

## THE FUTURE OF THE PROFESSIONS

### *Changing The Course Of The River*

Changes in the accounting and legal professions, in the past few years, reflecting dramatic changes in the environment in which the professions serve, have been profound. Survival, in this atmosphere, becomes increasingly difficult, for both the large and small firm.

This puts the burden the all firms to do two things – to understand the dynamic environment, and to think more seriously about planning for the future. The future, in the 21<sup>st</sup> century, seems to move more rapidly than did the past.

But predicting the future in any meaningful way becomes significantly more difficult than in other times. Too many random events, too many external factors, too much not yet discovered technology, too many worldwide events, make reasonable predictions for the future impossible.

Still, it's important to be able to look at the probabilities inherent in certain trends, in order to plan and run a practice effectively. How can this be done reasonably and rationally?

First, by looking at the factors that have dictated change in recent years, and the trends that they portend. For example...

#### *Technology.*

First the fax machine, then the PC, then the internet, email, the cell phone, the intranet, and the extranet. Now internet voice mail. All these technologies, some of them less than five years old, have substantially altered the way in which business is conducted. More significantly, none of these technologies are frozen – they are all evolving, and will continue to do so over the coming decades. The ability to communicate rapidly – internally and externally -- have put a new face on business. And while we may not be able to predict what the new technology will be, we know that we have to keep abreast, to be aware, and to be prepared to stay abreast. Why? *Because the clients will,* and not keeping abreast of your clients' technology is like not have a phone or fax machine when the client does.

#### *Regulation.*

For generations, the professions have fought regulation, particularly of their own businesses. "We will self-regulate," the accountants insisted. And then came the scandals – one after another, with no major firm exempt. And so came Sarbanes-Oxley and other significant regulatory measures. The regulation of the accounting profession was wrested from the hands of accountants, and given over to government agencies. The new rules and vigilance of the SEC have altered the practices of both accounting and law. Nor is that battle over yet. problems, new scandals, new regulations, at which we can only guess, but not realistically predict.

#### *New rules, regulations, and techniques.*

Ink the dynamic business world, business practices and regulatory changes often dictate the need for new accounting practices and standards. Globalization, for example, make international accounting standards more relevant to more accounting firms. New financial instruments and changing structures in the capital markets will require new rules and

techniques. The growing internationalization of law firms is dramatic. The practice of accounting and law is vibrant and changing constantly. It will continue to do so.

#### *Governance.*

In today's dynamic economy and rapidly moving economic environment, can the partnership structure of the professions sustain? Will the profession discover new forms of professional firm governance that still keeps the accountant's independence? Probably. Who knows? But when the need for change becomes obvious and advantageous, dictated by new demands from increasingly sophisticated clients, you can bet the profession will find a way to build structures that better manage the firm, and that are more responsive to the clients' needs. Top down, "My way or the highway" management no longer works, particularly in an era in which competition and client needs demand a vast body of technical knowledge and the enthusiastic support of every professional. And particularly in a time when the competition for scarce talent heats up, and recruiting becomes more difficult. A growing number of firms are going to a two-tier system, in which those on a partnership track distinguished from those who are not. But unlike traditional firm practices, in which a non-partner track group was released, the second tier is now recognized for valuable skills, and nurtured for better client service.

*Changing nature of professionalism.* For generations, the meaning of a professional has been defined by the profession itself. The professional had the keys to the mystery of his or her profession, and was exalted as both inherently wise and as the keeper of the mystery. A professional's opinions and decisions were beyond questioning. But today, sophisticated clients routinely challenge decisions, or go to the internet to second-guess the profession.

Before the *Bates* decision, the Canons of Ethics prohibited any form of competition, and most companies kept the same accounting or law firm virtually in perpetuity. Many companies now use more than one accounting firm for different aspects of business. It's a different clientele, more knowing and sophisticated -- and still changing. At the same time, the business and industry you serve is becoming more complex, demanding greater accounting, legal, and business skills, demanding greater knowledge of the clients' industries. New technology also brings new industries, and new complexities to older industries.

#### *Globalization.*

With the technical changes, and accelerated by other forces, globalization is really here. American business of any size are untouched by it. The smallest companies are selling their products into foreign markets, or importing parts and material to make products here. Outsourcing is changing the world's industrial balance, and manufacturing and many intellectual jobs are moving overseas. Increasingly, we are a knowledge-based economy. These are trends that are not likely to diminish, regardless of the outcries. In most cases, it makes sound economics to export labor intensive jobs, and to build our domestic economy on knowledge based and intellectual jobs. Even aspects of accounting, such as tax preparation, are being done abroad. It makes good sense in an electronic era. What this trend will evolve to in the next few decades is impossible to predict, beyond a body of knowledge of the distinctive aspects of marketing professional services recognizing that globalization will increase.

#### *Competition and marketing.*

A major factor in the changing nature of the professions has been the *Bates* decision (1977), in which the U.S. Supreme Court struck down the canons of ethics prohibiting competition in frank marketing. In the course of learning how to compete, the professions have developed a new body of professional services marketing knowledge -- as opposed to the marketing practices that serve products. This has included changing attitudes from one in which the profession is at the center of the practice, to one in which the client is at the center. Marketing is increasingly recognized as an integral part of a professional practice, and while it's not taught in accounting or law schools (it should be), accountants are learning to compete

professional marketing skills. Competition, the professions have learned, is not fought with the traditional tools of marketing, but with new accounting products and legal services and greater attention to client relations. Firms are becoming further immersed in a client business and industry, and paying closer attention to clients' real needs. It's a service concept new to the professions. Traditional fee hourly structures are being questioned, and slowly replaced by value billing. Clients know they have options, and are no longer wed to just one firm, which means that competing professionally is no longer an option – your competitors are out for your clients.

These are just a few of the factors that will dictate the changing nature of the professions in the coming decades. Today's firms would not be recognized by those who founded the major firms of the 20<sup>th</sup> Century – the messengers Peat and Coopers and Arthur Young, and Skadden and White, etc. – not just for the technical aspects of accounting and law, but for the nature of the practice itself, and how contemporary practice and client relations have changed.

The larger firms have the size and wherewithal to exert a greater measure of control over their destiny than do the smaller firms. In the larger firms is the power to innovate, to compete forcefully, to invest heavily in technical equipment, to buy other firms. But what of the smaller firm?

The answer, for accountants, for example, may lie in the thinking of one leading and successful solo practitioner, the Connecticut-based Karen Giammattei, CPA.

Technology, she says, has substantially altered large segments of the smaller firms' business. "With the advent of easy-to-use sophisticated tax software," she says, "more and more people are doing their own tax returns, which means there's no great future in the tax return work that has traditionally been the bread and butter of the solo practitioner. And with computer technology, more companies are able to do their own write-ups, which also used to be part of the small CPA firm's business." In fact, she says, she no longer accepts clients who are not computerized.

She and many of her colleagues, she says, believe the future of the traditional small firm practice no longer lies in much of the traditional business of the small practitioner. "The possible exception," she says, "is the accountant who specializes in businesses that require audits for licensing, or banking. They will continue to exist on some level."

The real future for the small or solo practitioner, she says, lies in financial planning. "The market for financial planning is booming," she says, "because the younger generation has more money than its predecessors did, and they need help in managing it." Her response, which is increasingly popular with smaller CPA firms, is to take advantage of the new ability for CPA firms to function in financial management capacities. She has now taken a number of investment licenses, and will be taking more levels, as well as insurance licenses. She has affiliated herself with Summit Financial, a Connecticut-based brokerage firm, under certain conditions of her licenses, she can share in revenues of the business.

And what of those solo practitioners and smaller firms that don't take advantage of the changing economic environment? "They will become obsolete, just like the CPA firms who, a few years ago, didn't make the effort to understand computers," she says. And as well, so too will law firms who refuse to recognize the changing dynamic in the economy will be overtaken by those who do.

One important point. The changes to date, and the changes to come, have rarely been promulgated from within the profession. Ultimately, the way in which the practice of accounting and law have changed, and will continue to change, will be dictated not by the profession and the professional, but by the client.

Thus, to know where the professions are going, and what today's accountant and lawyer must do to be in tune with change, don't look to the profession. Look to the clients. Accounting and law are now client-driven professions, and that's both the present and future of accounting and law.

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