

On the Commercialisation of Accountancy Thesis: A review Essay

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A REVIEW ESSAY**

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ON THE COMMERCIALIZATION OF ACCOUNTANCY THESIS

ABSTRACT

Hanlon's thesis on the commercialisation of accountancy is examined in relation to contemporary changes in the organization of work and the concentration and internationalization of the accounting industry. Attention is drawn to the tensions between Hanlon's empirical materials and his exegesis of theoretical debates. An appreciation of the value of his book for highlighting the wider significance of accounting to a shift from Fordist to more flexible forms of accumulation is balanced by a discussion of various limitations and because in Hanlon's analysis, including the neglect of non-audit business undertaken by accounting firms and the sketchy treatment of the links between these firms and other key players that have supported and legitimised the progressive commercialization of accountancy.

The UK's biggest six accountancy firms currently employ some 44,000 people, and have seen their income rise from £347 million in 1982 to around £2,800 million in 1995 (The Accountant, August 1995, page 12). The expansion of consultancy and non-audit work has been a major element in the growth of accountancy firms, and this work now forms more than 50% of their income (The Accountant, August 1995, page 14). The influence of the firms is not just confined to the commercial sector but now extends to health, transport, diplomatic services, local government, defence, education and other arenas (Accountancy Age, 18 August 1994, page 3; 13 October 1994, page 1; 26 October 1995, page 1; 23 November 1995, page 1). Given the scale and influence of these 'world' accountancy firms, their operations are remarkably under-researched. Seemingly, social scientists have found other established and prestigious (or, at least, less numerate and grey) occupations, such as medicine or law, more conducive and perhaps more accessible fields of study. Moreover, when accountancy has been studied, the focus has tended to be upon processes of professionalization (e.g. Loft, 1986; Firms, 1985), rather than upon the organization of work undertaken by accounting firms or the involvement of accountants and accounting in the reproduction or transformation of capitalist relations of production^[1].

^[1]. The obvious exceptions to this rule are the writings of Terence Johnson and Peter Armstrong (reviewed by Hanlon on pp.

Hanlon's (1994) study^[2] is valuable because it seeks to place and understand the changing nature of accountancy within a bigger picture of the dynamics of politico- economic development. It explores how the organisation, control, and ideological outlook of accountants has altered with the emergence and entrenchment of the new regime of flexible accumulation (Harvey, 1989). In common with a number of other studies (e.g. Johnson, 1980; Tinker, 1985; Puxty, 1990; Roslender, 1992), Hanlon invites us to reflect upon contemporary changes in the practice of accountancy in the context of a shift from a Fordist to a more flexible regime of accumulation (Ch.1). Situating his analysis within a broadly Marxian problematic, Hanlon argues that the 'commercialization of accountancy' is a medium as well as an outcome of this shift. Stimulated by a crisis in profitability, 'capital' is understood to have 'hit back and regained some of the losses it suffered under the Fordist regime' (p.219) - a process in which accountancy firms have actively participated by placing increasing emphasis upon the commercial acumen of their staff. It is this acumen, rather than the reliability, honesty or even the technical ability of the firms' staff, Hanlon argues, that is increasingly the primary measure of their trustworthiness. This is well illustrated in the following quotation:

a firm like ours is a commercial organization and the bottom line is that...first of all the individual must contribute to the profitability of the business. In part that is bringing in business but essentially profitability is based upon the ability to serve existing clients well (Big Six Director, quoted on p. 121).

The empirical focus of Hanlon's research is upon the organization of the audit function and the socialization of its staff rather than upon the interaction and influence of accountancy firms with other powerful agencies of change (e.g. clients, politicians, government departments, academics). Of course, historically audit has been 'core business' for accountancy firms. But its contribution to accountancy firm revenues has been declining (Accountancy, July 1995, pages 18-19); it is also of dubious relevance for understanding the role of accountants in 'serving' the shift to a new regime of flexible accumulation. More fundamentally, it has been

198-204) which, however, are primarily historical and theoretical in emphasis.

^[2] Unless stated otherwise, all subsequent references to Hanlon refer to his book.

questioned whether 'Fordism' was as inflexible as the advocates and commentators on diverse formulations of 'Flexibility' claim (Williams et al., 1992). But leaving that aside, it might equally be argued that the organization of audit during the 1960's and 1970's was more Flexible and less Fordist in the sense that the pressures towards specialization, standardisation and routinization were not as intense as they are today^[3]. Current moves towards the substitution of accounting technicians for graduates, for example, which involve training people to acquire only those skills that they require to do the task in hand, would seem to be more Fordist than Flexible in inspiration.

Despite its explicit concern with the issue of flexible accumulation, Hanlon's research actually tells us much less about the role of accountants in the creation of such regimes than it reveals about the impact of intensified competition between accountancy firms for audit business and the growing importance of non-audit business as a source of revenue. From this alternative perspective, evidence of an increasing emphasis upon a commercial orientation amongst audit staff, as derived from Hanlon's questionnaires and interviews, is interpreted as symptomatic of the intensification of competition rather than as an articulation of any putative shift, to a more flexible regime of accumulation; and, crucially, the importance of audit as a vehicle for securing other, more lucrative, business. Audit provides an opening for accountancy firms to impress their potential industrial and commercial employers with zeal about punctuality, meeting deadlines, attention to detail, the value of surveillance, judgement, control and related implications of cutting costs and inefficiency.

In defence of Hanlon's exclusive and decontextualised focus upon audit, it might be argued that any evidence of a shift towards greater commercialism in the supposedly 'public interest sphere' of audit would be reflected and indeed magnified in other specialist areas. But this argument is not made. Little rationale or explanation is offered by Hanlon for the exclusive

^[3] Many of the pressures for standardisation emerged with the state sponsored criticisms of the external audit function, as evidenced by a number of reports from the Department of Trade and Industry (see, Sikka and Willmott, 1995a).

focus upon audit. More damaging, in terms of any concern to relate changes within accountancy to the broader shifts in processes of accumulation, is the collection of data^[4] about audit from junior accountants and partners^[5] alone, to the exclusion of the involvement of other parties - clients, politicians, accountancy bodies, other 'professionals' etc. - within what, building upon Abbott (1988), might be characterised as the wider system of audit practice and regulation (Sikka and Willmott, 1995b).

Despite these limitations, Hanlon's study has many stimulating and valuable things to say. It usefully draws together and contextualises data on the historical development of the firms (Ch.2). It also provides additional information on the control processes experienced by the comparatively low-level staff who work on audits. It fills some important gaps in our knowledge of the organization, control and outlook of staff in accountancy firms - an ignorance that is not greatly assisted by the minimal requirements for public disclosure and accountability applied to partnerships^[6]. But, most importantly perhaps, Hanlon's study poses a challenge to academics and practitioners to address the politico-economic significance of accounting by locating it, however imperfectly, within *inter alia* broader debates about post-industrial society, the organization and control of labour processes, the international division of labour and the expansion of the commercial segment of the so-called service class. In this review, we first explore Hanlon's central thesis before highlighting some problems and lacunae in his analysis.

The Commercialization Thesis

Hanlon notes that there have always been tensions between what he characterises as 'the

^[4] Hanlon's empirical data is drawn from questionnaires distributed to members of the Institute of Chartered Accountants in Ireland (one with 400 accountants based in Ireland and another with 250 accountants based abroad) and 55 interviews conducted with young accountants within practice and industry (24 in total) and with Big Six partners (31 in total).

^[5] Gender aspects are ignored by Hanlon (pages 33-34) even though they may be highly relevant to understanding socialization, entry, promotion and control processes.

^[6] To counter the litigation threat, some major firms (e.g. KPMG) have now incorporated the auditing arm of their business and will thus be forced to make some public disclosures.

"commercial" segment' of firms (e.g. tax, management services, corporate finance, etc.) and 'the "public-orientated" audit segment' (p.108). But, in recent years, he contends, material and ideological changes - notably, rhetoric and inducement to build an Enterprise Culture (see Keat and Abercrombie, 1991) have fuelled the commercial ethos of the written audit segment. It is this commercial ethos, Hanlon argues, that 'is reflected in and has shaped the socialization and control processes that accountants within practice experience' (p.108). Uninhibited by the need even to pay lip-service to a public interest ethos, firms more openly promote ideals which encourage competitive individualism, with an emphasis on retaining clients, pleasing the customer (i.e. capital) and promoting business virtues (pp 11-2). In contrast to a decade or so ago, 'Today, the emphasis is very firmly on being commercial and on performing a service for the customer rather than being public spirited on behalf of either the public or the state' (p.150).

Following post-industrial theorists (e.g. Bell, 1973, 1976; Lash and Urry, 1987), Hanlon claims that professional workers, such as accountants, have become dominant in shaping the success of Western economies^[7]. In post-industrial societies, the centre of gravity is understood to be the production of knowledge and the processing of information rather than (industrial) production of goods. In principle, post-industrial societies are populated by professional, technical workers or the knowledge elites, who are concerned with production, processing, dissemination and legitimation of information. Through the introduction of new information and communication technologies and control and surveillance techniques, employment in manufacturing shrinks as employment in 'think work', including accountancy, expands. The power and influence of the new knowledge elites within this regime, Hanlon argues, is exemplified in the field of accountancy : 'Accountancy could be said to typify Flexible Accumulation or at least the elite occupational aspects of this new structure of accumulation. It is one of the fastest growing sectors of the advanced economies' (p. 29). In

^[7] In contrast, Castells (1989) argues that what matters is the role and influence of information and technological change rather than the dominance of the service economy.

the 'flexible regime', accountants are prized because accounting has become the 'meta-language of Flexible Accumulation and it is found in all areas of social activity from the stock exchange to the hospital' and through it 'the cost of every individual relationship, every individual person, and every individual action can be calculated' (p. 31). However, as we noted earlier, Hanlon's empirical material sheds little, if any, light upon how accountancy firms articulate and apply this 'meta-language'.

The focus of post-industrial theories is upon the (changing) *content* of work. Hanlon, in contrast, usefully stresses the continuation of capitalist relations of production. The demand for accounting information is understood to be fuelled by the inherent instability and Shiva-like dynamics of capitalist economies, as evidenced by a tendency for the rate of profit to fall and a crisis of accumulation (O'Connor, 1987) prior to restructuring that, if successful, recharges the cycle of investment. However, in Hanlon's study, accountants are products or objects, not also agents or subjects, of a shift from Fordism to a regime of flexible accumulation: 'capital and profit have shaped the service class, not vice versa' (p. 219). Unless the restoration of capitalism through this transformation is believed to be automatic, this is implausible. Efforts to respond to periodic crises of accumulation are necessarily interpreted through, and mediated by, cultural values and institutions, including those developed by members of the so-called service class (see Smith and Willmott, 1996).

Commercial Imperialism.

Internationally, [Western] commercial imperialism has supplemented, if not supplanted, military imperialism. Accountancy multinationals have sought to establish global identities equivalent to Coca-Cola or Macdonalds (Accountancy, March 1995, page 1). In what are the most original chapters of the book, Hanlon usefully illustrates the process of commercial imperialism by reference to the position of Irish accountants within the international division of accounting labour (Chs 2 and 5). He notes how the ideology and practices of the big firms have been developed within the Anglo-American context. As a consequence, offices located in peripheral

economies like Ireland enjoy a degree of autonomy 'in all matters Irish' (p.66) (e.g. number of partners, targeting of clients, use of advertising, etc) but they are required to adhere to the international standards laid down by the firms that are largely derived from the US and UK. Key strategic decisions, such as those relating to mergers, are also dominated by US and UK partners.

Senior members of the Irish constituency of the Big Six firms are shown to experience mixed feelings about the process of concentration as it effectively weakens their capacity to influence major decisions. However, despite the realistic possibility of opting out, since only 15% of their business relied upon international connections, the advantages of concentration were emphasised, as is indicated in the following quote:

85 per cent [of the work] is indigenous or from Irish companies...so in that strict sense it wouldn't have been economic suicide but it wasn't seriously considered. It would not have made sense from a medium or long term point of view. Economically fine from the 85 per cent of the Irish business (sic) but in terms of cutting ourselves off from international developments, opportunities to send our staff overseas to gain the benefits of professional standards and that, it would have been suicide (Big Six Director, p. 67).

This observation illustrates the strength of the pull of the 'centre' upon the 'periphery'. The focus is upon the future prosperity of the firm as a business rather than upon retaining a degree of local control over operations (e.g. over professional standards, see below). 'Professional standards' are increasingly identified with what happens elsewhere (at the centre); and 'opting out' is equated with denying the opportunity to acquire experience elsewhere - an opportunity that Hanlon later describes as 'a fine piece of mystification' since 'whether one has been to London, Calcutta or Kingston is of little technical importance' (p.216). Whilst opportunities to gain such experience do arise, becoming part of an international firm has the consequence of drawing expertise from outside Ireland rather than from another Irish accountancy practice capable of doing the work (p. 70).

As Hanlon persuasively argues, the progressive concentration of the accountancy industry into six Big Firms, whose clients are the Big International Companies, reflects a more general, contradictory trend towards monopoly within capitalist economies where the virtues of competition are routinely extolled but, in reality, industries divide into big and small firms (pp99-106) which serve different markets and adopt different practices (e.g. in respect of training). Only the very biggest firms are capable of doing the biggest audits and providing the range of consultancy services demanded by multinational companies (pp95-99). Due to their client base, major firms are able to take advantages of economies of scale and employ specialists whilst small firms cannot and are often forced to subcontract (or seek advice) specialist work to major firms - with the attendant likelihood that the subcontracted work (and client) may be poached. To ensure that the global ideologies and identities dominate, the firms have international policy committees, consisting of representatives from national firms. Such committees plan strategy and make global decisions, mergers, diversification and other global decisions. Local firms are given considerable autonomy and discretion, but are subjected to visits by a foreign partners who examine the work of the indigenous practice in light of the global requirements.

It is not just the size and structure of the big firms that resembles the multinational companies. It is also the acquisition of a commercial ethos which, for example, renders audit charges increasingly subject to competitive forces that place pressures upon firms to find ways and means of maintaining profitability by reducing the costs of undertaking the audit - most dramatically evident in the practice of 'low-balling'^[8]. On the basis of his empirical data, Hanlon claims that 'because of constraints upon profitability' 'the senior' responsible for overseeing the audit 'is not completely free to check a company's accounts and ensure that the public interest is being served as he or she is accountable to a superior...' (p.85, see also pp128-137). Commercial pressures to expand the client base, to be profitable and to keep clients [capital]

^[8] Low-balling describes the practice of reducing the audit fee when tendering for new business in the hope or expectation that the 'loss leader' will be compensated by the opportunity to attract other (e.g. non-audit business from the audit client).

satisfied are the major requisites. By increasing the pool of accounting technicians who have little or no prospect of becoming partners, the less routine work, within auditing and in consultancy, continues to be reserved for the chartered accountant (see pp. 205-206). As Hanlon speculates,

Whatever the future of auditing will be within these possible changes the policy will not deskill the chartered accountant, rather the structure of the firm will be altered (p.93)

Hanlon argues that to deskill 'core' staff would be to risk damaging the reputation of firms, and thus lose a major selling point. Thus, pressures to reduce the cost of audit by lowering staff costs are balanced against the hazard of recruiting staff with less qualifications and/or limited career prospects who 'have not got the same "respect" for professionalism nor the same ideological commitment to capitalism' (p. 94). In sum, the training of accountants, Hanlon indicates, is now primarily concerned with becoming commercially aware, trustworthy and acceptable (to capital) rather than (exclusively) developing technical expertise or serving 'public interest' values. In this context, the connotation of trustworthiness shifts so that it increasingly means trusted to privilege and defend commercial criteria.

Some Problems

Two Books or One?

Despite reservations about its framing, we find Hanlon's commercialisation thesis broadly plausible. We accept that the opportunities presented by Enterprise Culture have been enthusiastically embraced and promoted by accountancy firms, especially their consultancy arms which have played a key role in facilitating and legitimising restructuring initiatives within the public and private sectors. However, Hanlon's more grandiose claims and explorations of theory seem to be have been developed independently of, or after, the questionnaire and

interview schedule were designed. For the focus and substance of the empirical data allows comparatively little light to be shed upon the conjectured process of commercialization within and between accountancy firms and the context of their operation. For example, the data do not provide much information about how the training and appraisal of accountants has changed over the past decade or so. And instead of exploring how accounting firms interact with clients to attract and maintain different kinds of business and examining how this process may have been affected by a more commercial ethos, Hanlon's focus is upon the organizational controls and incentive mechanisms that operate to make the demeanour of accountants acceptable to clients, to standardize the audit process, and to render it profitable.

Hanlon's focus upon the internal controls of audit within accountancy firms does not allow an exploration of how accountants have been actively involved in advising and 'educating' their clients, including government and public sector organizations, about how to adopt accounting and other practices that, he suggests, are more consistent with a regime of flexible accumulation. Hanlon repeatedly alludes to the importance of accountants in enabling corporations to restructure their operations in a variety of ways (e.g. relocating production, outsourcing, casualization, introducing more flexible working practices) - all of which, he argues, share the objective of giving 'capital increased control and flexibility over labour' (p. 18) as a means of restoring its profitability. He notes, for example, how major accountancy firms 'have expanded their product range...areas such as tax, corporate finance, management consultancy and so on grow' (p. 110). He even goes so far as to suggest that whereas the engineer is identified as the "ideal image" of Fordism, the accountant is viewed as 'the key image of Flexible Accumulation' (p.31). But the focus of his data collection and his theorising of that data (e.g. interviews with partners of the Big Firms) does not permit him to put empirical flesh on these theoretical bones.

Theoretical Tensions.

When criticising 'post-industrial' and 'disorganized' theories of change in late capitalist