in teaching and service. Of course, internal incentives will always motivate certain individuals to expend effort in teaching and service even without external reward. However, many faculty members will choose to focus their efforts on where they are measured and rewarded. Ultimately, if universities continue to place an increasingly higher premium on research to the exclusion of teaching and service, students may find that they have fewer classes taught by tenure track faculty, fewer opportunities to engage with faculty and, potentially, lower quality teaching. Accounting firms may find that they have less interaction with faculty and, potentially, lower quality employees entering the work force.

## **SOLUTIONS**

### **The Supply Problem**

In 2003, AACSB's Doctoral Faculty Commission (DFC) examined the supply problem for business schools and released several recommendations including attracting alternative sources of students from non-business areas, increasing funding for doctoral students, better promoting Ph.D. programs to prospective students and fostering innovation in Ph.D. education. More recently, Plumlee et al. (2006) provide several possible solutions to the accounting faculty supply problem including increasing information to potential students, providing greater support to Ph.D. students, reducing the "costs" to Ph.D. students, reducing the "costs" to Ph.D. programs and diversifying training across teaching specialties. While the committee's recommendations are commendable and should be adopted, they only address one primary aspect of the problem, i.e., the recruiting of additional accounting Ph.D. students. Other steps can be taken to deal with the problem.

### **A Change In Attitudes**

University administrators, Deans, department chairs, and faculty must all recognize the importance of high-quality teaching and service to the accounting profession. As the AACSB DFC and Plumlee Report recommendations are integrated hopefully the supply of entering doctoral students will increase. However, once these students enter doctoral programs, their attitudes will be shaped quickly. An opportunity exists in the training they receive to implement increased attention to the aspects of high-quality teaching and the role of service as faculty members in accounting. Venues for conveying this information could include formal courses, workshops and mentoring through faculty relationships. However, the attitude of faculty members, often displayed in informal communications towards teaching and service should recognize the value of teaching and service. Finally, doctoral students should be given opportunities to teach and even engage in limited service activities in their doctoral studies.

For existing faculty, an attitude change towards teaching and service should begin at the top including university administrators, Deans and department chairs. It must be communicated formally and informally that high-quality teaching and service are important to the institution. Fellow faculty should recognize the important function of teaching and service in their interaction with one another. Senior faculty members, in particular, have an opportunity to share these attitudes with more junior faculty.

### **A Change In Rewards**

Ultimately, a change in attitude may only be able to be accomplished through the implementation of a change in performance metrics. As long as the primary determinant of compensation is research, we cannot expect faculty to divert limited time to uncompensated activity. An important component of promotion and tenure should be based upon high-quality teaching and service. Deans and department chairs should reward existing faculty for contributions in the classroom and for significant service activities. Different standards can exist for different aptitudes and interests. Certain faculty may have greater strengths in teaching and service relative to research. These individuals can help the department by teaching a somewhat higher load and incurring additional service responsibilities. However, they should be recognized and compensated for this work.

## **CONCLUSIONS**

The accounting profession is facing a potential crisis not only from the overall shortage of accounting faculty driven by smaller numbers of new faculty entering the profession as many existing faculty retire but also from changes that have been less well documented. This includes: (1) changes in attitude towards the roles of teaching, service and research and (2) changes in performance measurement and compensation. If not adequately addressed, many institutions may have difficulty staffing adequate sections of accounting courses. Implications could include an even greater increase in teaching by non-tenure track faculty, which could have significant implications for accreditation and potentially on the quality of accounting education. Additionally, as many new faculty are protected from teaching and service to focus on research output as the most critical factor in their success for promotion and

tenure, and existing faculty learn that performance metrics and “marketability” are based primarily on research output, teaching and service could become commodities in the academic accounting profession. In this environment, many faculty members will choose to focus their efforts on where they are measured and rewarded. Ultimately, if universities continue to place an increasingly higher premium on research to the exclusion of teaching and service, students may find that they have fewer classes taught by tenure track faculty, fewer opportunities to engage with tenure track faculty and, potentially, lower quality teaching. University administrators may have greater difficulty motivating faculty to perform important service requirements. Accounting firms may find that they have less interaction with faculty and, potentially, lower quality accounting graduates entering the work force.

The purpose of this commentary is not primarily to criticize but rather to increase dialogue within the profession in a desire to search for solutions in the best interest of our profession. The AACSB DFC and Plumlee reports provide many good recommendations for increasing the supply of new Ph.D.s; however, we should also consider how we shape the attitudes of these students in their doctoral studies. University administrators should also consider how performance metrics affect faculty behavior. Additionally, we need to consider what is valued most by our students and those in accounting practice. This commentary is not a critique of the research function in academic accounting education. In this author’s opinion, research is an incredibly vital aspect of our profession that should continue to be an important part of the faculty member’s responsibilities. However, high quality-teaching and service should never be viewed as commodities. The profession is best served by accounting programs that encourage and reward a truly balanced perspective of the faculty member’s responsibilities in teaching, service and research.

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