

## PROFESSIONS AND FINANCE

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In this essay I raise questions about professionalization (or the lack thereof) in finance. I don't have the answers, but I would like to discuss several sociological frameworks for thinking about professional work that can guide our assessment of these issues. The central question in my inquiry is why do we not see traditional professions in business or management, with the exception of accounting/auditing? Various explanations for this lack of professionalization have been proffered, but it is hard to see how they apply to finance and not to accounting. For example, both areas have complex and discrete bodies of knowledge that must be mastered by practitioners and both areas are central to the morality and ideology of capital markets. Furthermore, the academic wings of both areas are theorized using a common financial economic theory base.

First, I will explore reasons why members of occupations may want to be seen as professionals. Then I will summarize several sociological theories of professionalization, professional competition for jurisdiction, and the nature of professional work and discuss the implications for professionalization in finance. Finally, I review explanations for the lack of professional development in management.

### **Who wants to be a professional?**

Two of the most prominent sociological theorists studying professions are Eliot Friedson (1986, 1994, 2001) and Andrew Abbott (1988). Abbott sees the professions as groups in competition for jurisdiction over professional tasks and explores the characteristics of professional work and the factors that are important in winning jurisdictional struggles. Organizing in professional groups is seen as key to winning exclusive rights to perform certain types of work. This type of occupational monopoly is highly valued. Not only does the group value jurisdiction over certain types of work, but

individuals in professions are able to build stable careers around their professional identities, and professional careers traditionally provide a stability that is rare in capitalist commerce. Leicht and Fennell (2001) note that “[I]t is through the professional career that the benefits of professional life (status and money) are accrued”

Friedson explores the characteristics of ideal/typical professions, and in particular, the ideological claims that professions make to serve the public interest. Friedson’s theory abstracts the characteristics of professions by considering how individual professions conform and deviate from the ideal/typical profession. He is concerned with the necessary conditions for a work task to become professionalized. For professionalization to happen, the work must have certain characteristics and the profession must be able to make certain ideological claims about serving the public interest. The key ingredient to professionalization is state support for a labor market shelter which is the monopoly ability to provide a certain type of service. Again, this monopoly status over certain types of work is highly valued and is the cornerstone of the classic professions. Furthermore, Friedson’s classic professions maintain professional control over professional work (as opposed to state or client control), a characteristic that is prized by professions. Currently the accounting profession is desperately engaged in a struggle to maintain self control over auditing standards, for example.

In the 1990’s research on professional work is not limited to the classic professions with their state sanctioned “labor market shelters,” but considers those engaged in a certain type of work that is based on judgment as engaged in professional work (Tordois, 1995). Professional work, with its emphasis on judgment, expertise, and the application of scientific heuristics, is a very elite form of work. Many aspire to the

label of professional workers even when their occupation lacks many of the institutional features of classic professions. Professional work is seen as loaded with a heavy reliance on creativity, individuality, and independence.

For example, many in the accounting profession seem to be drawn to the looser and more exciting arena of professional work rather than the staid limits of the classic auditing profession. They seem to be uncomfortable with their identity as accountants. The AICPA has gone so far as to describe the “certified public accountant” designation as a marketing liability. Barry Melancon, president of the American Institute of Certified Public Accountants (AICPA) is quoted as saying, “The marketplace says the worst thing we have going for us is the ‘A’ in CPA” (Hilzenrath, 2001). This attitude may reflect the common perception that certain types of professional work deal with creative problem-solving whereas the traditional professions apply relatively standardized methods (Tordois, 1995).

Another reason to eschew traditional professions in favor of emphasis on professional work is ideological. Baker et al. (2001) go so far as to eschew the importance of state sanction or labor market shelters on the grounds that Milton Friedman has shown that the monopoly position of professions is inconsistent with free market ideology. However, the reality of professional political economics is that state sanction is a vital ingredient in establishing labor market shelters – they cannot be established and maintained by market forces alone. Freidson (2001, p. 161) notes that “ideal-typical professionalism cannot develop without official recognition and support” which is a “response to the concerns of politically or economically influential segments of the public ... or of a state agency.”

## **The sociology of professions**

Freidson (1986, 1994, 2001) maps out the characteristics of the ideal/typical profession, determines which characteristics are present in all modern professions, and focuses on the political and social process by which professional status is achieved.

Freidson (2001) notes five interdependent elements of the ideal type of professionalism:

- 1 specialized work in the officially recognized economy that is believed to be grounded in a body of theoretically based, discretionary knowledge and skill and that is accorded given special status in the labor force;
- 2 exclusive jurisdiction in a particular division of labor created and controlled by occupational negotiation;
- 3 a sheltered position in both external and internal labor markets that is based on qualifying credentials created by the occupation;
- 4 a formal training program lying outside the labor market that produces qualifying credentials, which is controlled by the occupation and associated with higher education; and
- 5 an ideology that asserts greater commitment to doing good work than to economic gain and to the quality rather than the economic efficiency of the work (Freidson, 2001, p. 127).

Two key elements of professional work are the existence of a “labor market shelter” by which the profession is shielded from competition and the retention of professional control (as opposed to client or state control) over judging and evaluating professional work. A labor market shelter represents “occupational control over supply and the substance of demand” for particular work and effective formally negotiated labor market shelters are always based on some public claim of specialized training and skill that secures a state sanction for an exclusive right to supply certain kinds of labor (Freidson, 1994, pp. 82-83). As Freidson (1994, p. 173) explains, “an occupation can fend off control by individual or corporate consumers of their work only by having power delegated to it by the state..” He explains that “Ideal-typical professionalism is always dependent on the direct support of the state and some degree of tolerance of its position

by both consumers and managers” (Freidson, 2001, p. 122). The statutory requirement for audits by certified public accountants is an example of a state supported labor market shelter.

Another key characteristic of professionals is that they have technical autonomy and some degree of discretion in performing work that must be conducted in accordance with a personal, schooled judgment (Freidson, 1986, p. 141). Even though professional work is often employed within bureaucratic setting and control, supervision of the professional work and judgment of its quality is the purview of skilled professionals. For example, in accounting it is the peer review process, not the opinion of the client, that determines the quality of an audit. Freedom from the authority of others over their work is one of the defining characteristics of professions (Freidson, 1994, p. 115).

Gaining state support for a labor market shelter requires that the work has certain characteristics and that the profession’s association is able to make politically important public interest claims. Freidson (1994, p. 124) suggests “that the notions of dedication to service and of craftsmanship are more usefully treated as elements of an ideology than as empirical characteristics of individual and collective professional behavior.” This ideology is an important component of the process by which occupations seek to gain and maintain their control over labor market shelters. Several types of ideological claims must be made to gain state support. Examples are claims based on “the functional importance of the body of knowledge and skill for the well-being of some significant segment of society, its intrinsic cultural importance, its unusually complex and esoteric character, and its superiority over the knowledge and skill claimed by competing occupations” (Freidson, 1994, p. 174). It must be felt that consumers are not able to

judge the quality of work or the qualifications of those who perform the work. There must be a belief that the work is so specialized as to be inaccessible to non-professionals and that it cannot be standardized or rationalized so anyone could perform it. The professional association maintains a network of screening, training, examinations, credentialing, character qualifications, codes of ethics, and peer review to satisfy the state and the public that they can effectively deliver and control the vital professional service. Freidson (1994, p. 175) notes that, “in exchange for not having to worry about control or availability of work, professionals are supposed to develop a commitment and identification to the discipline” and to the public interest it is organized to serve. To justify the privileged position of professional work, it is necessary to at least neutralize or counter opposing ideologies providing rationale for the control of work by the market (consumers) or bureaucracy (non-professional supervisors) (Freidson, 2001, p. 106). The professional ideology of service goes beyond merely serving other’s choices to attachment to some transcendent value (Freidson, 2001, p. 122) – Truth, in the case of accounting. I think it could be management of Wealth in the case of finance.

After its initial efforts in gaining state support for a labor market shelter, professions expend energy on expansion and extension of their discipline, pursuing internal growth and differentiation through technical specialization and varied practice settings within the protective shelter (Freidson, 2001, p. 143). For example, the accounting profession has managed to support a number of other functions, such as tax practice and various accounting and consulting practices, under the umbrella created for the core protected audit franchise. In this activity, it competes with other professions and groups.

It seems to me that the field of finance has many of the characteristics of the classic professions. There is a particular body of knowledge that is easily specified but not easily attained. Finance training is necessary to a number of occupations in the field – finance officers in corporations, bankers, analysts among others. The field is rife with credentialing efforts. The public interest is very salient in considering the role of analysts, mutual and retirement fund managers, investment bankers, and bankers. At the institutional level, there are several very strong lobbying groups – the banking lobby is extremely powerful and so is the financial industry on Wall Street as well as organizations such as the FEI. And there is some degree of government regulation of the finance industry and its practitioners, such as the regulation of banking and investment banking, and self regulation of securities markets and securities dealers. Perhaps one missing element is a public perception that analysts or investment bankers act in the public interest, although apparently there were public expectations along that line that have been greatly disappointed by the role of analysts and investment bankers in the current wave of corporate scandals.

Unlike other researchers who study one profession at a time, Abbott (1988) considers the system of professions as a whole, and builds a comprehensive model of how and why professions evolve in competition with each other. Believing that the content of work is critical to the analysis of profession, he begins by evaluating jurisdiction, a linkage between occupation and its work, and then argues that the history of professions is about fighting over control of work. This persistent conflict binds different professions into an interdependent system, and the system constantly interacts with its environment. In Abbott's (1988) theory of the system of professions, the key to

understanding professions is this competition for jurisdiction. Abbott explains that this viewpoint is superior to other idealistic (e.g., professions are groups that serve the public interest) and typological (e.g., professions are groups with special educational and licensing requirements) theories of professions in that it helps explain change in the domains and status of professions over time. Abbott also explains the requirements for professional work and professional cohesion

In Abbott's (1988) theory, the link between a profession and its work is called jurisdiction. The tasks of professions are basic human problems which are amenable to expert service, like sickness at the individual level or auditing at the group level (p. 35). The tasks of professions have objective and subjective properties. The objective underpinnings of finance lie in technology, markets, and organizations. The subjective properties are a matter of cultural expectations and acceptance. This means that the work of a profession is subject to changes in both the objective and subjective spheres. Changes in technology and organizations will prompt changes in the objective nature of the profession's tasks, but to continue operating as a profession, it is also necessary to win public acceptance for shifts in jurisdiction.

At the core of professional undertakings is the particular nature of the professional task. The three acts of professional practice are to diagnose, to infer, and to treat a problem (Abbott, 1988, p. 40). Through the diagnosis, or classification, phase, a problem is taken into the professional system. Inference, the process of evaluating the problem and the effect of various potential treatments, is the core of professional work. The appropriate treatment applies the professional knowledge system to the problem. In this way, professional work is tied to a system of knowledge that formalizes skills. The skills

must be logical and describable but not accessible to lay competitors. Professional skills must be seen and believed to “work”, but not to be completely describable or comprehensible to outsiders. If the professional knowledge is too esoteric and results are difficult to measure, public confidence in the profession may wane and it may assume a more tenuous stature (like spiritualists). On the other hand, if professional knowledge becomes too mundane and describable, it may become de-skilled (like auto mechanics). It seems to me that the finance knowledge base fits within these parameters.

In addition, winning jurisdiction depends on the nature of the subjective warrant, or public perception, of the profession. For example, societal approval of accountants as a profession was based beliefs about the special character traits of accountants (i.e. objectivity). More recently, public expectations of accountants have changed to some extent to an appreciation of the scientific, efficient, and rational character of their work (p. 144). Any claims of finance practitioners to professional status would likely be based on the public’s belief in their rational efficiency. There is no question that finance practitioners hold valued positions in the market which forms the core of capitalist ideology in this country. They also play an important role in the play of the markets. As former SEC Chief Accountant Lynn Turner reiterates, “the enduring confidence of the investing public in our capital markets is vital ... [and] [p]ublic trust begins, and ends, with the integrity of the numbers the public uses to form the basis for making investment decisions” (Turner, 2001a). Accountant’s key position as “gatekeepers” to the public securities markets has been supported by the SEC, and “Congress, in creating a system in which investors and the Commission must rely on the accounting profession, granted the accounting profession an important public trust” (Hunt, 2001). Investment bankers and

analysts are also key figures in stock market narratives in their roles as interpreters of information and facilitators of (fair) deals.

Professional jurisdictions and status are always in flux. Change is sparked, in part, by changes in the objective nature of tasks. In addition to vulnerability arising from changes in the demand for their central tasks, professions also are vulnerable to shifts in culturally accepted values. (p. 56). The audiences for profession's claims to exclusive rights include the legal system and public opinion. In the case of accounting, the legal system has granted certified public accountants an essential monopoly on audit services and allowed the profession considerable discretion in control of their work environment (licensing, self-regulation, etc.). However, the legal monopoly may have been a double-edged sword for accountants (Montagna, 1974). On the one hand the Securities Acts provided a franchise for producing required audits to independent accountants. On the other hand, the legal requirement forces a focus on auditing work and results in interference in professional functions in the form of SEC rules and regulations. Since it has relied so completely on the legally mandated audit franchise, the accounting profession may not have developed other forms of cultural mandate, such as public understanding and appreciation of its work or legitimation of its work through links to academia, that may be needed for expansion of professional jurisdiction beyond auditing. It may be that finance has avoided professionalization to avoid the double-edged sword of state control and scrutiny. However, there is a lot of state regulation of banking, investment banking, brokering, pension fund management, etc.

Allen (1991) defines professional dominance as the need to "secure and maintain control over its work in the economic, political, social and intellectual spheres" (p. 51).

Professions use various strategies to negotiate and renegotiate their status. As members of a profession, individuals have a special social warrant, not granted to most persons, which permits them, "...to describe their own actions as professional actions, that is, as actions of members of a group that professes to have special knowledge" (May, 1992, p. 100). The extent to which the professional mantle falls on all activities engaged in by the professional depends on workplace and public acceptance. Jurisdictional invasion begins in the workplace and moves to public acceptance and, finally, protection by law. Public accounting exists because private commercial organizations require the public accounting profession to certify them for the investing public (Abbott, 1988, p. 146). This warrant moved from the workplace, to public acceptance, and finally to legal protection in the Securities Acts. However, finance has played equally vital cultural and ideological roles as accounting without coalescing into a traditional profession.

In Abbott's (1988) view, the history and progress of each profession is negotiated in conflict with other professions. For example, accountancy in Britain arose when the legal profession brought in accountants to settle the bankruptcies resulting from the new joint stock companies (p. 25). The accounting profession was able to negotiate a shift of jurisdiction from bankruptcy to auditing, with the help of statutory requirements for audits by public accountants. The accounting profession originated in the United Kingdom as a branch of law practice concerned with corporate bankruptcy (Abbott, 1988, p. 25). Eventually, the profession was able to establish a monopoly position over audits. The areas of cost accounting and governmental accounting have never been professionalized, and taxation has remained an area of mixed jurisdiction. Carey (1970) traces the defense, from the 1930's through the 60's, by the accounting profession of the

right to continue tax practice in the face of determined attack from lawyers seeking to gain exclusive dominion over the area. The issue was finally settled in the accounting profession's favor by the Treasury Department and Congress in 1965 (p. 257).

One of the obstacles to professionalization in finance may be the large amount of internal work differentiation within the profession. Abbott (1988) explains that might indicate that the situation is unstable and can result in the de-professionalization of sub-specialties:

“ The division of labor may reflect intraprofessional status forces; professionally impure work may be given to particular members of a profession. It may also reflect client differentiation. But the most important divisions of labor divide fully professional work into routine and nonroutine elements, with the two falling to different segments of a profession or even to paraprofessionals. Clear examples are the gradual delegation of conveyancing and costing to managing clerks by solicitors and of drafting to draftsmen by architects, ..... In every case, the eventual result has been the degradation of what had been professional work to nonprofessional status, sometimes accompanied by the degradation of those who do the work.” (p. 125-126)

Abbott (1988) notes that for multi-disciplinary professions:

“Professionalization --- in the sense of creating a coherent occupational group with some control of an abstract expertise --- is not impossible. ... But the internal structure of a profession successful under such conditions differs strongly from that of a profession successful under the earlier arrangements of audiences for professional claims. Such professions are more inclusive than medicine and law – including several levels of active professionals. They are much less committed to rigid definition of jurisdiction or membership, since they must be flexible enough to move in directions that enable organizational survival. ... That they do not have full autonomy does not make them less interesting as cases of institutional expertise.” (Abbott, pg. 154.)

One possible explanation for the lack of professionalization in finance is that internal struggles for, say, control of investment banking activities have precluded the external focus needed to establish professional claims.

### **Management as a profession**

Another challenge for the professional project comes from the fact that no one has previously been able to professionalize managerial work. Business management has never been professionalized in the U.S., although bureaucratic management has arguable been professionalized in some European states. Abbott contends that this is because the nature of the managerial task is not amenable to professionalization – management is more of an art than a science as the failures of scientific management (Taylorism) and operations research to dominate American industry shows (p. 148). Freidson (2001, p. 120) points out that “After almost a century of effort in the United States, business schools have not managed to make the MBA a binding prerequisite for managerial positions.” The optimal cognitive basis for professional work consists of tasks that are “sufficiently distinctive to allow drawing of clear jurisdictional boundaries, sufficiently codified that standards for competent performance can be established, and not so standardized that discretionary judgment appears unnecessary” (Freidson, 2001, p. 155). The type of work ... much more flexible and hard to define. It would also be evaluated by the client or purchaser, in terms of outcomes, and one of the key characteristics of professional work is that it can only be evaluated properly by other professionals, as in peer review in auditing firms.

While the MBA is still not a necessary credential for corporate or government management, at least at the higher levels, no one argues that a person can become a controller or a CFO without finance education. Finance, much more so than management, has a discrete body of knowledge with strong scientific background claims which would seem to be amenable to professionalization. So the central question remains unanswered. Possessing so many of the elements of professionalism – discrete body of knowledge, professional work involving judgments, strong institutions and organizations, important public roles, etc. – why has finance not formed classic professions?

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