Interpreting Producer Service Suburbanization: The Public Accounting Industry in Chicago and Minneapolis-St. Paul

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INTERPRETING PRODUCER SERVICE SUBURBANIZATION: 
THE PUBLIC ACCOUNTING INDUSTRY IN CHICAGO 
AND MINNEAPOLIS–ST. PAUL

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Abstract: For some analysts the suburban expansion of producer services is evidence that suburbs have come to replace cities as centers of highly advanced activities. Others maintain that city and suburban producer services remain distinct, with the most advanced producer services bound to the urban core by agglomeration economies. This paper examines these conflicting views of suburbanization via an analysis of the intrametropolitan location of public accounting employment, establishments, and activities in Chicago and the Twin Cities. Specifically, it seeks to determine if an intrametropolitan spatial division of labor exists within the industry and assesses the role of proximity and face-to-face contact in the location and production of public accounting services. Findings indicate both readings of producer service suburbanization are overly simplistic with respect to public accounting and illustrate that the benefits of proximity and spatial clustering are not confined to a particular district or jurisdiction but are broader in scope. [Key words: producer services, public accounting, suburbanization, proximity.]

Although producer services remain highly concentrated in central cities, in recent decades suburbs have increased their share of employment in the sector (Stanback, 1991; McDonald and Prather, 1994; Forstall and Greene, 1997; Harrington and Campbell, 1997; Gong and Wheeler, 2002). In interpreting these spatial trends, researchers have come to starkly different conclusions. For some analysts, the suburban expansion of producer services is evidence that suburbs have captured highly advanced economic activities once the exclusive domain of the city. These new employment centers, they contend, have become self-sufficient economic entities independent of an increasingly marginal urban core (Fishman, 1987; Hartshorn and Muller, 1989; Garreau, 1991).

Others, while acknowledging that suburbs have come to outweigh central cities in terms of total economic activity, emphasize the differences between city and suburban producer service jobs. Only the specialized producer service complexes available in cities provide the diverse array of services needed to handle the most complicated corporate

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needs. Suburban producer service activity is limited to low-wage, back-office functions and the activities of small firms and branch offices oriented toward local markets and households (Hoover and Vernon, 1959; Gad, 1979; Stanback, 1991; Schwartz, 1993; Sassen, 1994; Ihlanfeldt, 1995; Bailly, 2004).

This paper empirically examines these conflicting readings of producer service suburbanization via an analysis of the intrametropolitan location of public accounting employment, establishments, and activities in the Chicago and Minneapolis–St. Paul regions. Specifically, the goals of this paper are twofold. First, it tests the front-office/back-office dichotomy to see if an intrametropolitan spatial division of labor exists within the public accounting industry. Second, it assesses the role of proximity and face-to-face contact in the location and production of public accounting services. To the extent that proximity is important, it explores the territorial dimensions of agglomeration economies to determine whether the benefits of proximity and spatial clustering are localized within metropolitan areas or extend throughout regions.

Relying on secondary data, a telephone survey of public accounting offices, and interviews with public accounting executives and industry experts, findings indicate that both readings of producer service suburbanization are overly simplistic and present a more nuanced appraisal of public accounting location. While there is some evidence to suggest that city-based public accounting activities are more advanced, suburban activities are not relegated to the routine or unsophisticated. Findings further illustrate that the benefits of proximity and spatial clustering are not confined to a particular district or jurisdiction, such as the CBD or central city, but are regional in scope. The regional nature of agglomeration economies has provided accounting offices considerable locational freedom within metropolitan regions, enabling the suburbanization of some advanced public accounting functions. Although this research focuses on public accounting, findings provide important insights useful in exploring the intrametropolitan spatial division of labor and locational dynamics of producer services more generally.

To begin, I review the interpretations of producer service suburbanization presented above, focusing on three key themes in the literature: the emergence of edge cities; the existence of an intrametropolitan spatial division of labor within producer services; and the role of proximity and face-to-face contact in producer service location and production. From there I briefly describe my data and methodology and present the findings of my analysis. I conclude by summarizing my key findings and discussing the importance of this research.

PRODUCER SERVICE SUBURBANIZATION: REPLACING THE URBAN CORE?

Researchers have long considered producer services to be traditional city industries bound to the city by agglomeration economies unique to the urban core (Warf, 2000). According to this view, firms are willing to bear the higher costs associated with a downtown location to be in close spatial proximity to clients, suppliers, and ancillary services and access the dense web of information and knowledge created and exchanged in the central city (Jacobs, 1969; Warf, 2000; Coffey and Shearmur, 2002). While research on the intrametropolitan location of producer services is a relatively new phenomenon (Coffey, 2000), the notion of producer services as city industries and the importance of
agglomeration economies in explaining their intrametropolitan location traces back to the early work on office location.

Despite the post-war suburbanization of population and employment, office-based activities remained firmly entrenched in the central city. As the urban employment base shifted away from manufacturing, producer services, the key office-using sector, became the hallmark of the city. Hoover and Vernon (1959), in their pioneering study of the downtown clustering of office activities in the New York metropolitan region, theorized that the primary advantage of a dense, urban location is the opportunity for frequent face-to-face interaction with clients and other service providers.

Office-based activities in general and producer services in particular hardly proved impervious to suburban pull factors. Lower rent levels, ample parking, and easy access to suburban office workers loosened the grip of the city. In the 1970s, office-based employment began to decentralize as suburban office parks sprouted up along highway growth corridors (Baerwald, 1978; Hughes and Sternlieb, 1986; Sternlieb and Hughes, 1988). By the 1980s, suburbs accounted for the majority of office space in the United States (Hughes and Sternlieb, 1986) and had developed significant concentrations of producer service jobs (Stanback, 1991). As regions matured from their traditional monocentric form to one of polycentricity (Hartshorn and Muller, 1989), some analysts disputed the notion that agglomeration economies favor cities arguing instead that edge cities or suburban downtowns provide the same if not better opportunities for spatial clustering and information exchange without the disamenities of a downtown location (Fishman, 1987; Hartshorn and Muller, 1989; Garreau, 1991; Beauregard, 1995). As a result, analysts argue, suburbs have come to rival or replace a declining urban core (Ihlenfeldt, 1995).

Spurred on by Garreau’s (1991) widely read book and the resulting wave of interest in edge cities, numerous analyses of suburban employment centers have revealed further evidence of producer service decentralization (McDonald and Prather, 1994; Forstall and Greene, 1997; Harrington and Campbell, 1997; Gong and Wheeler, 2002) and identified suburban producer service concentrations (Fuji and Hartshorn, 1995; Stafford et al., 1997; Bogart and Ferry, 1999). In documenting and describing suburban employment centers, this literature bolsters a key argument of the edge-city thesis; suburbs can accommodate producer service activities “once believed to be the geographically immovable bastions of downtown enterprise” (Hartshorn and Muller, 1989, p. 383). Yet with few exceptions this body of work focuses on the number of producer service jobs, paying little attention to function, rendering the notion that cities have lost their advantage in attracting and retaining the most advanced producer service positions empirically untested.

The edge-city thesis is further limited by the assumption that the suburbanization of producer services signals the decline of the central city. Coffey, Polèse, and Drolet (1996), in their research on the spatial dynamics of producer services in the Montreal region, show that the expansion of producer service employment in the suburbs may reflect a strong and increasingly specialized central city that is unable to accommodate all of the growth of a rapidly expanding sector. Results of another study by Coffey, Drolet, and Polèse (1996) found only modest movements of producer service jobs and establishments from the CBD to suburban office centers, indicating that decentralization is the result of the development of new office establishments in the suburbs, not an absolute weakening of the central city.
While Montreal in many respects represents an atypical case, findings from Île-de-France (Halbert, 2004) and Sydney (Freestone and Murphy, 1998) indicate that although decentralization away from downtowns is occurring, the CBD is not necessarily losing its predominance as a producer service center. Gong and Wheeler (2002) found evidence of simultaneous suburban and central city growth in their analysis of the location and suburbanization of business and professional services in metropolitan Atlanta. Although the city of Atlanta experienced a relative weakening in business and producer services between 1982 and 1997, the central city added jobs and establishments in all business and producer service sectors except credit reporting and collection, and services to buildings. In cases where the central city continues to grow but at a slower rate than the suburbs, the growth differential may be due to a relatively small suburban employment base from which the suburban growth rate is calculated (Harrington and Campbell, 1997).

AGGLOMERATION ECONOMIES AND AN INTRAMETROPOLITAN SPATIAL DIVISION OF LABOR

Hoover and Vernon (1959), writing prior to the decentralization of office employment, recognized its inevitable suburban expansion. They speculated however, that only routine or standardized operations would “peel off” from the central city while the most information and knowledge intensive functions requiring face-to-face contact, co-production, and the exchange of ideas and know-how would remain rooted in the urban core. Hoover and Vernon’s speculation is premised on the idea that face-to-face interaction and information exchange can occur with more immediacy and at lower costs in the central city where distances between firms are the shortest (Ihlanfeldt, 1995). Many analysts have since utilized their conceptual framework to explain office decentralization and later, producer service suburbanization, creating a front-office/back-office distinction between central city and suburban functions (Gad, 1979; Ó hUallacháin and Reid, 1992; Bailly, 2004).

Recent work in the field of innovation studies, which builds on the efforts of Hoover and Vernon (1959) among others, examines the role of proximity and agglomeration economies in urban and regional development. Within this framework, knowledge is the most crucial asset in fostering innovation. Much of the knowledge external to firms is transferred via face-to-face contact facilitated by geographical proximity and the clustering of firms and supporting institutions (Simmie, 2001). Although the research in this area is not concerned with producer services per se, producer services are important components in innovative milieus, as they can originate innovation and foster product and process innovations in client firms (Marshall and Wood, 1995; MacPherson, 1997; Crevoisier, 2004).

The suburbanization of producer services is likely more advanced in the U.S. than in Canada given that Canadian cities have not faced the same economic and social conditions that have prompted urban decline and decentralization in the U.S. (Garreau, 1991; Stanback, 1991; Coffey et al., 1996; Coffey and Shearmur, 2002). As Coffey and Shearmur (2002, p. 7) contend, Montreal is likely exceptional within the Canadian context as well. Compared to Toronto and Vancouver, Montreal is the least oriented toward the automobile and urban sprawl; has the highest percentage of metropolitan residents living in the central city; and is the only region of the three that never implemented an explicit office decentralization policy.
While analysts have utilized numerous spatial scales to study “innovative milieux,” “clusters,” and “regional innovation systems” (Doloreux and Parto, 2004), some use the city as their unit of analysis, focusing on the characteristics of cities that foster innovative behavior in firms (Crevoisier and Camagni, 2001; Simmie, 2001). These characteristics include the tight, physical proximity of cities, which allows for interaction among local actors. Another related feature of cities conducive to innovation is the relational synergy stemming from their complex and diverse economies (Crevoisier, 2004). Diversity is key to innovation, as it increases the opportunity for interaction among actors in the same or different industries and draws a labor force with a broad mix of skills including professional and technical skills conducive to working with emerging technologies (Harrison et al., 1996). Cities can also facilitate “time proximity” to global markets. Urban transportation and telecommunications infrastructure connect the local to the global, allowing innovators to easily access international clients and contacts (Simmie, 2001). Although the work on urban milieus does not address the intrametropolitan spatial division of labor in producer services, it supports the idea that cities foster the generation and exchange of knowledge and information essential in the production of advanced, nonstandardized activities.

Sassen (1991, 1994), utilizing a world systems framework rather than theories of innovation, reaches a conclusion similar to Hoover and Vernon (1959). She argues that qualitative differences in city and suburban producer service functions have resulted in an intrametropolitan spatial division of labor (Sassen, 1991, 1994). Massey (1984) first advanced the principle of a spatial division of labor to explain the separation of control and routine production functions on an interregional scale. The concept was later adopted to explain the physical separation of control and production within the service sector (Christopherson, 1989), the concentration of highly specialized producer services in global cities (Sassen, 1991), and the decentralization of back-office functions to less developed countries (Coffey, 1996b). Applied on the intrametropolitan scale, only cities have the social and cultural milieu, dense information linkages, and prestige necessary to support the most advanced producer services, while suburban activity is limited to routine back-office functions such as data processing.

The general assumption underlying the front-office/back-office conceptualization is that agglomeration economies are unique to cities and suburban-based producer services are not as dependent on inter-firm transactions and knowledge spillovers. Yet most of the literature on the intrametropolitan location of producer services merely deduces needs and preferences from spatial outcomes without investigating them directly. To assume that producer service establishments locate in cities to reap the benefits of agglomeration economies, either in terms of information exchange or input–output linkages, and argue that city-based producer services are more advanced than their suburban counterparts precisely because of their supposed reliance on agglomeration economies is, of course, tautological.

“Advanced” or “high-order” producer services are often defined as those services requiring high levels of knowledge and qualification (Shearmur and Alvergne, 2002). Yet this definition is rarely operationalized in the literature, due possibly to the lack of detailed occupational data available at the local and regional levels. Analysts have instead tended to identify advanced or high-order services via broad sectoral or industry aggregations. However, as Halbert (2004) points out, even in knowledge-intensive sectors or
industries, not all employees are highly qualified professionals. As a result, definitional limitations have resulted in studies that do not rigorously analyze service functions or allow meaningful comparisons of city and suburban producer service activities.

A few accounts are notable for their efforts to compare city and suburban producer service functions. Stanback (1991) evaluates city and suburban jobs by comparing average city and suburban per capita pay levels. Results indicate that average city pay is higher than suburban pay in financial and business-related services. For Stanback, this disparity reflects a “significant difference in mix of activities between suburbs and cities with suburban firms engaged principally in routine operations associated with serving residents or back-office activities, whereas central city operations include a heavier mix of high value-added functions” (1991, p. 41). However, because Stanback utilizes broad employment categories, his analysis suffers from the definitional limitations noted above. It is unclear if the pay gap is due to differences in the mix of producer service industries in cities and suburbs (e.g., advertising versus computer systems design), the mix of functions within particular industries (e.g., auditing versus bookkeeping), or some combination of the two.

Using an alternative measure to compare city and suburban producer services, Schwartz (1993, 1994) analyzes the spatial linkages between the corporate headquarters of major public and private corporations and their financial and producer services suppliers. He found that major corporations, whether located in cities or suburbs, rarely hire suburban-based firms to meet their specialized service needs, relying instead on city establishments. Rather than rival cities as producer service providers, Schwartz concludes that suburbs remain subservient, with large suburban companies depending on central city firms for financial and professional services. Schwartz (1992) also compares the degree to which city and suburban firms serve extra-regional markets. He finds that suburban firms are oriented primarily toward local markets and rarely supply firms outside of the metropolitan area. Building on the work of Stanback (1991) and Schwartz (1992, 1993, 1994), this research endeavors to better understand the nature of producer service suburbanization via a comparison of city and suburban producer service activities in a particular producer service industry, public accounting.

CONCENTRATION OR DISPERAL? THE IMPORTANCE OF PROXIMITY AND FACE-TO-FACE CONTACT

Another theme in the literature on producer services and metropolitan restructuring focuses on whether the suburbanization of economic activity has resulted in polycentric or dispersed spatial configurations. While empirical research on suburban employment centers reinforces the notion of polycentric metropolitan forms (Freestone and Murphy, 1998), Gordon and Richardson’s (1996) examination of employment trends in Los Angeles supports an alternative view. Although Los Angeles is generally considered to be the “prototypical polycentric metropolitan region” (Gordon and Richardson, 1996, p. 289), they found that employment growth between 1970 and 1990 did not cluster in established suburban subcenters but followed a pattern of generalized dispersion.

Numerous researchers, using various methodological approaches, have investigated the competing theories of polycentricity and dispersion with respect to producer services and office development in North America, Europe, and Australia. Lang’s (2003) analysis
of the distribution of office space in 13 of the U.S.’s largest office markets lends some support for Gordon and Richardson’s (1996) findings. Lang found that new office development has scattered haphazardly across metropolitan regions and that office sprawl, not edge cities, is the true competitor to the CBD. Other studies indicate that polycentricity more accurately describes producer service decentralization in Montreal (Coffey and Shearmur, 2001) and Île-de-France (Boiteux-Orain and Guillain, 2004; Halbert, 2004), and suburban office development in Toronto (Charney, 2005). Freestone and Murphy (1998), in their examination of office-based activities in Sydney, found that while decentralization is indeed occurring, suburban centers tend to be smaller and farther away from established nodes than U.S. edge cities. Rather than point to a universal trend in metropolitan form, the mixed empirical results suggest a more complex reality shaped by institutional structure, government policy, unique geographical features, culture, and history (Freestone and Murphy, 1998; Pfister et al., 2000; Shearmur and Coffey, 2002; Bailly, 2004; Charney, 2005). At the heart of the debate between polycentricity and dispersion, and central to this research, is the role of proximity and face-to-face contact in the location and production of producer services.

Given the network and nature of relationships in which producer service establishments engage, numerous theorists emphasize the importance of face-to-face interaction and proximity in explaining their concentration in the largest metropolitan regions and their tendency toward central city clustering (Coffey and Bailly, 1991; Moulaert and Daniels, 1991; Sassen, 1991; Stanback, 1991; Warf, 2000; Coffey and Shearmur, 2002; Boiteux-Orain and Guillain, 2004). Yet advances in information and communication technologies have prompted others to challenge the significance of proximity and face-to-face interaction in maintaining inter-firm relationships and sharing knowledge. Pascal (1987), for instance, asserts that such advances have made communication and the exchange of information possible without the need for face-to-face contact. As a result, producer service functions that had once required a dense location can take place anywhere. While claims that technological innovations have reduced the need for clustering are persuasive, others maintain that spatial proximity and face-to-face contact remain important for highly complex, nonstandardized producer service functions (Leyshon and Thrift, 1997; Beyers, 2000). In such instances, technology merely acts as a complement to, rather than substitute for, face-to-face interactions (Coffey, 1996a; Leyshon and Thrift, 1997; Beyers, 2000).

Boiteux-Orain and Guillain (2004) explore the impact of information and communication technologies on the distribution of producer service activities in Île-de-France. Rather than provide direct measures of the importance of face-to-face contact in the location and production of producer services, they use the pattern of producer service decentralization (polycentric or scattered) as an indicator of the role of proximity in facilitating information exchanges. From their findings that new clusters of high-order services have formed in the periphery, they deduce that face-to-face contacts remain an important location factor for producer service activities. Their analysis provides a rich account of producer service suburbanization in France. Yet, like much of the research on agglomeration economies and spatial clustering, it is based on the presumption that firms co-locate to take advantage of local linkages and the exchange of localized information and knowledge without examining the distributions of firms within an agglomeration or their contact behavior (Daniels, 1985).
Although spatial clustering presents the potential for close interaction between firms, research on innovation and agglomeration suggests that inter-firm interdependence within a cluster may be limited (Simmie, 1998; Britton, 2003). Britton (2003), in his study of Toronto’s electronics cluster, found that firms rely heavily on interregional and international networks for knowledge inputs dispelling the notion that the knowledge embedded in local production networks is the primary source of regional innovation and reason for co-location. Simmie (1998) likewise discovered only modest dependence on local knowledge and information inputs in his analysis of innovative firms in Hertfordshire County, England. Rather, the clustering of innovative firms is due to proximity to key government clients, the region’s high-capacity telecommunications and transportation networks, the availability of highly skilled labor, and access to capital.

Among the knowledge and information inputs that necessitate physical proximity, Simmie (1998) found that they are more often located in London, not Hertfordshire County, suggesting that the benefits from clustering operate at the regional, not the local level. These findings highlight the ambiguity regarding the territorial dimensions of agglomeration economies evident in the research on regional innovative systems (Doloreux and Parto, 2004) as well as the work on producer services (Schwartz, 1992). In addition to comparing the complexity of city- and suburban-based public accounting services, I examine the importance of proximity and face-to-face contact in their location and production. To the extent that proximity remains important, I explore whether the benefits of proximity and spatial clustering are confined to a particular district or city or are regional in scope.

DATA AND METHODOLOGY

Producer services cover a wide range of industries that vary in composition, organization, and market orientation, and thus exhibit different locational patterns (Shearmur and Alvergne, 2002). As a result, producer services can best be evaluated at a highly disaggregated level. In comparing city and suburban producer service functions, this research focuses on a particular industry, public accounting.

The U.S. Census Bureau identifies the public accounting industry as “establishments of accountants that are certified to audit the accounting records of public and private organizations and to attest to compliance with generally accepted accounting practices” (U.S. Bureau of the Census, 2000). Under the North American Classification System (NAICS), public accounting establishments are included in the accounting, tax preparation, bookkeeping, and payroll services industry group (NAICS 5412) along with three other industries: tax return preparation services (NAICS 541213), payroll services (NAICS 541214), and other accounting services (NAICS 541219). In 1997, there were a total of 53,651 public accounting offices nationwide with 389,340 employees, annual receipts of $38.6 billion, and an annual payroll of more than $15 billion (U.S. Bureau of the Census, 1997).

The accounting profession gained prominence in the United States with the implementation of the 1933 and 1934 Federal Securities Acts. Under the Acts, the newly created Securities and Exchange Commission (SEC) required independent audits of all publicly held companies. At a time when the nation was struggling to emerge from the depths of the Great Depression, independent audits were a means of improving financial reports.
and protecting the interests of the investing public. The SEC designated public accountants to fill the mandated auditing functions, elevating their role from information gatherers that kept accounts to watchdogs for the public interest (Alimena, 2000).

Public accounting is a relevant producer service industry to study within the context of producer service suburbanization for two primary reasons. First, despite the suburbanization of producer services, employment in the industry remains highly concentrated in cities. Within 20 of the most populated metropolitan regions in 1997, 55% of jobs in public accounting were concentrated in central cities, compared to only 29% of total employment.\(^4\) As in other producer service industries, increased competition has precipitated structural changes within public accounting, most notably the unbundling or outsourcing of activities (Daniels et al., 1988), increased co-production or collaboration with other types of producer service providers, and the formation of alliances within the industry (Sen, 1997; Reeb, 1999; Thomas and Parish, 1999). The need for face-to-face interaction with clients, collaborators, and subcontractors is thought to reinforce long-established patterns of central city clustering. Second, despite the significance of public accounting to the producer service sector and local and regional economies more generally (Beyers and Lindahl, 1996), there has been little investigation of the industry’s spatial distribution and locational needs.\(^5\)

To compare the complexity of city and suburban public accounting activities, I employ a multi-dimensional approach and examine nine measures of producer service function: average pay per employee; office size (measured by the number of full-time employees); the intrametropolitan location of offices of the Big Five (now the “Big Four” with the closure of Arthur Anderson’s auditing practice); employee type (the share of accounting and non-accounting professionals versus administrative workers); average sales-per-employee; the propensity to export; export intensity; whether offices serve households; and the share of total revenue obtained from household clients.

First, using data from the Economic Census for 1997, I compare average public accounting pay per employee in cities and suburbs within 20 of the most populated metropolitan regions on two levels: within the public accounting industry group and within the public accounting industry. This approach provides the context for a more spatially disaggregated examination of pay per employee in the cities and suburban employment centers of Chicago and the Twin Cities.

\(^4\)Calculated by author from Economic Census Data, U.S. Census Bureau, 1997. In each metropolitan region I designated the most populated city as the “central city” and the area outside of the city as the “suburbs” except in the Washington–Baltimore and San Francisco–Oakland–San Jose CMSAs. In those regions I designated the second most populated cities (Washington, DC, and San Francisco) as the “central city” because they have considerably more workers employed within their boundaries than the most populated cities of the region (Baltimore and San Jose).

\(^5\)The lack of research on the industry may be due to the fact that the Census Bureau has only recently begun reporting separately on public accounting with the adoption of the NAICS. Under NAICS, public accounting establishments are listed in a newly recognized industry, offices of certified public accountants (NAICS 541211). Prior to NAICS conversion, public accounting establishments were included in the accounting, auditing and bookkeeping services industry group (SIC 872) making it impossible to differentiate between establishments that provided accounting and auditing services from those which offered tax return preparation, bookkeeping and payroll processing services as their primary function.
I supplement payroll data from the Economic Census with information from Dun and Bradstreet Information Services, a telephone survey of public accounting offices with 10 or more full-time employees in the study areas, and interviews with survey respondents and industry experts. Survey and interview data are also used to assess the importance of proximity and face-to-face contact in the location and production of public accounting services. The survey questionnaire was directed to the managing partner or CEO in each establishment and included 62 questions organized around six main topics or themes: basic office characteristics; office location; services provided; the geographic distribution of office revenue; subcontracting arrangements; and inter-firm collaboration. I completed a total 72 usable responses, resulting in a 34.8% response rate. The response rate is quite good given the proprietary nature of the information sought and participation of high-ranking individuals. Furthermore, it compares favorably to similar surveys of public accounting establishments (Kuechler, 1997; Sen, 1997). Chi-squared analysis indicated no significant differences between the sample population and respondents in terms of establishment size or intrametropolitan location.

Chicago and Minneapolis–St. Paul are pertinent regions to study given their well-developed networks of producer services, particularly public accounting. Nationally, Chicago and Minneapolis–St. Paul rank 3rd and 13th respectively in terms of public accounting employment and 2nd and 3rd in terms of the headquarters of leading public accounting firms. Whereas Chicago represents a world city given its role in the international economy vis-à-vis its financial institutions (Abu-Lughod, 1999), Minneapolis–St. Paul belongs to the second-tier of the U.S. urban hierarchy as a regional producer service center for the upper Midwest and the headquarters of numerous corporations including General Mills, 3M, and Target.

Also an important criterion in selection, both regions have experienced high levels of employment suburbanization. In the Chicago area, suburban DuPage County added over 550,000 new jobs between 1970 and 2000, an expansion of nearly 350% (U.S. Bureau of Economic Analysis, 2002). Much of the job development has occurred in suburban communities positioned along I-88 from Oak Brook, located approximately 16 miles from Chicago’s CBD, westward to Naperville. During this period, employment also grew substantially around O’Hare International Airport in the communities of Des Plaines, Elmhurst, and Elk Grove Village, and in the suburbs of north and northwest Cook County, particularly Arlington Heights, Northbrook, and Schaumberg.

Suburban employment expansion in the Twin Cities, well under way in the 1960s and 1970s, accelerated rapidly in the 1980s. During this decade, the bulk of the region’s job growth occurred in developing suburbs west and south of Minneapolis, with employment...
gains particularly strong in the communities of Eden Prairie, Minnetonka, and Plymouth (Orfield, 1997, p. 67). Suburbs continued to capture much of the region’s growth through the 1990s. Again, Eden Prairie, Minnetonka, and Plymouth showed the fastest rates of growth while Bloomington, home of the nation’s largest enclosed shopping center, The Mall of America, captured the largest absolute gains, adding over 15,000 new jobs (Metropolitan Council, 2002). Although the City of Minneapolis likewise exhibited strong employment growth in the 1990s, it continued to lose ground to its suburbs. For St. Paul, which experienced only modest employment increases, the relative loss in its employment share was even greater.

FINDINGS

Are Central City Accounting Functions More Advanced?

Average pay per employee. To compare the type and quality of city and suburban accounting jobs, I calculated pay per employee for cities and suburbs and city/suburban pay per employee ratios. The implicit hypothesis is that relatively high levels of pay per employee reflect the greater use of highly skilled workers and full-time employees and thus more sophisticated producer service activities (Stanback, 1991). Within the accounting industry group, an intrametropolitan division of labor exists on two levels: among industries within accounting, tax preparation, bookkeeping and payroll services; and among public accounting employees. Among the industries in accounting, tax preparation, bookkeeping, and payroll services, the most urbanized industry, offices of certified public accountants, supports the highest level of pay per employee. In contrast, the most suburbanized, tax preparation services, boasts the lowest (Table 1).  

A spatial division of labor exists within public accounting as well. Public accounting employees who work in cities make, on average, 25% more than their suburban-based counterparts. The ratio of city to suburban pay per employee in public accounting (1.25) exceeds the ratio for all industries (1.11), indicating that the differences in public accounting pay per employee are not merely a reflection of the costs associated with doing business in cities or the expenses incurred commuting between cities and suburbs. Rather, the pay gap reveals differences in the type of work performed and/or skill level and tenure (full time vs. part time) of the workers employed.

A wage difference between city and suburban accounting activities also exists in Chicago and the Twin Cities. In these regions, suburban employees earn 87 and 85% of workers in Chicago and Minneapolis (Tables 2 and 3). However, by designating all of the area outside of Chicago, Minneapolis, and St. Paul as “suburban,” this analysis, like Stanback’s (1991), fails to acknowledge the diversity of suburban communities present in metropolitan regions and obfuscates the possibility that highly specialized public accounting subcenters have emerged outside of the urban core. In an attempt to address

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8The relatively low level of pay-per-employee in tax preparation services reflects both the seasonal nature of work in the industry and the industry’s final demand orientation.
these limitations, I also compare the distribution of pay per employee in the cities and primary suburban employment centers of the two regions.9

A more spatially disaggregated analysis illustrates that there exist suburban municipalities in which public accounting employees are at near pay parity with those working in the city. Significantly, public accounting pay per employee is actually higher in Arlington Heights, Skokie, Northbrook, and Elmhurst in the Chicago region and Edina in the Twin Cities. The municipal-level spatial classification employed here is not without its limitations. A comparison of suburban municipalities with city locations of similar size may have yielded different results, perhaps revealing city locations with still higher levels of pay per employee.10 Yet this level of analysis is sufficiently detailed to illustrate that the front-office/back-office distinction is overly simplistic; well-paid public accounting positions can and do exist outside of the central city.

Office size. Within the industry, firm size is strongly related to client size and the number of publicly traded clients. The largest public accounting firms, and by extension offices, count the biggest, most prominent companies amongst their clients and serve the largest number of publicly traded firms (Public Accounting Report, 1994). Larger clients demand an array of more sophisticated audit, tax, and consulting services while smaller clients tend to require little beyond the basic tax and compliance work.

<table>
<thead>
<tr>
<th>NAICS code</th>
<th>Description</th>
<th>Average % of employment in the central city</th>
<th>Average pay per employee Central city (in $1,000s)</th>
<th>Suburbs (in $1,000s)</th>
<th>CC/suburbs</th>
</tr>
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<tbody>
<tr>
<td>5412</td>
<td>Accounting, tax prep., bookkeeping, and payroll services</td>
<td>29.4</td>
<td>27.3</td>
<td>24.7</td>
<td>1.11</td>
</tr>
<tr>
<td>541211</td>
<td>Offices of certified public accountants</td>
<td>42.4</td>
<td>33.3</td>
<td>22.9</td>
<td>1.45</td>
</tr>
<tr>
<td>541213</td>
<td>Tax return preparation services</td>
<td>55.0</td>
<td>42.1</td>
<td>33.8</td>
<td>1.25</td>
</tr>
<tr>
<td>541214</td>
<td>Payroll services</td>
<td>22.7</td>
<td>6.2</td>
<td>5.4</td>
<td>1.16</td>
</tr>
<tr>
<td>541219</td>
<td>Other accounting services</td>
<td>34.9</td>
<td>29.2</td>
<td>24.1</td>
<td>1.22</td>
</tr>
<tr>
<td>541219</td>
<td>Other accounting services</td>
<td>30.8</td>
<td>23.3</td>
<td>20.8</td>
<td>1.12</td>
</tr>
</tbody>
</table>

Source: Compiled by author from U.S. Census Bureau, 1997 Economic Census, Disc 1D-1.

9I identified Chicago’s primary suburban employment centers as those municipalities with at least 1,000 jobs in the producer service sector and an employment–population ratio great than or equal to that of the city of Chicago. In Minneapolis–St. Paul I defined suburban employment centers as those with an employment–population ratio greater than that of St. Paul (which has a smaller employment–population ratio than the city of Minneapolis). Given the smaller producer service base in the Minneapolis–St. Paul region compared to Chicago, I did not limit suburban employment centers to municipalities with 1,000 or more producer service jobs.

10I am indebted to an anonymous reviewer for pointing this out.
In testing the spatial division of labor thesis, I expected that city-based establishments would employ more workers than suburban offices. As expected, city offices tend to have larger payrolls, on average—over 181 workers compared to less than 53 in suburban establishments.11 An analysis of the intrametropolitan location of the offices of the Big Five accounting firms, whose clients include the largest corporations, supports survey findings in Chicago and Minneapolis–St. Paul. In 2002, more than two-thirds (69.2%) of all Big Five offices were located in cities (Table 4). While suburbs accounted for more than a fifth (22.5%) of all Big Five offices, suburban offices tend to be located in large, multi-office regions containing a central city anchor. Later in this paper I discuss in detail reasons why larger offices and offices of the Big Five tend to locate in cities.

**Employee type and sales per employee.** To further compare the complexity of city and suburban public accounting activities, I examined the share of total employees that are accounting and non-accounting professionals (versus administrative workers) and average annual sales per employee of city and suburban offices. The most complex public accounting services require highly skilled accounting and non-accounting professionals,

---

11Using Levene’s test for equality of variances, these differences are statistically significant at the .009 level.
whereas standardized functions call for lesser skilled, administrative workers. Average annual sales per employee serves as a simple measure of worker productivity. Counter to expectations that city-based establishments would employ a higher percentage of professional employees and have a higher level of annual sales per employee, there were no statistically significant differences between city and suburban offices on these variables (Table 5). These findings belie the characterization of suburban producer services as routine or downstream activities requiring predominately low-skilled workers.

**Export orientation.** Because extra-regional demand for an office’s services indicates the superiority of their products, the likelihood of offices to export is an indicator of competitiveness. I expected that city offices would be more likely to export their services out of the metropolitan region in which they are located. Surprisingly, there were no statistically significant differences between city and suburban establishments (Table 6). In addition to the propensity to export, interviewers asked respondents about the percentage of total revenue obtained from non-local clients. Here, city-suburban differences are more pronounced and a significant relationship exists between intrametropolitan location and export intensity. City offices earn nearly 12% of total revenue from clients outside of the Midwest compared to only 5.3% for suburban establishments. These results corroborate Schwartz’s (1993, 1994) findings and support Sassen’s (1994) assertion that city-based producer services are more involved in interregional transactions. Nonetheless, one should be careful not to overstate the importance of non-local markets. Whether located in cities or suburbs, public accounting offices generate the majority of their revenue from clients located within the metropolitan area. Furthermore, and of central importance in examining the uniqueness of city-based accounting activities, exporting is not the exclusive domain of city offices. Most suburban offices also contribute to the export base,

**Table 3. Average Pay per Employee and Central City to Suburban Pay Ratios in the Minneapolis–St. Paul MSA, 1997**

<table>
<thead>
<tr>
<th>CPA Pay per Employee (in thousands $)</th>
<th>Per Employee Indexed to Minneapolis Pay per Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSA total</td>
<td>42.46</td>
</tr>
<tr>
<td>Urban core</td>
<td>45.26</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>45.97</td>
</tr>
<tr>
<td>St. Paul</td>
<td>40.40</td>
</tr>
<tr>
<td>Suburbs</td>
<td>39.00</td>
</tr>
<tr>
<td>Edina</td>
<td>52.80</td>
</tr>
<tr>
<td>Bloomington</td>
<td>42.35</td>
</tr>
<tr>
<td>Minnetonka</td>
<td>40.32</td>
</tr>
<tr>
<td>St. Louis Park</td>
<td>39.70</td>
</tr>
<tr>
<td>Brooklyn Center</td>
<td>29.76</td>
</tr>
</tbody>
</table>

Source: Compiled by author from U.S. Census Bureau, 1997 Economic Census, Disc 1D-1.
Intermediate versus final demand. As a final gauge of the complexity of public accounting services, I compare the demand orientation of city and suburban offices. Specifically, I examine whether establishments serve households and the share of total revenue obtained from household clients. The services public accountants typically provide to households—tax preparation and planning and in some instances, inheritance planning—are less sophisticated than the audit and attest functions, tax preparation, and consulting services business clients demand. Thus, offices with a stronger final demand orientation provide a less complex mix of services than those offices that cater primarily

### Table 4. Offices of the Big Five by Intrametropolitan Location, 2002

<table>
<thead>
<tr>
<th>Location</th>
<th>Offices of the Big Five&lt;sup&gt;a&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
</tr>
<tr>
<td>Total</td>
<td>351</td>
</tr>
<tr>
<td>Central city</td>
<td>243</td>
</tr>
<tr>
<td>Suburb</td>
<td>79</td>
</tr>
<tr>
<td>Satellite city</td>
<td>22</td>
</tr>
<tr>
<td>Non-metro area</td>
<td>7</td>
</tr>
</tbody>
</table>

<sup>a</sup>Data for the Big Five only include offices that perform audits. Data do not include those offices that perform primarily consulting services or accounting functions except audits.

<sup>Source</sup>: Compiled by author from Dun and Bradstreet data.

### Table 5. Type of Employees and Sales Per Employee: Central City Versus Suburban Offices<sup>a</sup>

<table>
<thead>
<tr>
<th></th>
<th>Central city respondents</th>
<th>Suburban respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean % of full time employees that are:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative employees</td>
<td>17.3</td>
<td>16.0</td>
</tr>
<tr>
<td>Professional employees (accounting &amp; non accounting)</td>
<td>81.0</td>
<td>83.6</td>
</tr>
<tr>
<td>Accounting professionals</td>
<td>73.0</td>
<td>75.4</td>
</tr>
<tr>
<td>Non-accounting professionals</td>
<td>8.1</td>
<td>8.1</td>
</tr>
<tr>
<td>Sales per employee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean sales per employee (thousands $)</td>
<td>55.6</td>
<td>56.8</td>
</tr>
</tbody>
</table>

<sup>a</sup>No significant difference between city and suburban distributions.
to businesses. Although I expected that suburban offices would have a stronger final demand orientation in terms of their propensity to serve household clients and the share of revenue obtained from such clients, findings indicate that there are no significant differences between city and suburban offices on these measures (Table 7).

The Role of Proximity and Face-to-Face Interaction

To assess the importance of proximity and face-to-face contact in the location and production of public accounting services, I examine the factors that drive intrametropolitan site selection and the primary mode of delivering services to clients. From there I look at the linkages between public accountants and their collaborators, accounting contractors, and accounting subcontractors to assess the prevalence of inter-firm relationships and the extent to which such relationships necessitate spatial clustering.

What factors affect where public accounting establishments locate within metropolitan areas? More specifically, how important are factors associated with agglomeration economies and proximity in determining location? In investigating these questions, interviewers read respondents a list of 10 location factors and asked them to indicate how important each factor was in their intrametropolitan site selection. Respondents were provided an opportunity to include any additional factors that they considered imperative. Proximity to clients is the top location driver for public accounting establishments, with nearly 60% of survey respondents identifying it as “extremely important” or “very important” in determining their office’s intrametropolitan location (Table 8). These findings point to the importance of market linkages and the localness of public accounting markets. As indicated in the previous section, although public accounting offices export their services outside of the metropolitan area, they earn the majority of revenue from regional clients. Within the region clients are not generally clustered in a particular district or town, but are located throughout the metropolitan area. An ideal intrametropolitan location maximizes access to a dispersed regional client base.
Proximity to clients is essential, given that face-to-face interaction is the most common mode of service delivery for the overwhelming majority of respondents (Table 9). Nearly 88% deliver services to clients in person either at client offices (63.9%) or their offices (23.6%). Few respondents rely on client-protected websites, email, or faxes as their primary delivery mechanism, calling into question the assertion that modern telecommunications have taken the place of face-to-face contact. Given their audit connection, many public accountants maintain dedicated, long-term relationships with their clients through which they enjoy a level of trust and intimacy not often possessed by other types of producer service professionals. Face-to-face interaction is necessary not
only in the delivery of public accounting services but also in sustaining these relationships (Nelson, 2005).

The importance of proximity in the production of producer services depends on the degree or duration of interaction necessary between service providers and their clients and the frequency with which a particular service is required (Boiteux-Orain and Guillain, 2004). To better understand the significance of proximity and its spatial dimensions, it is essential to take a closer look at the services public accounting offices provide and the nature and intensity of client-firm interactions they require. Public accounting offices provide services in three primary areas: accounting and auditing, tax, and consulting and advisory services. Among survey respondents, accounting and auditing comprises the largest share of total revenue, with respondents reporting, on average, the following revenue split: 44% (accounting and auditing), 33% (tax services), and 17% (consulting and advisory services).

While advances in communications technologies have enabled accountants to prepare tax returns electronically with limited or no physical contact with clients, audits and reviews still necessitate periods of extensive interaction. Audits, which involve examining a client’s financial statements and reporting to investors and authorities that they have been prepared and reported correctly, can require months to complete. Public accountants are at client offices throughout the audit process, often working with the internal audit staff. In addition to audits, public accountants perform quarterly financial reviews requiring several days of work per review at client offices. Although audits and reviews require periods of intense face-to-face contact and the transmission of confidential and complex

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12Accounting and auditing remained the “bread and butter” work of the industry, yielding the lion’s share of industry revenues through the 1970s (Bagchi-Sen and Kuechler, 2000). More recently, accounting firms have sought to diversify into a range of advisory and consulting activities to make up for shrinking markets for traditional accounting and tax work and meet the demands of an increasingly complex, global environment. The Sarbanes-Oxley Act, passed by Congress in response to corporate accounting scandals in July 2002, bans accounting firms from providing many non-audit services to their publicly traded audit clients.
information, these transactions are hardly informal or spontaneous; clients are typically aware of when the audit staff is coming to perform an audit or review. Because of the structured nature of the audit transaction, it is not essential for public accounting offices to co-locate in the same town or district as their audit clients. Nor is co-location possible given that the regional client base for most public accounting offices is geographically dispersed. Follow-up interviews with survey respondents indicate that public accountants emphasize the temporal rather than spatial dimension of proximity (Nelson, 2005). While proximity does not necessarily require tight spatial clustering, it is essential that accountants can access their audit clients in a reasonable amount of time.

In contrast to audit and tax functions, public accountants provide consulting services on a project-by-project basis throughout the year. While such work may also require periods of intense face-to-face interaction with clients, public accounting offices are often hired for one-time projects given their specialized expertise in a particular area. Due to the intermittent nature of such consulting work and the fact that the markets for such specialized services are often interregional, spatial proximity, while useful, is not critical. Offices can efficiently produce and deliver highly specialized, one-time services over great distances through business travel. Spatial proximity is more important for recurring consulting functions that require frequent and intense periods of contact between accounting consultants and a highly concentrated, localized clientele (Nelson, 2005).

While proximity to clients is the top location driver for public accounting offices, proximity to collaborators, competitors, suppliers and subcontractors are considerably less influential in intrametropolitan site selection (Table 8). The modest existence of linkages with other producer services establishments likely influences the relatively low importance attached to these location factors. Less than a third of respondents (30.6%) collaborate with non-affiliated producer service establishments, roughly a fifth (19.4%) perform subcontracting work for other public accounting firms, and just under 17% outsource work to other accounting firms (Table 10). Collaboration, co-production, and subcontracting, although considered widespread in the literature, may not be as prevalent in the public accounting industry as in other producer services, such as advertising, which depend heavily on freelance work. Furthermore the fear of malpractice claims may limit the extent to which public accounting offices work with non-affiliated firms. As a partner of a mid-sized firm in Chicago notes: “The work that we do, we’re signing our names to and we’re taking responsibility for. So you’re on the hook, and you don’t want to be on the hook based on what someone else has done.” Given the industry’s inherent liability exposure, it stands to reason that public accountants exercise caution in pursuing inter-firm relationships, particularly in audit and tax work, entering into collaborative and subcontract arrangements only with trusted allies rather than a constantly changing array of firms.

Among respondents engaged in collaborative or subcontracting arrangements, how important is spatial proximity in maintaining these relationships? To answer this question, interviewers asked respondents to rate the importance of being located within the same metropolitan region and the same city or town as their collaborators, accounting contractors, and accounting subcontractors. In all cases, physical proximity diminishes in importance within the metropolitan region; more respondents think it is extremely or very important to be located in the same metropolitan region as their collaborators, accounting subcontractors, or accounting clients than in the same town or city (Table 11). These findings suggest that, as with market linkages, the benefits of spatial clustering or proximity
to other producer service establishments are not necessarily confined to a particular town or city but are broader in scope.

Although analysts have long argued that producer services locate in cities to take advantage of agglomeration economies unique to the urban core, findings presented above suggest that the benefits of proximity and spatial clustering are not localized in the CBD or central city, but operate at a broader spatial scale. In related research, Nelson (2005) found that city public accounting offices are not more reliant on agglomeration economies and proximity to clients and other producer service establishments than suburban offices. These findings challenge the logic underpinning the spatial division of labor argument and support the edge city notion that suburbs can provide adequate environments for advanced producer services.

The structured nature of the audit transaction and the industry’s dispersed regional client base provide accounting offices with a considerable amount of locational freedom within metropolitan regions, enabling advanced public accounting functions to locate in suburbs. Producer service activities more reliant on informal or spontaneous encounters and information exchanges with a highly concentrated client base or network of collaborators and subcontractors may be more confined in their intraregional locational choices. In such cases, an intrametropolitan spatial division of labor may be more pronounced.

Although the study regions have experienced sustained economic decentralization in recent decades, the cities of Chicago and Minneapolis continue to outstrip their suburbs in producer service and public accounting jobs. Chicago and Minneapolis are home to 56 and 48% of regional public accounting employment, compared to just 26 and 16% of total employment. The concentration of public accounting employment in cities is due, in part, to the fact that city offices tend to be larger than suburban offices and offices of the Big Five are overwhelmingly located in cities. The importance of the availability of office space, and access to an appropriately skilled pool of labor in location decisions, help explain why large public accounting offices locate in central cities (Table 8). Despite the shift in regional office markets toward suburbs since the 1980s, the single largest share of office inventory remains in the downtowns of many metropolitan regions (Lang, 2000). The largest public accounting firms, which can require tens, and even hundreds, of thousands of contiguous square feet of space for a single office, are limited in their location

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13Calculated by author with data from the U.S. Census Bureau, 1997 Economic Census.
choices, as very large spaces are typically available only in downtowns and few, if any, suburban locations. Interviews with survey respondents suggest that lease arrangements are another dimension of office space availability that may influence the concentration of large public accounting offices in central cities. Public accounting offices oftentimes lease space from clients as a means of fulfilling space needs and strengthening and securing client relationships. Leasing space from clients is particularly common among very large public accounting offices with clients that have major downtown real estate holdings, such as banks and other financial services institutions.

The importance of access to the regional labor force in intraregional site selection would seem to suggest that central cities are at a disadvantage in attracting and retaining public accounting offices, as the growth and spread of suburbs has increased the commute time to downtowns for many workers (Shearmur and Alvergne, 2002). Yet a downtown location remains a particularly important draw for the largest public accounting firms, which may employ thousands of people at a single office. As the Director of National Real Estate Services for a Big Four accounting firm in charge of lease negotiations and site selections for the firm’s U.S. offices explains, selecting a suburban alternative can be difficult and divisive process: “If you put [an office] in one suburb the fighting begins…. How do you chose which [suburb]? A suburban location far from the regional core can be relatively inaccessible to a large share of the regional workforce. The centrality of a downtown location and its positioning on regional transportation networks makes sense

| Table 11. Proximity to Collaborators, Accounting Subcontractors, and Accounting Clients/Contractors |
|---------------------------------------------------------|--------------------------|
| Respondents                                             | #                        | %                  |
| Proximity to collaborators                             | 22                       | 100.0              |
| It is extremely important or very important to be located |                          |                    |
| In the same metropolitan region                        | 11                       | 50.0               |
| In the same town or city                               | 5                        | 22.7               |
| Proximity to accounting subcontractors                  | 12                       | 100.0              |
| It is extremely important or very important to be located |                          |                    |
| In the same metropolitan region                        | 2                        | 16.7               |
| In the same town or city                               | 1                        | 8.3                |
| Proximity to accounting clients/contractors             | 14                       | 100.0              |
| It is extremely important or very important to be located |                          |                    |
| In the same metropolitan region                        | 8                        | 57.1               |
| In the same town or city                               | 5                        | 35.7               |

*Subtotals include those respondents that collaborate, use accounting subcontractors or perform subcontract work for non-affiliated accounting firms.

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not only in terms of accessing a regional client base but in attracting and retaining a large regional workforce.

CONCLUSION

The purpose of this paper has been twofold: (1) to determine whether the concept of an intrametropolitan division of labor holds with respect to public accounting; and (2) to better understand the importance of proximity and face-to-face interaction in the location and production of public accounting services. Findings lend some support for notion that city and suburban public accounting activities are unique, with city offices providing a more complex array of services. Secondary data analysis indicates that offices of certified public accountants—the most urbanized industry within the accounting, tax preparation, bookkeeping, and payroll services industry group—support the highest levels of pay per employee, while the most suburbanized (tax preparation services) boasts the lowest. Within the public accounting industry, employees who work in central cities tend to make substantially more than their suburban-based counterparts. Survey findings further demonstrate a distinction between city and suburban public accounting activities. City offices earn a greater share of total revenue from clients located outside the Midwest and employ a larger number of workers. Whereas the ability to access interregional markets is an indicator of competitiveness, office size is positively correlated with service complexity. The largest public accounting offices tend to serve clients with the most sophisticated audit, tax, and consulting needs. As further evidence of the relationship between intrametropolitan location, establishment size, and service complexity, offices of the Big Five public accounting firms were overwhelmingly located in central cities in 2002.

Although city-based public accounting offices tend to be larger and earn a greater percentage of total revenue from interregional clients, the characterization of suburban activities as unsophisticated, oriented toward local markets and households, is overly simplistic. Suburban offices also cater to clients outside of the metropolitan region and, contrary to the front-office/back-office dichotomy, do not average a lower level of sales per employee, exhibit a stronger final demand orientation, or employ a higher share of administrative workers. Moreover, a spatially disaggregated analysis of employment and payroll in Chicago and the Twin Cities demonstrates that well-paying public accounting jobs are not confined to the central city. These findings identify a spatial framework that extends beyond the suburbanization of low-end activities to include some highly complex public accounting functions.

Although proximity to clients and face-to-face interaction are crucial in the location and production of public accounting services, the benefits of proximity and spatial clustering are not confined to a particular locale, but extend throughout the metropolitan region. Given the highly structured nature of the audit transaction, tight spatial clustering between public accountants and their audit clients is not necessary, nor in most cases possible given the dispersed regional client base of most public accounting offices. Co-location is even less important for one-time consulting engagements in which the requirements for face-to-face contact and collaboration can be met efficiently via business travel. Other factors associated with agglomeration economies—proximity to collaborators, suppliers, and subcontractors—are considerably less important in
influencing where public accounting offices locate, due likely to the moderate existence of linkages with non-affiliated producer service establishments. However, for those offices in which proximity to collaborators, subcontractors, or suppliers may be pertinent in intrametropolitan location decisions, here again findings suggest that public accountants tend to think of proximity in regional rather than local terms. Because the benefits of proximity tend to operate at the regional rather than local level, public accounting offices enjoy considerable freedom in intrametropolitan site selection. This freedom or leeway has allowed the suburbanization of some advanced public accounting activities.

For public accounting offices, an ideal location is one with an adequate supply of office space from which offices can easily access a region-wide client base and attract and retain area workers. The city, particularly the CBD, has historically provided maximum accessibility to the region (Shearmur and Alvergne, 2002) and the lion’s share of regional office space. As a result, cities have remained attractive sites for the largest public accounting offices. However as people, jobs, and office space have moved out of the urban core, in-lying suburbs have also emerged as strategic public accounting locations. Yet, just as the front-office/back-office distinction between city and suburban producer service activities is too simplistic, so too is the notion that the growth of producer services in suburbs signals the demise of cities. As the suburbanization of office space, employment, and labor continues, cities will likely continue to lose out in relative terms to their suburbs. However, as Benjamin Chinitz (1964) pointed out more than four decades ago, the relative weakening of the city is to a large extent inevitable as metropolitan regions expand outward. Commentators quick to categorize suburbs as replacements for the city fail to comprehend the interdependencies within metropolitan economies and the complexity of intrametropolitan location patterns. As this analysis has hopefully shown with respect to public accounting, cities and suburbs are inextricably connected by interfirm relationships, particularly market linkages, regional labor and office markets, and transportation networks. To more fully understand the nature of producer service suburbanization, more research is necessary that compares city and suburban activities in other producer service industries, particularly those that may be more reliant on informal or spontaneous interactions with a highly concentrated client base and/or network of collaborators and subcontractors, and thus may be more restricted in their intrametropolitan location choices.

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