

Accounting Education's Role in Corporate Malfeasance

it's time for a
new curriculum!

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The white-hot glare of media, public, legislative, and legal scrutiny has created media frenzy over the corporate malfeasance of several large, very successful firms. The finger pointing, for example, among Enron, Arthur Andersen (its auditor-consultant), and politicians attempting to reap political advantage has become fertile ground for ongoing discussions over the cause and effect of the malfeasance.

If we are looking for a primary contributing cause of corporate malfeasance at firms such as Enron, Equity Funding, WorldCom, Sunbeam, Arthur Andersen, and HealthSouth, we need look no further than the classrooms of college and university accounting programs that have not significantly adapted their methods of instruction or approach to accounting and management education over the last 50-60 years.

Yes, delivery of instruction has evolved from blackboards to overhead transparencies to PowerPoint slides to Web-based tutorials. Course content and classes offered, however, remain clustered around a traditional accounting core with minimal excursion into other disciplines or ethics.

Accounting programs continue to use the same pedagogical approach that allowed them to be successful until the early 1990s. Demand for students remained strong. "Big 8," now "Big 4," accounting firms continued to hire entry-level auditors and lavish resources on programs that maintained adherence to the "eye-of-the-needle" approach for accounting higher education. Accounting programs were expected to produce an entry-level professional capable of success on state-administered Certified Public Accountant examinations—the "eye of the needle." The

CPA exam has developed a strong following as the entry-level professional examination capable of helping new graduates gain employment with public accounting firms, but it no longer assures ascension to chief financial officer (CFO) status or higher levels of a firm's management.

The passage of the 150-hour rule (5th year) in accounting to sit for the CPA exam was intended to provide for a broadened management education experience for accounting graduates. Instead, accounting programs and faculty in most programs co-opted the 150-hour rule to require even more accounting courses that enabled many of the 40,000 annual accounting graduates to focus with laser precision on completing the CPA exam to the exclusion of information technology, ethics, finance, and related management education courses. It's increasingly clear, however, that these excluded courses would have produced a more diverse entry-level employee capable of moving seamlessly into the profession and would have provided the educational background and diversity for him/her to gain a view of business as a whole rather than just the accounting silo.

Forty-three states have adopted the rule that requires 150 hours of college/university courses before a candidate can sit for the CPA exam. California, a notable exception, has *not* passed 150-hour legislation.

In effect, the 150-hour rule is still viewed at many colleges and universities as a "full-employment act" for accounting faculty because most programs added an extra year of accounting courses rather than broadening future graduates' perspectives through more classes in technology, ethics, finance, and management. Some programs diversified their program content, but not many!

It isn't surprising that the successful completion of the CPA exam and the accompanying rewards fostered the view in new accounting employees that their future success depended on continued adherence to a textbook mentality of accounting similar to that required to pass the CPA exam and become auditors—"the eye of the needle." The idea of achieving a better, broader understanding of the business environment is alien to most accounting graduates. Too many accounting faculties dismiss economics, marketing, management, and ethics, for example, as nonessential components of a successful accounting student model.

Yet the audit (assurance services) function is the only one of the three major accounting business functions that requires state licensing; i.e., auditing is a legislation-

granted monopoly. The other two functions, tax and consulting, require no state or federal licensing and, therefore, are subject to market-based pressures from non-CPA firms. Many CPA firms have split off these operations through either a public offering or separate partnership entities and ownership.

Assurance services are under tremendous market pressure because the services provided by this part of a CPA firm are viewed as a commodity by those entities needing the service, and, hence, an audit by one CPA firm is as good as an audit from a competing firm. CPA firms are scrambling to niche themselves within the assurance services area as a way to gain an advantage in their bidding for client work.

In essence, accounting firm employees become highly paid "prisoners" of a mind-set and a work environment that preclude their efforts to engage and nurture the dynamic creative and critical thinking necessary for a global marketplace. Today's auditors too often fight the last audit "war" as the benchmark for their next audit. Classroom pedagogy contributes to the "prisoner" mentality in the sense that accounting students who strive to be creative, different, and think out of the box are quickly reined in and assured that the only successful accountant is a CPA.

ACCOUNTING MODEL IS BROKEN

Accounting higher education has been warned repeatedly that the current model is broken, significant change is necessary, and a new education model, consistent with global market expectations for their student products, must be developed. This new model is required if accounting education wants to continue to achieve the business community's respect and to be perceived as adding value to the profession. Here are a few examples of those warnings:

1. "There is little doubt that the current content of professional accounting education, which has remained substantially the same over the past 50 years, is generally inadequate for the future accounting professional. A growing gap exists between what accountants do and what accounting educators teach. . . . Accountants who remain narrowly educated will find it more difficult to compete in an expanding profession." ["Future Accounting Education: Preparing for the Expanding Profession," American Accounting Association's (AAA) Committee on Future Structure, Content, and Scope of Accounting Education, 1986]

2. “Perspectives on Education for Success in the Accounting Profession” [Big 8 White Paper, 1989], reflected a growing concern about the current and future state of accounting education. In fact, the then Big 8 public accounting firms anted up \$5 million to help create the Accounting Education Change Commission [AECC] to redirect the focus of accounting education. The AECC’s efforts, while well intended, had little long-lasting impact.

3. *What Corporate America Wants in Entry-Level Accountants* [a joint research project of the Institute of Management Accountants (IMA) and Financial Executives International (FEI), 1994] found widespread dissatisfaction with college and university accounting curricula in terms of preparation for successful careers in corporate America. Knowledge, skills, and abilities (KSAs) necessary for future success by entry-level accountants were identified and discussed.

4. “The primary problem is that faculty skills are not aligned with the rapidly changing needs of business. . . . Over time, business practice has advanced rapidly (e.g., TQM, re-engineering, cycle time reduction, diversity in the work force, customer satisfaction incentives, global strategy, and managing technology). Although school and faculty competencies have advanced, the gap between practice and academic research and teaching has widened. The lack of business interaction, changing technologies, aging faculty, and shortage of incentives to change have inhibited faculty initiative for change that is necessary to keep pace with a rapidly changing environment. Faculty should be leading the next generation of industry knowledge and practice, but, in some schools, this is not the case.” [A *Report of the AACSB Faculty Leadership Task Force*, 1995-1996, American Assembly of Collegiate Schools of Business (AACSB)]

5. “In recent years, various stakeholders have voiced numerous concerns that business and accounting education have not changed with the changing demands of the market for graduates. . . . Likewise, the changing marketplace and regulator environment for accounting services have created demands for different emphases in accounting education. The education that served past graduates will not prepare today’s graduates for the demands of the twenty-first century.” [“The Future Viability of Accounting Education, Report of the Changing Environment Committee,” AAA, July 15, 1998]

6. *Accounting Education: Charting the Course Through a Perilous Future* [A joint project of AAA, American Institute of Certified Public Accountants (AICPA), IMA, and five public accounting firms—Arthur Andersen, Deloitte

& Touche, Ernst & Young, KPMG, and PricewaterhouseCoopers, 2000] The study states, “. . . accounting education today is plagued with many serious problems and . . . if those problems are not seriously addressed and overcome, they will lead to the demise of accounting education. Consider the following facts:

- ◆ “The number and quality of students electing to major in accounting is decreasing rapidly. Students are telling us by their choice of major that they do not perceive an accounting degree to be as valuable as it used to be or as valuable as other business degrees.

- ◆ “Both practicing accountants and accounting educators, most of whom have accounting degrees, would not major in accounting if pursuing their education over again.

- ◆ “Accounting leaders and practicing accountants are telling us that accounting education, as currently structured, is outdated, broken, and needs to be modified significantly.”

Each of the above research studies, and there are many others, sounded a clarion call for accounting faculty and programs to adapt their curricula to meet current and future marketplace demands. Each study reflects the market shift away from traditional accounting jobs and toward a more general industry expectation for employment and career development. The studies provide a wealth of information for programmatic change. Each study, and other similar ones, should be required reading for all business and accounting leaders as they identify the accounting program graduates that best meet their business and accounting needs.

It’s clear that Enron and Arthur Andersen did *not* exercise due diligence in the hiring of employees with sufficient knowledge, skills, and abilities; a rich and diverse management education background; or a strong ethics mentality when the firms made their entry-level hiring decisions. Also, before those employees were hired, the two firms, and many others like them, did *not* interact with accounting programs and faculty to ensure that the profession received graduates with diverse academic backgrounds who would become valued-added employees and contributors to the firms’ economic well-being.

The integrity of the accounting profession has been called into question because of the Enron and Arthur Andersen accounting debacle. If accounting education expects to remain a major player in the professional development of entry-level employees, it must accept its share of the Enron, Arthur Andersen, and WorldCom failures, for example, and move quickly and positively to

IMA's Curriculum Model

IMA provides the following five-year, 150-hour curriculum alternative for discussion in faculty meetings and integration into curriculum development and change. IMA also calls on the accounting and business community to become engaged in this discussion.

The semester course and credit-hour model shown below can be adapted to accommodate AACSB expectations as well as the specific programmatic goals and objectives of each accounting program and business college. Number of hours and specific courses can be adapted for program needs.

General Education

48-60 hours, with a focus on creativity and solid preparation in the areas of writing and oral skills development. Social responsibilities, an increasingly political environment (Sarbanes-Oxley and the PCAOB are recent examples), and computer/information systems are important in the development of the entry-level professional accountant.

Also essential is an enhanced and shared awareness of the value these general education courses create in terms of better preparing an entry-level professional for an eclectic, global marketplace replete with ethical pitfalls.

College of Business Curriculum

[common body of knowledge (CBK) or themes]

Institute of Certified Management Accountants (ICMA) certification content specifications provide an excellent overview of the depth of technical content required for successful completion of the CMA and CFM for both accounting and management education courses.

1. Courses outside the business college: 27-33 hours, with particular focus on computer applications, economics (could be handled in one course with important aspects of micro and macro combined; may be part of some business colleges), ethics—at least one stand-alone course—math, statistics, and communication—oral and written—skills development.

2. Courses required within the college of business: 27-33 hours, with general focus on

- a. **Accounting:** 6 hours, two courses, with the first course (3 hours) devoted to important issues/concepts from financial and managerial accounting combined; the second course (3 hours) focused on a computer laboratory where current accounting financial software will be used by students to work assigned homework problems. Hours to be treated as core college-of-business courses, not just for accounting majors. Ideally, the two courses would be taken together, and the lab component would be graded on either a grade or pass/fail basis. Passing both courses would be required to advance to higher-level college-of-business and accounting courses.
- b. **Additional courses:** 21-27 hours, would focus on marketing, management (behavioral and quantitative), finance, global/international, management information systems, and legal/environment issues. The international/global area is so important as to suggest the integration of global/international issues in each course as well.

Two capstone, cross-discipline courses: one at the junior level asso-

ciated specifically with the first finance, management, or marketing course taken. The intent of this course would be to enhance awareness of the need for cross-discipline knowledge and skills. The second, expected to be completed the last semester of the fourth year, comprises advanced strategic issues related to management and the business environment.

In both courses, an appropriately complex business simulation game would be part of course and grade requirements. Today's technology ensures accessibility to online, cross-discipline content of significant benefit to all majors, particularly accountants.

3. Courses required of an accounting major: 21-27 hours, with focus on technical proficiency sufficient to pass accounting professionals' examinations such as the CMA and CFM.*

- a. One course (3 hours) for intermediate accounting covering only the essential components of accounting needed to form the basis for understanding accounting, GAAP and their role in decision making by management, i.e., a user's perspective of accounting driven by analysis and research expectations. One course forces accounting faculty to identify the essential components necessary to be covered and to move away from textbook coverage of unnecessary minutiae.
- b. Required courses beyond intermediate will cover financial reporting theory and application, strategic management/cost accounting, accounting software/technology and application, corporate taxation theory and business impact, internal auditing and control, professional ethics, an internship experience, risk analysis and uncertainty, and professional services, particularly consulting.
- c. Elective courses would focus on the areas of accounting, finance, and information systems of interest to accounting majors in terms of their particular career plans. These three areas have been identified as important for accounting majors in numerous research studies. In particular, additional emphasis in the area of information systems was stressed by participants in each research study IMA has been involved in since 1994.

4. The fifth year—accounting courses required of an accounting major at the fifth year (master's) level: 12-15 accounting hours, with specific, intense focus on the content specification for the CPA examination (master's-level students at non-MACC programs should expect 12-18 nonaccounting course hours also). Focus should be on the AICPA's revised examination content specifications for the newly developed electronic examination available in April 2004.

- a. At least one 3-hour course in attestation and assurance services (auditing);
- b. Additional courses would relate directly to the revised CPA examination contents and be consistent with the program's objectives.

* Chapter Six, "Accounting Education: Charting the Course Through a Perilous Future," August 2000, a joint project of AAA, AICPA, IMA, and five major accounting firms, provides an outstanding basis for advanced discussion on accounting curricula and the goals and objectives of successful accounting programs.

change the accounting education paradigm.

The Institute of Management Accountants has been actively engaged in numerous research studies (see www.imanet.org for listing) focusing on accounting education and the related KSAs necessary for long-term benefit to the accounting profession. The IMA strongly supports a diverse, management education curriculum alternative at colleges and universities to ensure that entry-level professionals start their careers with a rich and varied academic history. This coursework includes accounting technical abilities coupled with broad-based management education courses. IMA believes this will better prepare the future professional to be a successful accountant and also will provide sufficient background in related management education to (1) help management handle internal management decisions from a professional and ethical perspective and (2) develop the skill sets to move more quickly into management of the firm.

IMA'S VISION

The curriculum model on the opposite page is consistent with IMA's vision for the development of an entry-level professional who, at the completion of four or five years of academic preparation, can move easily into a value-added environment immediately. Pursuit of certification is important and beneficial to accounting professionals' careers, but it can't be allowed to become a hindrance to the development of a well-rounded professional accountant capable of detecting and solving corporate malfeasance prior to the disasters noted earlier. IMA believes this curriculum model is consistent with developing strong academic preparation for an entry-level professional and adds value to the young professional's portfolio of necessary KSAs.

Can the profession, including accounting education, react in a swift, positive, resolute manner to burnish its tarnished image? This clarion call may be the last opportunity before self-regulation is replaced by governmental oversight.

The Public Company Accounting Oversight Board (PCAOB) created by Sarbanes-Oxley reflects increased governmental oversight possibilities. PCAOB isn't perfect and, in fact, perpetuates the current accounting education model's focus on Generally Accepted Accounting Principles (GAAP) and accounting profit rather than economic realities tied to return on assets and cash flow.

"From the standpoint of public policy on modern capital markets, this lets the accountants off rather easily. The purpose of capital markets is to direct scarce capital to its highest uses. The highest uses depend on economic profit—rates of return on assets—not on accounting profits. Yet, the Sarbanes-Oxley Act that established the

Accounting Oversight Board also enshrined EPS and GAAP more firmly than ever. The act puts impediments to revealing economic-profit numbers such as...cash or...EVA." (*Wall Street Journal*, "Economic Profit vs. Accounting Profit," Robert L. Bartley, June 2, 2003, p. A17)

Accounting education is at its best when it's at the leading edge of what is practiced in industry. The current issues facing the profession will reshape the practice of public accounting as well as industrial, governmental, and nonprofit accounting. Accounting education must take on the challenge and integrate throughout the curriculum the concepts introduced by Sarbanes-Oxley. Creation of the PCAOB must be viewed as a preemptory effort, by congressional fiat, to fix the alleged wrongs in the accounting profession.

The profession has the right to demand current market competencies and strong, current portfolios from colleagues in academic programs. But it also has the responsibility to help accounting education and educators through meaningful support, ensuring currency of academics and their programs. It is particularly beneficial to academic programs to receive interaction and insight into the practice of management accounting, financial management, and information systems/technology. IMA believes an alliance among IMA, practitioners, and academic programs/educators can help achieve this important goal for much needed academia leadership.

Is increased governmental control to be the legacy of current accounting professors and their programs? That would be most unfortunate for the profession and the users of accounting information. ■

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