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How to Decrease Employee Turnover Rates Within Public Accounting Firms

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How to Decrease Employee Turnover Rates Within Public Accounting Firms

Submitted to:
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By
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For:
Chancellor’s Honors Program Thesis
Spring 2016
# Contents

Abstract..................................................................................................................................................3

Section I: Background Information........................................................................................................4

Characteristics of Big 4 Accounting Firms and Their Employees.......................................................7

Women in Public Accounting..................................................................................................................8

Millennials.............................................................................................................................................11

Promotional Structure............................................................................................................................13

Average Age and Salary..........................................................................................................................14

Legislation Affecting the Accounting Profession................................................................................16

Section II: Reasons for Turnover............................................................................................................19

Burnout..................................................................................................................................................19

The Attractiveness of Industry.................................................................................................................20

Leaving Becomes the Norm....................................................................................................................21

Section III: How to Decrease Turnover Rates......................................................................................22

Suggestions for Increased Retention......................................................................................................22

Additional Suggestions: Retaining Millennials ....................................................................................24

Additional Suggestions: Retaining Women...........................................................................................25

Conclusion.............................................................................................................................................26

Works Cited...........................................................................................................................................27
Abstract

All over the country, future college graduates are getting recruited to come work for Big 4 public accounting firms. The allure of a healthy salary post-graduation, the challenge of a demanding career, and the enticing perks that accompany a career in public accounting are a few of the reasons why young people ambitiously choose to join a profession that they know will comprise of long work hours, demanding clients, and a lack of work-life balance. Often, college graduates will enter the workforce excited about the future possibilities, only to find out that public accounting is not what they had in mind for a long term career. Or, they already have a predetermined mindset to work for a few years in order to obtain valuable experience before leaving for another accounting firm or company.

The purpose of this research and analyzation is to explore explanations for why individuals starting out in public accounting typically only make it for a few years. I will be exploring why the turnover rates are so high and the best ways for firms to adjust their organization in order to retain their employees. I will explore the history of public accounting, including specific legislation that has impacted the rigor of work performed. Additionally, I will delve into surveys previously conducted and research written on the opinions regarding the accounting profession. I aim to narrow it down to a few specific reasons that turnover rates are so alarmingly high in public accounting firms, and give suggestions to those firms wishing to reduce high turnover rates within their organization.

Like mentioned above, there are many factors that draw potential employees into a public accounting firm. However, it seems there are multiple influences that encourage public
accountants to withdraw from the illustrious career that once appeared attractive. To understand the reasons behind the high level of employee turnover rates, it is important to understand basic information and statistics existing within the public accounting industry.

Section I: Background Information

Employee turnover describes the rate in which an employer has to replace its employees.¹ There are three main phases regarding an employee life cycle: Attraction to the organization, developing the talent they need in order to execute the business’s strategy, and retention. Retention is related to how successful the organization is at keeping employees who have the best capabilities and produce the highest value while also keeping the general level of turnover low.²

The average cost of replacing an employee who makes less than $50,000 a year equals about 20% of that person’s salary. These costs include productivity losses during training, recruiting, and work that’s lost while that employee’s position is empty.³ It would befit

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organizations to pay attention to these high rates and implement various changes among their organization in an attempt to keep employees around.

According to the 2015 National Benchmarking Report, professional staff turnover rates in accounting firms who make above $75 million averaged 17%, while one in six of them experienced turnover rates above 20%. This turnover among staff has posed a challenge to partners- it forces them to take on certain work that they normally would allocate to other members of the team. This leads to billing rates increasing at a slower rate than staff salaries, ultimately leading to a more prominent pressure to produce at a higher level.4

Listed below are the voluntary turnover rates of various countries from “Trends and Drivers in Workforce Turnover”. The United States has shown increasing rates since the recession, and has the highest rates- at about 13%.

![Graph showing voluntary turnover rates of various countries](http://www.mercer.com/content/dam/mercer/attachments/global/webcasts/trends-and-drivers-of-workforce-turnover-results-from-mercers-2014-turnover-survey.pdf)

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While Figure 1 shows a big-picture scenario among various countries, Figure 2 below drills down to specific industries to show their respective turnover rates. \(^5\) The banking and finance industry has the second largest rate of turnover amongst all industries at 13.3%, which is about 2% higher than the average across all industries (11%). This is noticeably lower than the average turnover rate of public accounting firms (at 17%).

<table>
<thead>
<tr>
<th>2014 Voluntary Turnover</th>
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</thead>
<tbody>
<tr>
<td>All Industries</td>
</tr>
<tr>
<td>Banking &amp; Finance</td>
</tr>
<tr>
<td>Healthcare</td>
</tr>
<tr>
<td>Hospitality</td>
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<tr>
<td>Insurance</td>
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<tr>
<td>Manufacturing &amp; Distribution</td>
</tr>
<tr>
<td>Not-For-Profit</td>
</tr>
<tr>
<td>Services</td>
</tr>
<tr>
<td>Utilities</td>
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</tbody>
</table>


There are various “push and pull” factors that contribute to the excessive voluntary turnover rates within the accounting industry. For example, a pull factor is the attraction of a new job or new experiences. A push factor would be the dissatisfaction with the current job, co-worker, or manager, etc. These factors will be discussed at length throughout this examination.
Businesses must adjust how they encourage loyalty with employees, specifically millennials, or they risk a dwindling workforce. According to Deloitte’s 2016 Millennial Survey, two-thirds of millennials express a desire to leave their organizations by 2020. Companies that are able to understand the reasons that employees wish to leave will have an advantage among their competitors. There seems to be a stereotype regarding the negative characteristics of the accounting profession like those mentioned above—long hours, lack of work-life balance, and a challenging work environment. Because accounting is a public service business, employees make up the most important part of the organization. Investing in strong talent by rewarding and encouraging employees should be a core part of a company’s mission. This investment will aid in retaining the best-performing personnel and ultimately will lead to sustaining the firm within a competitive industry.

**Characteristics of Big 4 Accounting Employees**

The people that make up the Big 4 public accounting firms, which are EY, KPMG, PwC, and Deloitte are among various ages and backgrounds. For example, if you were to plot the ages of EY’s 25,000 US personnel, you would see a barbell-shape. That is, there are a lot of younger people, while the middle aged workers only make up a small portion. According to Mary

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Stringfield, 40% of EY’s workforce is made up of employees younger than 30. To give even more of a background, the average age at PwC is 27, while the average age of KPMG in the UK is 34. Based on these numbers, it’s easy to see that employees at the firms tend to be younger. Recognizing the age of employees within an organization is crucial to be able to cater to employees’ needs and implement necessary changes.

Big 4 firms have already begun to implement various programs incentivizing employees to stay around longer. They have flexible work programs, bonus incentives, mentorship opportunities, and programs set in place to aid in work-life balance. While these initiatives will begin to decrease the turnover rates, there are still ways to improve and drill down to specific issues that need to be addressed. Specifically, businesses will benefit from focusing on the retention of women and millennials in the workforce. Both of these groups make up a large portion of the entrance-level positions in public accounting and need to be catered to in order to have these high numbers preserved. The following research and examination will bring to light several suggestions that will improve the retention of these target groups.

**Women in Public Accounting**

In addition to salaries and average ages within public accounting, it is important to understand the gender and race make-up of the firms. According to the AICPA, women and

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men have been entering the profession in equal numbers, but a higher percentage of males stay around to make partner while women tend to leave the firms at an earlier age.\textsuperscript{10}

Figure 3 below shows there are more women partners in smaller firms. That is, the larger the accounting firm is, the smaller percentage of women making partners.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure3.png}
\caption{Women Partners and Women's Equity Ownership in Accounting Firms by Firm Size.}
\end{figure}

Women are well-represented at entry level positions within accounting firms, but the numbers dwindle as they move up the career ladder. While it is slightly unclear where women go after they leave the larger firms, these statistics suggest that women who don’t advance in larger firms decide to transition to smaller firms, or even create their own business as an

\textsuperscript{10} “Gender Issues and Business Case,” American Institute of Public Accountants (AICPA), http://www.aicpa.org/Career/WomenintheProfession/Pages/GenderIssues.aspx;
alternative. Women have come extremely far in the accounting profession over the years, but this does not mean there aren’t ways to constantly improve retention and happiness within the workplace. Women hold a lot of the talent within accounting firms and it’s crucial to retain this top talent to sustain the industry for the future.

Women have made up about 50% of the new Certified Public Accountants (CPAs) over the past 20 years. Additionally, women are making up 51% of managers within the firm, suggesting that there are many qualified women who have the potential to make partner. The issue is that women seem to “evaporate” from the partnership pipeline and tend to leave public accounting after a few years in order to take advantage of careers in industry or entrepreneurship. Although there are many programs set in place for retention of employees, we need to see more progress and results within the firms to retain employees, particularly high-performing women.

Although there is a significantly smaller number of females who make it to partner level, there is something to be learned from those who have made it the whole way. According to the AICPA, the percentage of partners using flexible work arrangements (FWAs) is largely skewed towards women in larger firms. This suggests that although there are more women partners at

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the small firm level, those at the large firm level take advantage of programs set in place that allow a flexible work schedule. Smaller firms with ad hoc arrangements should consider developing more structured approaches to encourage wider use and large firms should recognize the importance of encouraging their employees to make use of FWAs.\textsuperscript{14}

**Millennials**

Millennials (those born between 1981 and 1997) are a huge generation, even passing Generation X’ers as the largest generation in the workforce. Because of this, it’s vital to know how to relate to millennials in order to entice workers to stay in the firm and to create a sustainable future within a firm. Companies need to figure out the priorities and expectations of this generation in order to cater to them in the most effective way. As a young adult, different priorities are more prevalent than others when compared to someone that has been in the workforce for many years. Time is split between work, family, friends, social life, etc.\textsuperscript{15} This makes it difficult to dedicate every important resource to excel in a career, especially at the beginning.

According to a recent global survey conducted by EY, millennials expect a high level of flexibility within a job. Flexibility is becoming increasingly more important to the current workforce; 80% of millennials said their top reason to stay in a job was competitive pay and


benefits, including flexibility. Additionally, 74% of this generation want colleagues and supervisors who support their being able to work flexibly without stigma. Millennials still want to have the options to have flexible work arrangements while being on track for promotion. Another important factor is parental leave; 86% of US millennials are less likely to quit if paid parental leave is offered. They are twice as likely as Baby Boomers to have a spouse/partner working at least-full time. Consequently, “finding time for me” is the most dominant challenge faced by US millennial parents who are managers.

Figure 4 shows the turnover rates among different generations. Clearly, millennials are not as content to stay in one job as Generation X’ers or Baby Boomers.


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EY has dubbed this huge generation as “Generation Go”; they claim that if companies don’t keep pace with millennials, they could be missing out on top talent within the generation.

**Promotional Structure within Public Accounting**

The promotional structure within public accounting firms is transparent and well-known; you know what you’re getting yourself into from the start. For example, if you were to join an accounting firm as an audit professional, you would expect to start as a staff before moving to a senior auditor a few years later, then becoming an audit manager about 6 years from the time you began with the firm. After the manager position, an employee becomes a senior manager, and then sometime after that is when the coveted partner level is reached. At each of these promotional levels, new experiences lead to new skills and responsibilities that help encourage expertise and increase an employee’s marketability to other firms and companies.

The positions in the beginning of your career, like the promotion from staff to senior to manager is pretty set in stone, unless you either stand out or screw up. The higher up you go in the firm, the less structured it appears (in terms of time). That is, making partner completely depends on your work ethic and accomplishments thus far in your career, instead of mostly

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based on time at the firm. Only 2% of people entering CPA firms will reach this goal; clearly, not many people stick around to try to make it.\(^\text{18}\)

Recent research has revealed that if an employee has plans to leave public accounting, the best time to do it would be after 3-6 years, prior to receiving the title as manager. At this point in an accountant’s career, they have maximized their current position and learned a large amount of relevant and useful information, but they are still able to be molded within a new career.\(^\text{19}\) For example, General Mills typically hires 3-4 seniors from public accounting each year, compared to hiring just one at the manager level every three years. Often times, employees will stick around to hit this threshold, so that their marketability is maximized and they are extremely attractive in the open market.

**Average Age and Salary**

One of the largest pulls to public accounting has to do with the attractive salary offering, especially to those coming straight out of school. Additionally, just as the promotional structure is fairly set in stone, so are the salary increases as you get promoted. Figure 5 shows salaries from the promotional perspective. It also touches on the average raise per position- 17% by average raise.

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For the employees wishing to jump ship after a few years to move on from public accounting, there are many alluring factors to do so. One of the main reasons: a nice increase in salary. Figure 6 compares the salaries for those employees that stay in public accounting as opposed to those who do a “Quick Quit” at year three to go private and also those who quit after one year as manager to go private.
Quitting after year 3 brings a jump in salary that you would be able to enjoy until age 37, or partner level within the Big 4 firms. Leaving public accounting after a year at manager brings an even larger jump in salary after switching careers. This increase in salary at an early point in one’s career is extremely attractive, especially for those who know they don’t have goals to make it through the partner pipeline.

Legislation Affecting the Accounting Profession

There are many factors that have changed the accounting profession over the years. The following is a timeline of various accounting milestones that have affected the industry.

One of the biggest factors affecting the entire accounting profession was Congress’s implementation of the Sarbanes Oxley Act (SOX) in 2002. This was enacted due to various fraudulent activities within corporations and also related to the lack of transparency within large public accounting firms who provided services to these organizations.

One of the contributing frauds was the one associated with Enron Corporation. They were able to find accounting loopholes while using poor financial reporting to hide billions of
dollars of debt within the company. Additionally, their CFO and other high level executives intentionally misled the audit committee and board of directors in regards to various high-risk accounting practices. The company ended up filing for bankruptcy, which led to 20,000 employees losing their jobs and $2 billion in pensions and retirement funds lost.\textsuperscript{20} The accounting firm that audited their financial statements was Arthur Anderson, one of the largest five public firms at the time. They were charged with illegally destroying documents that would’ve aided in the SEC investigation. This voided its license to audit public companies which ultimately led to the demise of the company.\textsuperscript{21}

Very soon after, WorldCom’s executives inflated the earnings in the company as the telecommunications industry began to decline and they became pressured to maintain a high level of earnings. The executives of the company used fraudulent accounting methods like inflating revenues and capitalizing items on the balance sheet instead of adding expenses to the income statement. The total number of assets had been inflated by about $11 billion total, which caused the company to file for bankruptcy in 2002. Arthur Anderson was largely blamed for signing off on financial reports that didn’t accurately reflect the company’s financial position. This large number of assets made this scandal the largest accounting fraud at the time.


The lack of transparency within these companies and their respective audit firms led to the implementation of SOX and other legislation that attempted to increase the confidence in capital markets. One of the specific implications of this new law included Section 404, which requires CPA firms to perform additional audit work on client’s internal control system. This leads to increased audit fees charged for audit services, as well as a shift towards developing more personal relationships with clients to increase transparency. Additionally, audit teams are encouraged to increase interpersonal relationships within the team in order to encourage more honest financial reporting.

The heightened legislation and regulation within the accounting industry could be one of the reasons turnover has increased in recent years. The laws require that the audit teams do more work in order to ensure a successful and honest representation of the company’s financial statements. This increase in work potentially puts more pressure on employees to perform at a higher level in order to satisfy the new laws and regulations concerning financial reporting.

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Section II: Reasons for Turnover

Burnout

So, what exactly causes employees to come into a firm and then leave it a few years later in search of a more suitable career? After a few years in a demanding career, employees often experience a burned out sensation that leaves them wanting to change career paths. This sensation is one of the factors that contribute to the desire to switch career paths to something less demanding. There are three components that make up burnout: emotional exhaustion, reduced personal accomplishment, and depersonalization.24

Of these three components, emotional exhaustion and depersonalization are the most strongly related to job satisfaction and turnover intention. As it may appear, emotional exhaustion stems from an increase in work demands that drain emotional resources; this is the first phase of burnout associated within the workforce. After the increased emotional exhaustion, depersonalization creeps in as a protective coping tactic. Lastly, self-assessment of reduced achievement is the result of the recognition of the inconsistency between expected and actual attitudes.25 These characteristics often lead employees to seek other job opportunities to remedy this burned out sensation.


It is easy to understand how big of a role that burnout can play in the accounting profession, particularly in regards to the busy season. Busy season is typically considered to be the first part of the year until mid-April. This is a time where professionals normally work at least 60 hour, 6 day weeks and is most likely the most challenging stretch of the year. This is a time that really can test a new accounting professional and challenge them into new practicing new ways of handling stress. There are many people who are not suited for the rigor that accompanies this season, thus leading to extended burnout. Firms are aware of these challenging months and actively seek ways to help employees find a balance between work and life. However, firms need to initially change the mantra by encouraging employees from the start to prepare themselves for the busy season. When employees start to prepare earlier, they won’t be so shocked when the challenge arrives. Additionally, offering help to the employees regarding time management and work-life balance will encourage employees to have a positive attitude throughout the season.

The Attractiveness of Industry

As mentioned above, there are several reasons why people choose to begin their career in accounting and then subsequently leave for industry or other career opportunities. Jane Durant, a partner at WinterWyman Search, lists several reasons to go into industry from public accounting. She claims that there are opportunities available at every position. When you come

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out of public accounting, your skills are extremely marketable and usable at any level, whether you worked at a firm for two years or ten years, you will still find a wide range of opportunities. Additionally, there are multiple selections within industry, so you have choices when considering where to work post-public accounting. An additional difference within industry is that you would only have one “client”; you are immersed in an industry and have the chance to become an expert within that sector. Lastly, quality of life is said to improve because your hours are less demanding and compensation has the potential to be better than current pay.  

**Leaving Becomes the Norm**

Another contributing factor to high turnover rates could also be that it becomes be the norm to leave after a few years. That is, many people enter the profession knowing they only want to work a few years for the experience before using their newly padded resume to find a job elsewhere. As evidenced by the charts listed in the “Average Age and Salary” section, there is large opportunity to make more money when switching to another industry after being in public accounting for a few years.

Starting from the recruiting process, it is important to have potential new employees form relationships with long-term employees. This will give the new employees a potential mentor that can encourage the positive characteristics of the accounting profession and help the new employee visualize themselves staying at the firm longer than originally planned.

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If organizations were to begin the mentor process from the beginning of a person’s career, it would be a way to foster new ideals and stereotypes with the profession. It could change the way people think of the career as a whole, while also changing their expectation in terms of career goals within the firm. Fostering the mentor-mentee relationship should be the focus of accounting firms so that employees can begin to see the worth in staying in public accounting long-term.

Section III: How to Decrease Turnover Rates

Taking into account the research presented about burnout, women and millennials in public accounting, legislation affecting the accounting profession, and the attractiveness of industry and other opportunities, it is now time to discuss ways to combat these issues within the firms.

Main suggestions for increased retention

First, it is important to recruit employees who will be enjoyable people to work with, in order to foster a positive work culture. Establishing the mindset from the get-go with these new employees is crucial to maintaining a long-term relationship with them. Firms need to request that those long-term employees undertake a mentorship role and be involved in the lives of the younger employees so that the new employees have an example of someone with a long career in accounting. Going hand in hand with mentorship roles, it is important to change the stereotype of those expecting to come in and work a few incredibly tough years just so they can turn around to an industry job to make more money. Establishing examples within the firm of
those who have experienced longevity within the company will ultimately help change this stereotype.

One of the most important factors in retention success has to do with promoting a culture within the firm that is focused on its people. When employees experience a positive, welcoming culture, they are less likely to leave for another job. In order for the culture of an organization to be positive and encouraging, the positivity must start with the top of a company. Establishing a positive philosophy at the top of an organization leads to integration among all levels of the organization, thus maintaining a culture that employees want to be involved in. Firms should look at employee retention as an integral part of firm culture, not as a separate initiative.\textsuperscript{28} Once this mindset is established within an organization, firms will be able to retain employees at a higher rate.

Next, there is a perceived stereotype regarding busy season and the extreme stress it can put on a person. While firms have already made strides in improving the work-life balance among the organization during this stressful time, they need to make sure they’re catering to every employee, not just the masses. Each person deals with stress differently, which also means they need different methods to cope with pressure and anxiety. For example, some employees have children and other family members at home that they want to prioritize during work. Other employees wish to have more “time for me” in order to destress and wind down,

while others enjoy social activities to combat the pressure of the job. Whatever the coping mechanism may be, firms need to recognize these techniques and ensure they’re personalizing a strategy for each person to obtain a healthy work-life balance. When an employee has the opportunity to find the balance amongst a hectic work season, they are more likely to stay at the organization.

Additional Suggestions: Retaining Millennials

Next, firms need to put in place various programs that cater to millennials in order to appeal to this huge working generation. For example, millennials show a huge desire for flexible work options.29 Fostering a culture where flexibility is a viable option would ensure that the work culture is one that is inviting and positive, thus leading to a larger draw to the career and higher retention rates. Accounting firms have already made big moves attempting to retain this generation. However, it is important to continue improving these changes in order to cater to the large influx of millennials in the workforce. While those wishing to enter public accounting have an idea of how challenging and demanding the career can be, there’s still a way to balance out the hardships within this demanding profession.

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Additional Suggestions: Retaining Women in the Workforce

It is important to continue researching and educating firms and employees on the reasons behind turnover—whether it be due to perceived gender differences or characteristics within the accounting firms that lead to burnout. To ensure that this research and education is relevant, it is vital to get men and women working together to search for solutions. Obtaining various opinions from different perspectives will lead to the joint effort of improving conditions within the workforce. For example, the American Institute of CPAs (AICPA) has created a Women’s Initiatives Executive Committee (WIEC), made up of men and women who are engaged in a variety of activities to help women in the accounting profession obtain higher leadership positions, while also engaging men and women equally. The WIEC works on putting together workshops that educate firms on an organizational strategy to recruit, retain, and maximize women leaders. Resources like these programs encourage women in the workforce and help shape the roles of women within their careers.

In order to continually combat women leaving the workforce, it is important to continue the creation of programs and resources targeted at women, opening the door for growth and the ability to stay in public accounting. It’s important for an organization to structure their company so that they can withstand the challenges and avoid losing strong talent.

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Conclusion

The accounting profession is one that proves to be challenging, regardless of what position or promotional level you are at. It’s challenging but necessary to find the balance in a career that presents obstacles and high levels of pressure. This ensures that while working a tough job, there are still opportunities to feel personally rewarded and content. Employers must take it upon themselves to make sure employees feel incentivized and rewarded within their occupation.

Creating a positive work culture gives employees more of a reason to stay around and take advantage of the opportunities offered within public accounting industry. Additionally, firms need to integrate employee retention into their overall company mission and goals so that turnover fees are decreased, and top talent remains in the firm.

Public accounting is not suited for everyone; however, it is crucial to cater to those employees who are best fit for the occupation by prioritizing employees as the number one resource within a public accounting company. Establishing this mindset will ultimately lead to fostering a culture within the company that is inviting and encourages longevity within the firm.
Works Cited


