

From Conflict to Concensus: The American Institute of Accountants and the Professionalization of Public Accountancy, 1886-1940

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This study focuses on the experience of the American Institute of Accountants (AIA) and its predecessor the American Association of Public Accountants (AAPA) in their efforts to develop a program for the professionalization of public accountancy in America during the period 1886-1940. The AIA is important because since 1937, it has functioned as the national representative organization for the public accounting profession in America. It is also a relevant focus for study because it ultimately emerged as the primary vehicle for accountants in their efforts to find a secure niche for their expertise in the new society dominated by large cohesive organizations that began to emerge during the last quarter of the nineteenth century. Through this association, practitioners formulated plans to secure their collective wealth, income, status, and authority. In addition, the AIA became a key agency for ordering activities within the profession itself. Over the years it has gradually widened the scope of its involvement to include the promulgation and enforcement of ethical rules and the establishment of standards over such technical matters as accounting, auditing, tax practice, and management advisory services. It has also been heavily involved in the process of certifying competent practitioners through its preparation of the uniform certified public accountants' examination (used today by all of the nation's state licensing agencies). The AIA also helped to shape accreditation standards in accounting

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education and to define the basic requirements for state professional licensing.

The success experienced by this association in establishing itself as the national representative for the profession, brought me to the first major question addressed in this study. How did the leaders of the AIA build a consensus among practitioners in America to support its particular program of professionalization? In this context professionalization means the policies formulated and actions taken by this association to:

- (1) define the boundaries of the community of competent practitioners.
- (2) establish channels of communication to control and coordinate the activities of its members.
- (3) promote the status, wealth, and power of its members.
- (4) maintain contact with and control over factors in the external environment affecting the profession and its interests.

Because professional organizations, unlike bureaucracies in business or government, are essentially voluntary, they need to rely on the active support and cooperation of the majority of practitioners if they are going to exercise power. Failure to establish a consensus undercuts a profession's effectiveness in securing its goals in an organizational society.

Consensus was needed on several points. The profession needed to be in agreement about the way decisions were to be reached with respect to the allocation of such important and scarce resources as authority, status, rights, and income. It was concerned also with agreement as to the legitimacy of the institutions organized to exert authority and to adjudicate the conflicts which inevitably arise in the competition for scarce resources. Although consensus does not imply complete accord, it does involve general agreement as to the processes through which conflicts should be resolved. For an emerging professional organization three elements were essential:

- (1) general agreement among practitioners as to the validity of the laws, rules, and norms employed to regulate the profession;
- (2) broad recognition of the legitimacy of professional institutions vested with the authority to establish and enforce these laws and norms; and

(3) a strong sense of identity among practitioners with the profession, its institutions, and its particular values. [10, 16]

Important as it was to the building of an effective association in an organizational society, developing consensus was not an easy task for public accountants. The profession was deeply divided. This division initially occurred during the 1890s as a result of the competition to dominate the emerging market for public accountancy services. British chartered accountants and their American allies represented by the AIA were arrayed against the growing body of native American accountants organized in a large number of state and national professional organizations.

Market competition, however, was not the only factor dividing practitioners. Their outlooks differed as a result of dissimilarities in the nature of their practices. Indeed, from this perspective there seemed to be two separate professions. First, there was the elite national firms founded by British and American practitioners that served the nation's largest business organizations through extensive networks of branch offices. Among these firms research and innovation played a central role in satisfying client needs. They devoted more time to solving their clients' new and often baffling accounting problems. On the other hand, there were a large number of local firms who served small businesses. Their practices were less specialized and more routine.

Practitioners also disagreed about the proper focus for certifying competency. The elite wanted the professional association vested with this responsibility. The local practitioners wanted state licensing agencies to perform this function.

Nor was there consensus about the very nature of accounting knowledge itself. Some--particularly those who received their early training in engineering--thought that because accounting data could be quantified, it was akin to a science. Others--particularly the British chartered accountants--viewed accountancy essentially as an art. To them accounting measures were merely approximations of economic reality whose benefits could only be realized through the exercise of expert judgment.

Accountants disagreed about professional education. Should novices develop their special arts in firm-based apprenticeship programs as was the case in Britain? Or should they receive their training in the new collegiate schools of business that began to emerge in America during this period?

They also did not agree about the proper organizational structure through which to order professional life. The elite wanted a centralized structure that would help to tighten their control over the association's policymaking activities. The locals, on the other hand, generally preferred a decentralized struc-

ture that checked the influence of the elite by diffusing power broadly among many state professional organizations.

Consensus formation was also impeded as a result of differences in social backgrounds. Some of the elite were concerned about the entry into the profession of practitioners of more recent immigrant background; they had perceived the large-scale immigration from eastern and southern Europe as threatening to the maintenance of traditional American values. They were also concerned about the qualifications of accountants admitted to practice in the South and the West where educational standards generally were not as strong as in the East. They wanted to keep the "best people" in control and traditional values intact.

As a consequence of these many differences it was not surprising that the profession split into two rival national associations during the 1920s. What precipitated this break was the strong actions taken by the elite leaders beginning in 1916, to resolve these many questions and to tighten their control by specifying narrower boundaries for membership. Soon a dissident organization--the American Society of Certified Public Accountants (ASCPA)--made up largely of local accountants was formed.

The resulting competition damaged the image of the profession by confusing the public as to the proper focus of authority. The internecine squabbling over which association represented the true source of sound opinion, eroded public confidence. Ultimately, this internal dissension left the profession politically vulnerable to the expansion of federal authority during the Great Depression. Their competition and disunity weakened the profession's ability to resist the federal government's encroachment on its authority.

Yet, ironically, it was this very failure that eventually provided the basis for a consensus among practitioners. Fearful of the powers of the Securities and Exchange Commission (SEC), the leaders of the AIA in 1937, after nearly a half century of competition, agreed to merge with their chief rival of the moment, the ASCPA. This reunification provided the profession with additional political leverage in its efforts to countervail against the increased powers of the SEC.

Increased political power was not the only result of this merger. The priorities of this association also changed. High on the list was the need to maintain unity. Concerns about social backgrounds became less important. Instead, a new emphasis was placed on more precisely defining professional functions and responsibilities. A new willingness to reach compromises on other issues also emerged.

The change was a success. By 1940, the SEC would routinely defer to the AIA's efforts to establish professional standards.

The experience of the public accountants also casts some light on the way historians have interpreted America's recent past. With respect to the Progressive interpretation, the experience of public accountants suggests that connection between the new professions and the various political reform movements was relatively tenuous until the 1930s. Many historians of this school equated the rise of professionalism with the rise of political and social reform movements. [1, 14] This view has also been perpetuated by some contemporary scholars. [7, 8] The new professionals were depicted as the natural allies of the reform leaders in their battle to promote progress, efficiency, and civic virtue in American society. My research suggests that though both these movements seemed to develop in tandem, it is inaccurate to say that they were derived from similar concerns about society. Indeed, the history of the elite public accounting association indicates that professionals could, depending on the circumstances, operate either in support of or opposition to political reform. Instead of political ideology, the public accountants were primarily interested in pursuit of opportunities to secure a safe and profitable place for their special expertise. They sought their opportunities by forming temporary alliances with groups of all political hues--liberals or conservatives, Democrats or Republicans.

The history of public accountants also calls into question the manner in which the New Left historians have characterized social change in twentieth-century America. [9] Least convincing in their interpretation is the view that social reforms were essentially shrewd concessions made by conservative business interests to preserve tranquility and their own privileged status. These scholars argue that in the struggle between the classes, protest and conflict were effectively defused.

In this study of organizational change and of consensus building among public accountants, however, a somewhat different interpretation seems necessary. The experience of the public accountants suggests that political action resulted most often from the competition between rival groups of businessmen. The central tension for change in society did not appear to derive from a horizontal split between the upper and lower classes; nor did any one class or group ever have political change completely under control. Rather, society was split vertically into loosely knit social pyramids whose leaders vied for dominance over the nation's most important businesses and political institutions. Faction was more important than class. In fact, a competition between an old and new order envisioned by a liberal historian like Arthur Schlesinger, Jr. provides a satisfying metaphor with which to characterize these developments [15]. In that study change occurred as a result of the competition. There was on one hand, an older Eastern middle-class elite backed

by their British professional allies. On the other there were the representatives of more recently arrived ethnic and national groups with a rather vague middle-class orientation. These groups were loosely allied with social elements based in the less-industrialized areas of the nation.

Many of my findings seem to fit comfortably with the interpretations of the corporate liberal historians. [4, 6, 12, 13] Accord did not result from the manipulative largesse of the great magnates, though they certainly tried this strategy. I find, instead, the gradual emergence of compromise and cooperation between competing elites. Their factions were loosely united on the basis of economic, regional, ethnic, or national factors. All discovered the limitations of their powers. A system of checks and balances emerged somewhat analogous to what that the authors of *The Federalist Papers* thought was essential in ordering the nation's political life.

This new associational federalism did not result from predesign, as did the countervailing powers of the three branches of the federal government. Instead, the balance resulted from the inability of any single faction to concentrate sufficient power to dominate affairs in a country as vast and complex as America. The expansion of opportunity resulting from the rapid industrialization of the nation was so great that no single social group could control it. As a consequence, rival groups had an incentive to work together in trying to achieve their common objectives.

This study of the history of the AIA also casts some new light on the interpretations of those historians who view the most fundamental changes as being rooted in the formation of large-scale institutions. [2, 3, 5] What has frequently been overlooked by this brand of organizational historians, are the important connections between institutional development and social values. The organizational analysts wanted, I think, to correct the "misplaced" emphasis in U.S. historiography on intellectual constructs and values. They thus described business leaders as dispassionate decision-makers. In other words, the businessmen were searchers after new and objective methods for optimizing the efficient allocation of their firms' resources.

As this study indicated, questions of social value were key influences in shaping the outlook and decisions of the leaders of the new profession of public accountancy. Although they may have been ambiguous about political or social reform, they were not indifferent to certain salient aspects of the direction of social change in America. In designing a new structure for professionalism, they were trying to find a secure place in the changing economic order for their new and special knowledge; but as they sought the yellow brick road to wealth, income, and status, they were also seeking to preserve traditional values in a society thought threatened from within. The great achievement of their venture was not limited to securing new economic

opportunities for the application of their expertise, nor in helping to solve the profession's technical, political and ethical problems. They eventually came to accept social change and learned to be at ease with the social differences in their growing community of practitioners. That too was a major accomplishment. The public accountants had learned much about their new society and about themselves. They had forged new institutions suited to a world far different than the nineteenth-century society that had given rise to the drive for professional standing. In the years ahead this profession built on the foundations constructed with cooperative effort in the years prior to World War II.

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