

Tomorrow's Professions: The Pressures for Change

Chris Swinson, MA, FCA

*Visiting Fellow, The Open Polytechnic of New Zealand
Past President, Institute of Chartered Accountants in England and Wales
Senior Partner, BDO Stoy Hayward, United Kingdom*

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The Coordinator, Working Papers Advisory Panel
The Open Polytechnic of New Zealand
Private Bag 31 914
Lower Hutt
Email: WorkingPapers@topnz.ac.nz

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Abstract

Professional organisations have been successful in serving the public interest and the private interests of their members. This paper examines the future of professional bodies in light of changes in public expectations, the political environment and technology. It questions whether professional bodies will be able to react sufficiently quickly to the challenges brought about by these changes. The paper concludes by offering a number of predictions for the future of professional bodies.

Contextual statement

Most of the practical examples quoted in this paper spring from the experience of the profession of accountancy. However, the issues that have arisen in the accounting profession are similar to those that have arisen in other professions, although each profession is unique and has its own history and structure.

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Tomorrow's Professions: The Pressures for Change

Introduction

Jane Needham,
Head of School,
Accounting, Finance and Law

Chris Swinson, MA, FCA, is a senior partner in the accounting firm BDO Stoy Hayward, in the United Kingdom. During 1998 and 1999 he was President of the eminent United Kingdom accounting professional body, the Institute of Chartered Accountants of England and Wales (ICAEW).

In the United Kingdom, Chris's belief in the independence of professional bodies from direct government intervention and his commitment to independent regulation are well known.

At the conclusion of his presidential year Chris was invited to be a Visiting Fellow at The Open Polytechnic of New Zealand. During his time at the Polytechnic, Chris presented a number of seminars to groups of chartered accountants, accounting academics and government employees. This keynote paper is based on one of those seminars.

While the paper talks about professions in general, it is of particular relevance to the accounting profession. New Zealand differs from the UK in that we have one professional accounting body, The Institute of Chartered Accountants of New Zealand. By contrast, the United Kingdom has six different bodies. However, the conclusions drawn are particularly timely to New Zealand. A number of the issues discussed in this paper have also been addressed in the discussion document prepared by The Towards 2005 Taskforce. It is hoped that Chris Swinson's paper will add to the debate about the future role of professional bodies.

The profession of accountancy

Anyone who proposes to speak of the professions is well advised to start by explaining the meaning of the word 'profession'. However precise the meaning of the word may once have been, years of intentional and unintentional misuse have led to a loss of clarity and a risk of misunderstanding. So let me start by explaining what I mean by 'profession'.

In fact, I do not have a single definition of the word 'profession'. I have two definitions and I will use the word, firstly, to refer to a particular kind of activity and, secondly, to refer to a kind of social organisation.

Profession as an activity

The activity I have in mind has a number of features. It requires an experienced person to apply a body of knowledge to particular circumstances, with a view to achieving an objective set by the customer or client who requests the service. At the heart of such an activity lies the practical judgement of the person who undertakes the task. For this is not a purely intellectual activity. Its essence is practical. It is based upon the experience of the person undertaking the activity.

A number of consequences flow from this definition.

As a practical judgement is involved, there can be no absolutely correct solution to any specified problem. All the person undertaking the activity can attempt to do is to achieve the best result possible, given the state of their knowledge and experience. What is more, those who provide these services may not understand why what they do achieves a result, although their experience may suggest that a particular result is generally achieved. It is enough that, on the basis of experience, the professional believes that the desired result is most likely to be achieved in a particular way.

It follows from this that the activity is unlikely to be understood by the person who requests it. The customer or client is unlikely to have the specialist knowledge of the person undertaking the activity, and will lack that person's experience. The result is that the customer or client is most unlikely to know in advance whether the specialist's experience is adequate to the task in hand, or in retrospect whether what has been done is the best that could have been done. Indeed, it may be difficult for one specialist to assess the competence of another since, in the absence of a single 'correct' answer to any set of circumstances, there will be a range of possible answers that may have equal validity.

It also follows from this description that there will be occasions when the professional does not achieve the result that the client desires. This may result from a mistake the professional has made, but it may equally result from advice believed to be appropriate and conscientiously given. The possibility of failure is inherent in the nature of the activity, and it is impossible to guarantee that the desired result will be achieved.

This is the type of activity that I wish to define as professional activity. I believe this description of a professional activity can be applied to most of the more traditional and established professions. In my terms, the people who undertake such activities are professionals, and what they practise is a profession.

There can be no doubt that professionals have been successful. Every year, large numbers of the brightest of each cohort of the United Kingdom's university students attempt to acquire professional qualifications and make successful careers as professionals, and there seems little prospect that this trend will diminish. There is likely to be a greater demand for trusted professionals who act as intermediaries between people or businesses and the risks that they face.

Profession as a social organisation

My second definition of a profession, that of a social organisation, arises from one of the consequences of my definition of professional activity. If the client cannot assess the competence of the professional or the quality of the service, then there is an opportunity for them to be abused. At times the client may need the services of a professional person but will not be able to tell the rogue from the honest professional. Clearly this may lead to the client's interests being compromised, but it also threatens the reputation and livelihood of the honest professional.

This social problem has created a need for honest professionals to find a means by which their reputations can be distinguished from that of the rogues. The means that have customarily been used to achieve this involve the formation of a social organisation, that I define as a 'profession'.

The essence of this form of social organisation is a deal or compact with potential members. In return for agreeing to subject themselves to the rules of the organisation, they may take advantage of being members of a club that sets out to be known for its exclusivity in that it excludes rogues. Typically, the rules to which the members subject themselves include:

- requirements for entry including initial tests of competence

- rules concerning the conduct of members in their practising lives
- arrangements for expulsion of members who are shown to have broken the rules.

Initially, the most important rules of such an organisation concern the conduct of members, and are intended to limit membership to those whose conduct sustains the reputation that the organisation wishes to create. Thus, membership tends to be restricted to people who not only are competent, but who also undertake to use their best endeavours to serve their client's interests above their own and to avoid aggressive market practices designed to take advantage of a client's problems and vulnerability.

From the point of view of the prospective member, the club will be worth joining if the benefits of membership (which may be commercial but may also be social) outweigh the costs of compliance with the club's rules. What is more, the club will be a stable community for as long as this is the case. If, for some reason, the costs of compliance are believed by members to outweigh the benefits of membership, then there will be hard-fought attempts to reduce the impact of the rules, or members may simply leave.

As a result of this, these sorts of organisations are bound to try to increase the benefits of membership enjoyed by their members. One of the ways of doing this is to attempt to gain social control over the activity in which the organisation's members are involved. This requires some form of state recognition of the profession.

Such recognition may be justified where the professional organisation's regulation of its members offers a means by which public demands for the avoidance of market abuse can be met more successfully than could be achieved by direct government action. The precise form of the recognition may vary but could take the form either of control over a title (for example, 'chartered accountant') or over an activity (for example, the drafting of wills by solicitors). Control over an activity will clearly be preferable to control over a title since it will offer greater economic benefits.

The creation of the Institute of Chartered Accountants in England and Wales in 1880, by royal charter, provides a good example of this process in action. Societies of accountants in London, Sheffield, Manchester and Liverpool had for some years been petitioning the Privy Council for a royal charter creating such an institution; but had been turned down. However, in the recession of the late 1870s, market abuse by rogue accountants had grown, leading to a series of court cases in which the excesses of the rogues had been the subject of trenchant judicial comment. Indeed, judges tended to describe accountants as rogues. The

risks of poor accounting practice were made even more acutely clear in 1878 with the collapse of the City of Glasgow Bank, whose parlous financial state had been hidden by the bank's failure to write down non-performing loans. It was in this situation that the Privy Council, on the intercession of Lord Redesdale, relented and granted a royal charter giving the new Institute control over the new title 'chartered accountant' for the purpose of improving the standards of public accountancy.

In some ways, this was always a limited privilege, and this limitation was understood by the first leaders of the Institute. From its creation until 1914, the Institute attempted on numerous occasions to gain parliamentary support for a private bill that would have restricted public accountancy to existing and future chartered accountants. Each of these attempts failed.¹

In keeping with its purpose of improving the standards of public accountancy and the reputation of accountants, the new Institute's first rules concerned the conduct of members more than their continuing competence. From the beginning, it was the Privy Council's policy to stamp out advertising and touting for business. Indeed, the first members to be ejected by the Institute's disciplinary arrangements were ejected for conduct unbecoming a member, such as the member 'censured in April 1881, for canvassing by means of postcards for proxies in bankruptcy and liquidation cases' (Howitt 1966:27), and the member ejected for claiming on his letterhead to be a 'brewer's agent' as well as a chartered accountant.

Such an organisation will be stable for as long as, and only for as long as, the contracts with the members and with the government remain in balance. If a government were to believe that a professional organisation's privileges were not justified by the extent to which market abuse was avoided or public expectations were met, then the privileges would be reviewed. In a sense, this trade-off matches the trade-off between the costs borne and the benefits enjoyed by the members of the profession.

¹ These efforts are described in: Howitt, Sir Harold. *The History of the Institute of Chartered Accountants in England and Wales 1880–1965 and of its founder accountancy bodies 1870–1880*. London: Heinemann, 1966.

Considering the future

Just as professionals have been successful, there can be no doubt that professional organisations have been very successful, both in serving the public interest and in serving the private interests of their members.

In the narrow case of accountancy, judges no longer feel bound to describe accountants as rogues and vagabonds. The institutes of accountants are bodies that have some influence. Their members have made much of their opportunities.

In considering the future of such organisations, however, it is to the stability of the fundamental trade-offs that one must look, and to the way in which they are likely to be affected by changes in the environment in which professions operate.

There are perhaps three key changes in the environment that must be considered.

- Changes in public expectations
- Changes in the political environment
- Changes in technology that affect the nature of the services that the professions offer.

These changes have affected all professions in some measure, although my own experience is mainly of the accountancy profession and within the United Kingdom, so that most of the examples I shall quote come from experience of that profession and that country.

Changes in public expectations

There seems to be little doubt that the public's expectations of the professions have been increasing. Demands of accountants, as of all professions, have centred on such aspects as greater accountability and transparency. A number of factors appear to have contributed to this phenomenon.

The improvements in public education have certainly led to a more informed public, which is less inclined to be treated paternalistically. The development of mass media has made the public more aware of professional mistakes and less tolerant of them. This has tended to mean that the public increasingly expects that a professional will guarantee the outcome of a piece of advice or a

procedure in a way that would traditionally have been unthinkable. The development of a litigious society has shown the public that there are means by which they can obtain redress for professional mistakes. The increasing openness of professions and the willingness of individual professionals to give expert evidence 'against' others has itself encouraged litigation. The repeated promises by politicians that steps will be taken to ensure that professional mistakes cannot recur also encourage the public belief that professional mistakes should not happen.

All of these factors have meant that the position of the professional, which once might have seemed unassailable, now easily appears vulnerable. Professionals who may once have relied upon their own experience as sufficient justification for the assertion that a piece of advice or a procedure was appropriate may now be embarrassed by an inability to explain why it is appropriate, why it works.

Accompanying these developments has been an increasing intolerance of the 'secrecy' of the professions. These organisations are essentially private bodies, and have been used to conducting their affairs without public scrutiny. In a world in which the professions attract greater interest, such an approach may not be realistic.

In no area of the professions' activities is this more true than in the area of regulation and discipline. When a professional mistake of public significance occurs, the professions must now expect that the deliberations of their tribunals will be monitored closely by the mass media. Any failure to take action against professionals responsible for mistakes attracts criticism, as does any suggestion that the action has not been pursued with appropriate diligence. Moreover, any penalties levied upon the professionals in question must appear adequate to the public at large if the profession is not to be pilloried for 'being soft'. In many cases, it may not be clear what would have been a sufficient penalty, but the criticism will be nonetheless real.

The consequence of these developments is that the key purpose of the professional organisation, which is to develop and maintain a high public reputation for its members, is becoming much more difficult to achieve. In other words, a profession may find that it becomes very much more difficult to deliver for its members the benefits which they sought by becoming members.

Professions will not be affected equally by these developments. The members of some professions provide services that are either purchased or relied upon by the public at large or, at least, by people who cannot be assumed to be sophisticated purchasers. Such professions will inevitably attract most public attention. There will not be such a focus upon professions whose members

generally provide their services in markets consisting largely of informed people who are able to seek direct redress for professional mistakes.

Changes in the political environment

It should not be surprising that these changes in public expectations are accompanied by changes in the political environment within which professions operate. At the simplest level, public concern following a professional mistake of public significance is bound to lead to politicians either expecting that the professional body concerned will take steps to reduce the possibility of a recurrence or proposing themselves to take direct action to that end. On many occasions when this happens other professionals say to themselves 'There, but for the grace of God, go I'.

There are two other political developments that also pose difficult questions for professional bodies.

The first arises from a political desire to make certain professional services generally available to the public at large. In the United Kingdom, the National Health Service and the Legal Aid Scheme provide examples of this.

Introduction of a National Health Service, at least superficially, created the impression that the government was assuming responsibility for the provision and organisation of medical services on a national basis. Acceptance of managerial responsibility in this way challenges the position of the professional bodies.

The Legal Aid Scheme was not organised in such a way. Those in need of assistance were intended to appoint their legal advisers in a conventional way, with the scheme undertaking to provide financial support within certain parameters. As time has passed, the rapidly growing expense of this scheme has attracted criticism and political concern, with the result that attempts have been made to limit its costs. In both of these cases, the traditional professional structures are being challenged.

The second way in which the state has been challenging the traditional professional structures arises from the fact that a government that wishes to encourage competition will not be prepared to tolerate any professional rules that appear to constrain free competition. During the past generation, there have been many examples of government authorities questioning and in some cases banning such professional rules. In the late 1960s, the Monopolies Commission investigated the rules of the Law Society against multidisciplinary

practices and questioned the value of these rules. On a number of occasions during the 1980s, the Office of Fair Trading (OFT) investigated the ethical rules of various professional bodies, which led, for example, to liberalisation of the rules concerning advertising by accountants, and restrictions on the kinds of organisation through which members of professions may offer their services.

Similar inquiries have reviewed the rules concerning advertising by optometrists and others. In some cases, review by government agency has become a way of life and not a question of occasional investigations. For example, the Companies Act 1989 (UK), provided that proposals for changes in the rules concerning the conduct of auditors should, in certain cases, be subject to review by the OFT to ensure that they do not appear to have anti-competitive implications. (Companies Act 1989, UK, Schedule 14, paragraph 3).

Whilst the encouragement of competition may not seem a dangerous objective, its effect may be to reduce the benefits that members of a profession enjoy as a result of being members. One consequence of anti-competitive rules is some measure of shelter for weaker members.

Encouragement of competition has been followed by aggressive encouragement of free markets. This takes the process a stage further and is leading to a contract culture in which the parties to any transaction are expected to define their obligations in advance and then to hold themselves accountable for discharging those obligations. In this environment, parties to a transaction are generally expected to manage their own interests and not to have dual or conflicting interests.

This can be challenging for professions that may claim to have two sets of interests: serving the public interest in the general quality of professional services, while at the same time serving the private interest of members in the development of their reputation. Such dual-purpose bodies do not easily fit within the free market model in which regulation of the marketplace is a function for the state as ringmaster, and not for players within the market. In such a model, regulation is external to the players who may choose for themselves how they comply with the ringmaster's regulations. Whichever manner of compliance each player chooses will, of course, eventually become a part of that player's distinctive reputation. How different is this from the traditional model of a professional marketplace in which the standards are set for all of a profession's members so that a reputation is built for the whole profession?

It should not be surprising that, in this free market world, the reputation of professional titles is diminished and that purchasers of services appear inclined to trust the brand names of substantial players in the marketplace rather than the overall qualification of members of a profession.

All of these changes question the value or the benefits to members of membership of a self-regulating professional body.

Changes in technology and markets

Quite apart from these types of changes, which result from changes in general economic policy, changes in technology and legislation may also destabilise professions.

This can be demonstrated by a few straightforward examples.

- New legislation in the 1980s both simplified property conveyancing and opened conveyancing to non-solicitors in a way that removed from many high street firms of solicitors the solid income upon which they had traditionally relied.
- New bookkeeping software has enabled many small businesses to keep adequate books and records and to prepare interim and final accounts without the intervention of an accountant. The number of freelance accountant-bookkeepers has fallen dramatically as a consequence.
- Introduction of self-assessment processes, in conjunction with software for completing forms and accounts, has both removed a traditional source of work and assisted unqualified practitioners when competing with qualified practitioners.
- Increases in the threshold levels for the preparation of audited accounts by limited companies have meant that many smaller companies now do not require a statutory audit, and this source of income is no longer available to many smaller firms of accountants.

I am not arguing that these changes were undesirable. My point is that they, and other changes like them, have had the effect of destabilising the income of many practitioners and of changing the balance of advantage for them of belonging to a self-regulating profession.

This sort of effect is not limited to smaller firms. The objective limitation of the market for statutory audits and competition between auditors has led both to a concentration in the statutory audit market and pressure upon the profit margin that auditors can expect to make. Whatever economic benefits have traditionally accrued from auditing, it is obvious that the larger firms of accountants have all sought growth and profit by extension of their services in areas beyond the traditional areas of the profession's competence. In turn, this raises questions about the relevance to such firms of the traditional professional bodies.

These issues arise in addition to the growing significance of these larger firms as international entities. The professional bodies of any single country must have only a parochial relevance to such entities, not least because there are very few examples of professional qualifications and titles that have value internationally (whereas the brand names of the firms themselves may have). In those areas of life in which globalisation is significant, markets can be expected to look for internationally recognisable qualifications and brand names. Few national professional bodies will find this an inviting prospect.

These are factors that may well encourage markets to have more regard for the brand names generated by firms than for the brand names generated by professional bodies.

Yet again, these changes challenge the value or the benefit of being a member of a self-regulating professional body.

Responses from the professions

All of the challenges that I have tried to describe threaten to unbalance the fundamental trade-offs that, in my analysis, are vital to the stability of the professions. Just as the environmental challenges can take effect quickly, so, too, there is an expectation that the professions need to react promptly. A number of factors may make swift reaction difficult.

- Most professional bodies are accustomed to moving slowly. They are after all designed to build reputations and then to protect them. This often depends upon stoic defence rather than swift reaction. It can seem tempting to preserve a traditionally defensive posture against all odds.
- Most of the traditional professional bodies depend upon volunteers to staff committees and boards. As young people tend to have less time available for such work, the result can be that committees are loaded with older professionals and are thus unrepresentative and relatively unresponsive to the changing market place.
- In some professional bodies, access to the professional title has become a fashionable qualification with the result that the membership includes large numbers of people who are not practitioners and who have little interest in the problems of practitioners. The consequence can be a lack of interest and difficulty in gaining support for changes that are necessary to deal with the problems of practitioners.

Undoubtedly, a number of professional bodies will not be able to change with sufficient speed to manage the effect of changes in the environment within which they operate. The extent to which this is true in any particular profession will obviously depend upon the characteristics of the bodies and the people concerned. It will also depend upon whether a profession is under close public scrutiny.

Tomorrow's professions

A number of conclusions appear to be justified by this analysis.

- There seems no reason to suppose that there will be any slackening in the market's demand for professionals who can form practical judgements about how specialist knowledge can be applied to real circumstances. In this sense, there seems no reason to suppose that there will be no demand for 'professions' (that is, *qua* activities).
- Professions will not necessarily be related to precisely those activities that are now understood to be professions. Advances in technology will make some activities more easily available to non-professionals and thus reduce the demand for professionals to provide those services, whilst other services will not be required by the future marketplace either at all or in the same volume. Furthermore, new activities may come to prominence that do not relate easily to existing professions.
- People wishing to become involved in such new activities may well need to demonstrate their competence by acquiring qualifications from professional bodies.
- Whether qualifications come from new or old professional bodies will depend upon the extent to which a particular qualification relates closely to the activity in which the potential member wishes to be involved, and whether the professional body has a membership that is congenial to the potential member (that is, relates well to the potential member's planned occupation).
- Existing professional bodies whose activity 'footprints' lose their relevance to the marketplace will not attract new members in numbers sufficient to sustain themselves.
- If governments persist with open-market, free competition policies, existing professional bodies must expect that their responsibilities for regulating markets will disappear, particularly where they are involved with services that attract public scrutiny. To the extent that these responsibilities have been significant in retaining the support of members or in retaining social standing or reputation, then existing professional bodies must expect that there will be further challenges to their standing.

- Professional bodies may be required to respond quickly and radically to changes in the market places in which they operate. Democratic structures and diverse memberships may render this difficult. Persistent failure to change to meet the need for relevant qualifications either for potential members or employers of professionals will lead to a failure to sustain membership levels and social standing.
- New professional bodies are for this reason likely to avoid traditional democratic structures and instead be run by executives as quasi-businesses.

It is possible, but mistaken, to speak of these matters in apocalyptic terms. In the end, professions are market structures serving changing markets. It should not be a surprise that as markets change, and as attitudes towards markets change, then so should the structures that underpin those markets. This paper has attempted merely to chart some of the processes by which structures and reputations are affected by market change.

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