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Hearing on Diversity in the Financial Services Industry and Access to Capital for
Minority-Owned Businesses: Challenges and Opportunities

Chair Kelly, Ranking Member Gutierrez, Chairman Oxley, and Ranking Member Frank, thank you for the opportunity to address the Committee on the critical matter of the dearth of African Americans and other minority groups in the Certified Public Accountancy (CPA) profession.

Fewer than one percent of CPAs are African-American. This is a smaller percentage than in any other major profession, and this testimony addresses some of the reasons for this shortfall. Certified Public Accountancy is unique in that a candidate to become a CPA must work for a CPA. Because, for most of this century, white CPAs refused to hire African Americans, by 1965 only about one in one thousand CPAs was African American. While some progress has been made, the numbers are still abysmal. The National Association of Black Accountants (NABA) has played a leadership role in countering the dearth of African American CPAs, but the mainstream of the profession has not made the issue a high priority. Exacerbating this problem is the lack of firm-specific information on the progress of African Americans in the profession. In contrast to law firms, public accounting firms do not report publicly the composition of their ranks. The absence of this information helps obscure the small number of African Americans in this critical field, and further deflects attention from the issue.

I have answered the direct questions asked by the Committee below.

1. What is the percentage of major-CPA-firm partners who are African American and Latino?

Beginning in 1976, shortly after the American Institute of Certified Public Accountants (AICPA) formed a Minority Recruitment Committee, the AICPA surveyed major public accounting firms annually to document the progress minorities were making in the profession. After revealing several years of decline in the 1980s, the annual survey was discontinued in 1989, and only a few surveys have been taken subsequently, the

latest of which covered data from 1996. According to this most recent survey, fewer than one in one thousand partners in major public accounting firms were African American; three in one thousand were Latino.

Table 1: Minority Representation in Major Public Accounting Firms (1996)¹

	White (not Latino)	African American	Latino	Asian American	Other
Partners	98.7%	0.08%	0.3%	0.6%	0.2%
CPAs	96.5%	0.4%	0.9%	1.9%	0.2%
Professionals	92.7%	1.4%	1.5%	3.9%	0.4%
Accounting Graduates	74%	8.4%	7.0%	7.4%	3.0%
2004 U.S. Population	75.1%	12.3%	12.5%	3.6%	1.0%

As is evident in Table 1, the shortage of minority-group members, particularly African Americans and Latinos, permeates all layers of the major firms. Attaining a position working for one of these firms is critical to the career path of financial professionals. While only a small percentage of CPAs remain with the firms to become partners, earning a CPA provides an entrée into the leading corporate finance departments, and from there to Chief Financial Officer and other executive positions.

2. What is your opinion to explain the apparently low level of diversity among CPAs?

There are close to half a million certified public accountants in the United States. Although the profession garners little media coverage, it wields substantial power over the nation's most consequential financial transactions. Every publicly traded company and most major governmental and not-for-profit entities must have their financial records audited by a CPA. The "Big Four" firms that dominate the industry--KPMG, Deloitte & Touche, PriceWaterhouseCoopers, and Ernst & Young--audit over 95% of the Fortune 500, and earn revenues in excess of \$40 billion annually.

As noted in response to question #1, there is an abysmally low representation of African Americans within this important profession. Major reasons for this shortage are outlined below:

A History of Discrimination & Absence of Mentors

Only a fraction of students who major in accounting in college become CPAs. Earning a CPA requires passing a demanding examination and, in most states, serving an apprenticeship under a CPA. As documented in my book, before the Civil Rights

¹ Sources: For firm data: *Report on Minority Accounting Graduates, Enrollment and Public Accounting Professionals--1997* (American Institute of CPAs, Minority Initiatives Committee, 1997). For U.S. Population: U.S. Bureau of the Census, *Statistical Abstract of the United States*: 2004.

Movement many talented African-American men and women earned accounting degrees and passed the examination, but meeting the experience requirement presented the greatest hurdle. For the first two-thirds of the 20th century, it was rare that a white CPA would hire and train an African American. This history has resulted in few family role models for young African Americans who might otherwise have developed an interest in the public accounting profession.

There are many instances of talented, well-educated African Americans who faced almost insurmountable barriers to becoming CPAs in the early decades of this century.² Two examples from my book follow:

Bernadine Coles Gines grew up in Virginia, but, because the University of Virginia did not admit African Americans, in 1946 Gines headed for New York University. Two years later, when Gines completed her master's degree, she had intense difficulty finding a position with a CPA firm. She worked as a bookkeeper for an African-American newspaper, the *New York Age*, but wanted to get experience working for a CPA so that she could earn her certificate. From her residence at the YWCA in Harlem, she sent many letters of application but did not get a single positive response.

Gines moved from Harlem to Queens, and suddenly, because her address no longer revealed her race, she was invited for several interviews. Nevertheless, when she appeared for interviews, she received no offers. A partner at the first firm with which she interviewed told her that he could not hire her as an accountant. Instead, he asked if she could help him find a maid for his wife.

After two years of searching Gines was interviewed by two young Jewish men who quickly overcame their surprise that she was African American. To her delight, they offered her a position. In 1954, while working for the firm, she became the first African-American woman in New York State to earn her CPA.

Like Bernadine Gines, Talmadge Tillman grew up in the South but moved in the hope of finding better opportunities. Born in North Carolina, Tillman attended Morehouse College and Indiana University as an undergraduate, and became the first black graduate of Syracuse University's MBA program in 1948. In 1951 he moved to California, where he hoped to find a firm that would provide the requisite experience so he could become a CPA.

Immediately upon arrival in Los Angeles, Tillman registered his resume with the California CPA Society. Based on his exceptional educational credentials, a CPA telephoned him and offered him the job over the phone, "I went to his office the next morning and he stated, 'Boy, what can I do for you?' I told him I was Tillman and that he had given me a job and told me to come to work. He placed his head on the desk and just shook it. He then said, 'You are a Negro; I cannot give you the job.'"

Tillman bought a detailed map of Los Angeles. Using a phonebook, he mapped out all the CPA firms in the city, spending six weeks walking different neighborhoods and applying for jobs. He knew he was ahead of his time, but he was convinced that "somewhere out there someone was going to give me a job." At the end of the six weeks, his conviction proved to be true, and he accepted a position as an auditor with a Jewish-owned CPA firm.

² Theresa Hammond, *A White-Collar Profession: African-American Certified Public Accountants Since 1921* (University of North Carolina Press, 2002).

Tillman worked for the firm for almost a year. During this period, the managing partner of the office had been serving in the Korean War. As Tillman describes it, "[A]fter he came back from fighting for democracy, he walked in the office and saw me and a [black] girl named Linda... [H]e told me, 'It doesn't look good to have Negroes in the office.'" Within days, both Tillman and Linda had been fired by mail.

Tillman persevered. Still in need of more experience to meet the requirement, one of Tillman's professors arranged an interview with a firm that had four open positions. The firm recruiters gave him a written test, an unusual, if not unheard of, approach when interviewing someone with an MBA for an entry-level job in accounting. Tillman passed the test, but was told he would not be hired. Tillman asked them why they had given him the test if they knew they were not going to hire him. He was told, "We wanted to see what a Negro could know about accounting." Tillman became a math teacher, and later earned a Ph.D. at the University of Southern California, but was unable to complete the requirements to become a CPA until 1965.

This relentless exclusion came to an end in the late 1960s, when the major public accounting firms began to hire and promote African Americans. In 1971 Elmer Whiting, Jr. became the first African-American partner in a "Big Eight" public accounting firm when his practice merged with one of these largest firms. In 1976, there were still only two black partners in the eight largest firms.

While progress continued through the 1970s, the situation reversed in the 1980s. A review of the content of the *Wall Street Journal* in the 1970s and 1980s demonstrates that the earlier decade was characterized by frequent celebrations of African-American progress in previously all-white fields, but that the stories in the 1980s were more likely to comprise complaints about "reverse discrimination" and the need for an end to proactive efforts to recruit African Americans.³ That shift in mood was reflected in the CPA profession. During the 1980s every measure of African-American progress in public accounting firms declined: percentage of African Americans hired, percentage of African Americans remaining with the firms, percentage of African Americans promoted, and percentage of historically black college graduates hired.⁴ The decline in the 1980s led into a decade of stagnation in the 1990s, and, with fewer than one percent of CPAs being African American, the industry currently has the lowest representation of African Americans of any major profession.

Lack of African-American Faculty

As a byproduct of the complete exclusion from the profession that characterized the early decades of the twentieth century, very few African Americans earned Ph.D.s and became accounting professors. Partly because there were so few opportunities for their graduates, the historically black colleges and universities (HBCUs) did not offer a full complement of accounting courses until the 1970s. In the 1970s there was a push to increase the number of African-American Ph.D.s in accounting, and to thereby improve the accounting programs in the HBCUs. Unfortunately, however, that progress was

³ Theresa Hammond, "From Complete Exclusion to Minimal Inclusion: African Americans and the Public Accounting Industry, 1965-1988," *Accounting, Organizations and Society* Vol. 22, No. 1, 1997, pp. 29-53.

⁴ *Report on Minority Accounting Graduates, Enrollment and Public Accounting Professionals* (American Institute of Certified Public Accountants, 1976-1989).

short-lived, as the 1980s saw declines in African-American participation in Ph.D. programs, largely as a result of severe cuts in federal financial aid.⁵ The shortage is particularly critical because studies of other professions demonstrate that the presence of an African-American faculty member is a major determinant of black students' professional choices.⁶

The lack of African-American faculty is one of the few areas that has been directly addressed and has begun to be ameliorated. In 1994, the KPMG Foundation launched the PhD Project, a scholarship, mentoring, networking, and advertising program designed to increase the diversity of accounting professors—more recently expanded to include all business fields. As a direct result of this program, the number of African-American faculty in accounting has increased substantially. Although the overall number of Ph.D.s in accounting has declined by almost half since 1992, the number of African-American doctoral students in the field has more than doubled, from twenty-two to fifty-one. Because of the small size of the original numbers, ample room for progress remains.

Lack of Black-owned Businesses

Prior to 1965, the largest group of African-American CPAs was found in Chicago, because Chicago was the site of many of the largest black-owned businesses in the country. While most businesses require a bookkeeper, only large businesses require someone with the expertise of a CPA. The continuing lack of access to capital and corresponding low rate of business ownership by African Americans remains a major contributing factor to the lack of African-American CPAs.

As noted in response to question #1, earning a CPA can lead to leadership positions in the financial divisions of major corporations. These controllers, chief accountants, chief financial officers, and board members, in turn, hire the CPA firms that audit their companies. The absence of African Americans becomes a cycle: clients who earned their CPA working for homogeneous firms do not recognize the lack of diversity as a problem.

End of Minority Set Asides

In the 1970s and 1980s many government programs on the local and national level recognized that the history of excluding African-American-owned businesses from lucrative government contracts needed to be addressed. The minority set-aside programs that were developed helped many African American CPAs form their own firms to serve government and community agencies. The subsequent dismantling of these programs has had a deleterious impact on the success of black-owned CPA firms.

Firm Culture

Partly due to its history of discrimination and partly due to the nature of the public accounting profession—ensuring that clients are conforming to rules—the culture of public accounting is unusually homogeneous. This leads to high turnover, especially among African Americans. Because the major public accounting firms are so large, and

⁵ Theresa Hammond, "Some Considerations in Attracting and Retaining African-American Doctoral Candidates in Accounting," *Issues in Accounting Education* Vol. 10 No. 1, Spring 1995, pp. 143-158.

⁶ James Blackwell, *Mainstreaming Outsiders: The Production of Black Professionals* (Dix Hills, NY: General Hall, 1987).

because they hire so many new employees each year, they place a premium on the ability to conform to firm culture. Because the firms, and especially their leadership, are overwhelmingly white, there is a higher probability that African-American employees, will have difficulty adjusting to the environment.

In recognition of this disadvantage, a new initiative based at Howard University is being developed to help African American accounting graduates—especially those who attended HBCUs—learn to adapt to the business culture, with particular emphasis on the unique demands of major public accounting firms.

The Term “Diversity” Obscures the Lack of Progress

Attention to the declining participation of African Americans in the CPA industry was muted by a conversion that took place in the late twentieth century. When the American Institute of Certified Public Accountants and the major accounting firms first publicly committed to ending discrimination in 1968, the focus was on the absence of African Americans in the profession. By the 1980s, talk of under-representation had shifted towards “minorities” or “diversity,” and the firms lumped the participation of African Americans, Latinos, Asian Americans, and white women together under one group. All three of these latter groups, while not achieving parity with their representation in the population, were growing in the firms due largely to their growing share of overall employment. Almost unnoticed, African-American participation was declining.

In the 1990s this became even more distinct, as the firms recognized the expense associated with high turnover among their female employees, who constituted over half of their new hires each year. The largest firms developed targeted programs to retain and promote women, and they have been fairly successful: the percentage of women partners jumped from 12% in 1993 to 19% in 2003; in 2003 44% of new managers and 25% of new partners in the large public accounting firms were women. In the meantime, African-American recruitment, retention, and promotion seem to have stagnated, which does not provoke widespread concern.

Educational Disadvantages

African Americans and Latinos disproportionately attend underfinanced public primary and secondary schools that do not prepare them well for pursuing professional degrees, particularly those based on strong math backgrounds, such as accounting. Inadequate math backgrounds, combined with the lack of familiarity with business and finance that arises from the history of exclusion from these fields, make pursuing an accounting major disproportionately difficult for African Americans. In recognition of this deficiency, the National Association of Black Accountants has launched a new Financial Literacy Initiative aimed at educating the wider black community on financial issues.

Despite these educational disadvantages, since the mid 1970s African Americans have consistently constituted between six and eight percent of Accounting graduates. If these graduates experienced equal opportunity within the profession, the number of CPAs should be well above its current mark of approximately one percent.

3. Is there a higher percentage in other professional organizations that make them more successful at recruiting, retaining, and promoting minorities? What in your opinion are the reasons?

Certified Public Accountants have the lowest representation of African Americans of any of the major professions. Despite the fact that becoming a lawyer or a doctor requires many more years of education than does becoming a CPA, CPAs have always had a much lower representation of African Americans, as shown in the Table 2:

Table 2: African-American Participation in Three Professions⁷

	Lawyers	Doctors	CPAs
1930	0.8%	2.5%	0.03%
1960	1.0%	2.0%	0.1%
1996	2.7%	4.2%	Less than 1%

Historical Development

Differences in the development of the professions help explain the variations in under-representation. African American doctors and lawyers were denied participation in majority-white institutions for most of this century, but they were leaders in meeting the medical and legal needs of the African American community. In contrast, centuries of restricted economic opportunities resulted in few African-American-owned businesses large enough to require the services of a certified public accountant. Consequently, until the 1960s, only under exceptional circumstances could African American CPAs earn a livelihood within the black community. This difference also meant that, while African American medical and law schools have a long history, black colleges rarely offered programs in accountancy.

Varied Professional Hurdles

Barriers to the professions differ at the entry level. Entrance to the medical and legal professions primarily depends on obtaining the appropriate education and passing state-supervised examinations. Becoming a CPA not only requires passing the certified

⁷ U.S. Bureau of the Census, *Fifteenth U.S. Census 1930*; U.S. Bureau of the Census, *Eighteenth U.S. Census 1960*; U.S. Bureau of the Census, *Statistical Abstract of the United States: 1998*, 417-419; *The History of Black Accountancy: The First 100 Black CPAs*, National Association of Black Accountants, 1990; James Don Edwards, *History of Public Accounting in the United States* (Tuscaloosa: University of Alabama Press, 1978); Bert Mitchell, and Virginia Flintall, "The Status of the Black CPA: Twenty-Year Update," *Journal of Accountancy* 170, no.2 (August 1990): 59-69; *Report on Minority Accounting Graduates, Enrollment and Public Accounting Professionals* (American Institute of Certified Public Accountants, 1976-1989); Julia Lawlor, "Blacks Counted out of Accounting, Study Says," *USA Today*, 9 August 1990, Section: Money, 1; *Report on the Status of Blacks in the CPA Profession* (New York State Society of Certified Public Accountants, 1990); Elizabeth Chambliss, *Miles to Go 2000: Progress of Minorities in the Legal Profession* (American Bar Association Commission on Racial and Ethnic Diversity in the Profession, 2000).

public accountancy examination, but also meeting an experience requirement by working for a licensed CPA. As noted above, for most of this century virtually no whites would hire and train an African American to become a CPA. A medical graduate—who could work for a black-owned hospital associated with an HBCU—could earn full credentials without being dependent on white-run institutions. A law graduate could become a full-fledged lawyer without setting foot in a white-owned firm. Prospective CPAs had, and still have, fewer options.

Inflexible Career Path

CPA firms have a hierarchical, “up-or-out” structure. Recruits come straight out of college, and successful employees get promoted every few years on a regular schedule—to senior, then to manager, then to partner.

This promotional structure is not conducive to the advancement of African Americans. David Thomas and John Gabarro’s landmark study of African-American success in corporations finds that successful African-American executives often had slow beginnings to their professional careers. In *Breaking Through: The Making of Minority Executives in Corporate America*, they found that employers quickly identified whites as either high- or low-potential employees, and those who fell into the former category were given important assignments and promoted accordingly.⁸ African-American employees, in contrast, were frequently tested at early stages of their careers, and, though they might be promoted rapidly later in their careers, they had to exceed expectations repeatedly in order to be given a chance at promotions early in their careers. The rigid timing of CPA-firm promotions could mean that most high-potential African-American employees leave the firm after becoming frustrated by the absence of opportunity in their early years. Because of the experience requirement, this means many African Americans leave the firms without becoming CPAs.

Fewer Firms Means More Concentrated Power

Because only four firms so completely dominate the market for audits of publicly traded companies, these four firms have little accountability. Corporations that desire legitimate audits have almost no choice but to select one of these four firms. More pertinent to this hearing, students who graduate from accounting programs all aspire to joining the same four firms in order to get the most comprehensive and prestigious training possible.

Over 150,000 professional employees work in the U.S. offices of the Big Four, and they recruit from hundreds of schools. In contrast, in the legal profession there are many law firms and relatively few top schools from which to recruit. The students in these desirable schools put pressure on the law firms to report their success in hiring and promoting African Americans and other under-represented groups. Each year this information is published in a recruiting guide, and the few firms that refuse to provide numbers risk alienating those they would like to employ. In CPA firms, the employment situation is reversed. It is impossible to get firm-specific employment data on race from the Big Four firms, and currently there is no meaningful pressure for them to provide this information.

⁸ David Thomas and John Gabarro, *Breaking Through: The Making of Minority Executives in Corporate America* (Cambridge, MA: Harvard University Press, 1999).

In an effort to gather better intelligence on the industry's demographics, NABA is working with its major firm and corporate partners in the profession to gather information on partners, chief financial officers, treasurers and division controllers. The increased transparency that should arise from this undertaking would be a major step in addressing the disparity in the profession.

Apparently Fewer Stakeholders

Certified *Public* Accountants are intended to be accountable to the public they serve; the disastrous consequences of their not fulfilling this mission has been in evidence in recent years with the financial reporting scandals at Enron, WorldCom, and other major corporations. Nonetheless, the public at large rarely recognizes the importance of the CPA profession in the same way it recognizes the importance of the roles played by doctors and lawyers. When the percentage of African Americans in medical schools declined in the 1980s, various interest groups drew attention to the issue and to the important role African-American doctors play in providing medical care to underserved communities. The same response does not arise when the percentage of African Americans attaining CPAs declines.

Historically, the firms have responded to pressure from only two groups: their clients and the federal government. With regard to African American recruitment, in the 1950s and 1960s many of the firms explained their refusal to hire African Americans by saying that their clients wouldn't tolerate a black auditor. In the 1970s and 1980s many African American accountants report being taken off particular audits when the firm for which they worked yielded to a request that no black accountants be assigned to work in their offices.

Throughout its history, the CPA profession has been loath to change except when it has faced direct government pressure. For example, in 1968 the Human Rights Commission of New York State investigated the major firms' lack of diversity, and in 1976 the United States Senate inquired into the status of promotion of African Americans in the eight largest firms.⁹ Only during this period were significant efforts undertaken to increase the participation of African Americans in the profession. In the 1980s, when pressure from the federal government waned, the impact on CPA firms was immediate: the meager participation of African Americans declined.

Conclusion

This hearing constitutes a very important first step in drawing attention to the dearth of African Americans in the public accounting profession. The public understands that it is important to have African American leadership in the visible professions of law and medicine, but the abysmal number of African Americans CPAs has not caused much concern. The severe under-representation must be rectified so that the certified *public* accounting profession truly represents the public. A cursory glance at Table 1 makes it apparent that it does not: over 12% of the population is African American, yet fewer than 0.1% of partners are black. By adding new viewpoints and perspectives, a more diverse

⁹ "State Body Accuses 6 Concerns of Bias," *New York Times*, May 9, 1968, p. 51; United States Senate, Committee on Government Operations, *The Accounting Establishment: A Staff Study Prepared by the Subcommittee on Reports, Accounting and Management*, 95th Congress, 1st Session, 1977.

profession may help prevent the excessively cozy relationships between CPA firms and their clients that led to the recent accounting scandals.

It has been almost thirty years since the U.S. Congress requested a report from the major firms on how they were faring with promoting African Americans to partner.¹⁰ Congress and the SEC should require each firm to report annually its success in recruiting, retaining, and promoting African Americans. If the numbers are public, the Big Four and other firms will compete with each other to improve their profiles. Perhaps it is time to remind the firms of the importance of this issue by requesting the information again.

¹⁰ United States Senate, Committee on Government Operations, *The Accounting Establishment: A Staff Study Prepared by the Subcommittee on Reports, Accounting and Management*, 95th Congress, 1st Session, 1977.