Entrevistas y debates

Accounting in the Twenty-First Century Firm: an Interview with Jerold L. Zimmerman

Proyecciones
REVISTA DE CONTABILIDAD Y FINANZAS

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Proyecciones
no. 22, 2026
Universidad Nacional de La Plata, Argentina
ISSN: 1850-6542
ISSN-E: 2618-5474
Periodicity: Semestral
revistaproyecciones@econo.unlp.edu.ar

Received: 15 January 2025
Accepted: 24 April 2025

DOI: https://doi.org/10.24215/26185474e047

URL: https://portal.amelica.org/ameli/journal/373/3735649005/

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Editors' Note[1]

Within the framework of the twenty-second issue of *Proyecciones*, we present this interview with Professor Jerold L. Zimmerman, one of the most influential scholars in the development of positive accounting theory and in the study of the economic role of accounting information.

On December 5, 2024, during the International Closing Conference of the 20th Regional Symposium on Accounting Research—organized by the Institute for Accounting Research and Studies (IIEC) of the Faculty of Economic Sciences at the National University of La Plata (UNLP)—Professor Jerold L. Zimmerman, Bittner Emeritus Professor at the University of Rochester's Simon Business School (USA), delivered the lecture titled "Corporate Governance Lessons from Organized Crime" (Proyecciones, 2025), drawing on the concepts developed in his book Relentless: The Forensics of Mobsters' Business Practices. The event was followed by an exchange with the audience moderated by Dr. Mariano Scapin, Senior Lecturer in Accounting at the University of Bristol (UK). We present here the second part of that interview.

Throughout his career, Zimmerman has made significant contributions to the analysis of the economic incentives that shape accounting practices, as well as to the study of the institutions that govern the production and use of financial information. In his more recent work, he has addressed issues related to the role of accounting in contemporary firms, characterized by a growing intensity of intangible assets, changes in corporate financing structures, and transformations in capital markets.

In this conversation with Mariano Scapin, Professor Zimmerman discusses the evolving role of accounting in modern firms, the impact of intangible-asset-intensive companies, the rise of private equity, and the implications of technological change for the future of accounting education and the accounting profession.

Although some of his positions may invite debate, his reflections are particularly relevant for rethinking the future of the accounting profession in a context of technological, regulatory, and organizational change.

Interview

Mariano Scapin

I would like to ask you about your views about some current topics that accountants face, especially accounting educators. You made your views public in recent publications about the role of accounting in the 21st century, and the tension between the valuation and the stewardship role of accounting for modern corporations. Could you please summarize your arguments?

Jerold Zimmerman

We know that the methods investors use to value tangible-asset-intensive firms, like auto companies and financial institutions, are very different than what they use to value intangible-intensive firms with few assets in place such as ChatGPT. The valuation of these intangible-intensive firms is based on expected future cash flows. Financial accounting reports on these firms do not provide much information of future growth rates. Srivastava (2014) documents a declining earnings-quality trend that he attributes to increasing intangible asset intensity. Lower earnings quality means that accounting earnings are less useful for valuation.

I've written a couple of papers on the role of private equity (See for example Zimmerman (2015) and Zimmerman (2016)). One of the big shifts we're seeing is that firms are exiting the public markets via private equity firms using leveraged buyouts. Several reasons explain this trend. One is that the United States public equity markets have become very expensive due to the heavy regulation and the litigation risk. If you make a small accounting error and you're a public company, you will be facing 25 class action lawsuits and an SEC investigation. And so why do that if you can replace public shareholders with a few private equity owners. Public companies must comply with burdensome US SEC regulations, whereas private companies do not. Moreover, the private equity owners have greater incentives to monitor senior management than an elected board of directors, often appointed because they're good friends of the CEO. So, my view is that the valuation role of accounting will continue to decline compared to what it was 50 or 75 years ago.

The stewardship role of accounting will also decline as more firms rely principally on equity financing and less on debt thereby reducing the role of accounting-based debt covenants.

Mariano Scapin

Could we please follow up on that? To become listed, firms must meet a minimum market cap. So, if you're a private company, there is a limit on the amount of capital that you can raise, is this correct? Therefore, what we are observing is a shift. It only really pays to be listed if you are a big company and require a significant amount of funds that you cannot raise privately?

Jerold Zimmerman

Well, I think it's a little more complicated than that. In the United States, huge pools of private capital are available for start-ups, and early and later stage start-ups. After making investments in start-ups, these private equity firms look for an exit strategy of being bought by another company or going public. At some point though, private equity firms buy a private company and then decide to monetize that by going public. But then those private companies experience the high cost of public markets and they look to go private again. And so, there's just a lot of conversions of companies going back and forth between the private markets and the public markets. But the important point is there are far fewer public companies listed on US exchanges today. Between 1996 to 2023 the number of publicly traded companies has fallen 43% from 8,090 to 4,572.

Mariano Scapin

Extending my previous question, what is your view about a couple of recent US investors in the US starting to move away from ESG or DEI investing. Previously, some institutional investors were buying stock in companies that apply a clear ESG business model. Do you think that this is a trend? Or it's just basically pure noise, reflecting the current political situation in the US?

Jerold Zimmerman

Well, I think that one of the reasons Donald Trump won the 2024 election was because so many people were fed up with all of this DEI, the woke-ism, the transgender business. It just made no sense to people. And at one time, it sounded like a great thing. I want all my investments in ESG and DEI adopting firms because I want to save the planet. Leading finance professors at the time said, that's crazy, you're just going to get lower rates of return and that's what's happening. And so, I haven't looked at the most recent data but the enormous flow of funds into these ESG mutual funds and ETFs have dropped and will probably continue to drop because I haven't seen any studies that show that ESG or DEI investing is anything other than an unprofitable investment strategy.[2]

Mariano Scapin

That's a fair point. I was a little bit surprised to see more active investors beginning to divest from ESG focused firms. I assume that this is would be something more subtle, i.e. investors slowly walking away from this type of investment. But again, we are seeing large outflows of ESG related investments.

Jerold Zimmerman

Several financial institutions, such as Vanguard and Black Rock are moving away from basing investment decisions on a firm's ESG rating systems for several reasons. ESG has become a political flashpoint. There is a lack of consistency across ESG ratings, making it difficult to draw reliable insights and comparisons. ESG investments have shown lackluster returns. And some companies have allegedly exaggerated their environmental impact. It is quite costly to prepare ESG reports. And to improve a firm's ESG score real resources are expended such as paying for very generous maternity leaves and transgender surgeries. Now tell me, how do these benefit a firm's shareholders or customers?

Mariano Scapin

Similarly to tying executive compensation to DEI or ESG metrics, which does not necessarily improve a firm's financial performance.[3]

Jerold Zimmerman

In the 1970s, Ralph Nader, an American political activist, proposed the concept of corporate social responsibility (CSR). Nader argued that all companies should be socially accountable to itself, its stakeholders, and the public by adopting policies that make a positive impact on society and the environment. They should be environmentally responsible, ethical and philanthropic.

The current DEI and ESG fads do not differ fundamentally from Nader's CSR. CSR was a progressive cult for 10 or 15 years. Everyone woke up one day and said, this is craziness. In competitive markets, firms have little free cash flow to fund CSR initiatives. And so, what we're observing now with DEI and ESG is nothing more than old wine in new bottles.

Mariano Scapin

It's a very good analogy. I see your point. Also, Professor Zimmerman, staying with this topic, I would appreciate your views on new requirements for firms to disclose environmental performance or climate related issues. ESG is becoming mandatory in Europe, climate related disclosures are also mandatory in the UK, and it is my understanding that the US is following the same path. Do you think this is feasible? Do you think this is something that can be implemented with some degree of faithful representation or relevance?[4]

Jerold Zimmerman

With the recent election of Donald Trump, mandatory ESG reporting will not happen. Many experts view ESG as virtue signaling. Others see it as another giant progressive overreach and government boondoggle. How do you measure these E, S, and G? And how do you audit them? It's nothing more than a bunch of naive bureaucrats and politicians thinking they're going to save the world by forcing companies to disclose stuff that investors do not need or want for valuation.

And companies will figure out ways around it to make the disclosures look good (greenwashing). And it's just going to impose costs on society with virtually no benefits. I mean, if you apply a cost-benefit analysis to those proposals, I can't imagine that the benefits could come anywhere close to covering the costs that you're imposing on the economy. If ESG disclosures enhanced firm value, companies would be disclosing them voluntarily. Europe's adoption of mandatory ESG reporting will just further the EU's economic malaise by wasting resources.

In the next four years, Donald Trump's administration will not go anywhere near that. And they'll probably do everything they can to reverse what's happened.

Mariano Scapin

Professor Zimmerman, as we are approaching the end of the presentation, I would appreciate your views about an important topic for accounting educators. Here in the United Kingdom we are seeing a drop in students majoring in accounting. It is my understanding that in Argentina they are experiencing the same. My understanding from my talks with US scholars that the US is facing a similar situation of declining numbers of accounting students. What are your views about the future of accounting education? Is this a transitory dip, or a trend of falling numbers of people interested in accounting.

Jerold Zimmerman

I believe there are both supply and demand reasons for fewer students wanting to study accounting. Let's start with supply. Students choosing college majors, at the margin, consider alternative career paths. Given the enormous wealth created by tech startups, some students are being drawn into STEM (Science, Technology, engineering, and math) majors that provide the tools necessary to launch a start-up. Potential accounting majors now see much more valuable career paths than traditional accounting careers. The usual tropes explaining the decline in accounting majors, like it's boring or it has an image problem, have always existed. But what is new is the ability of a young college graduate with a STEM major to have a net worth of $100, $200, or even $500 million by the age of 40.

There are several demand related factors causing fewer accounting majors. As I mentioned earlier, the number of publicly traded companies has fallen 43% between 1996 to 2023. Public companies require more accounting resources than private firms due to the pressing regulatory requirements imposed by the SEC. If you look at what undergraduate accounting students did 30, 40 years ago, they went to work in a public accounting firm, where they spent a lot of time counting inventories and checking receivables and payables. A lot of that could, if not already, be automated. And it may well be the case that we don't need as many accountants as we used to, just because we have other ways of providing those same services. The productivity of tax software has reduced the demand for accountants who manually prepared tax returns 50 years ago. Finally, with more intangible-intensive-asset companies, there are relatively fewer tangible assets to count and audit.

If there really is a "shortage" of accounting hires, the market will start paying higher accounting salaries. To the extent that CPA firms and corporations develop AI and software to perform many accounting functions, the economy requires fewer entry-level accountants. I suspect productivity and more intangible-intensive-asset companies are changing the marketplace for accounting talent. Probably not what you want to hear, but I believe in markets and if we have an undersupply, whatever that means, then wages must rise.

Mariano Scapin

I share your views and see the point about the future of entry-level accounting jobs. My own concern would be then how senior accountants will be trained? If there is a reduction in the pool of junior accountants, are we not constraining ourselves in the sense of finding the best senior accountants? I would expect that those junior accountants who start by counting inventories are hopefully partners now.

Jerold Zimmerman

Overlooked in our discussion so far are double majors in accounting and finance. It may well be the case that somebody is in a finance job and has an accounting minor or double major. Some of these people start in a finance position but later become the chief accounting officer. So, the old career path of starting out counting inventories and getting your hands dirty in the warehouse is not the same career path that we will see in the future.

Mariano Scapin

Therefore, I could conclude from your point is we have accounting for long, but fewer and fewer accountants.

Jerold Zimmerman

Well, we may have more accountants, but relatively fewer. When most of the assets in the economy were physical assets, you had to go out and maintain them and count them and value them. But now that you've got an AI company, what's there to audit? The only thing you audit is the advertising and subscription revenues and expenses. You don't need an elaborate internal accounting department in these high-tech firms, because all they're doing is pushing electrons, and you don't need an accountant to audit the electrons.

Mariano Scapin

Thank you for your insights, Professor Zimmerman.

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Notes

1 Laura Catani, Hugo Collacciani and Carlos Rumitti, editors.

2 For example, in 2024, sustainability-focused equity funds suffer net $40bn of outflows. Source: '*Investors pull cash from ESG funds as performance lags*' The Financial Times, June 5 2024.

3 For recent evidence on this, see Cohen et al. (2023)

4 On March 2024, the United States' SEC adopted new rules that will require disclosures about climate-related risks that are reasonably likely to have a material impact on a company's business strategy, results of operations, or financial condition. In the European Union, the Corporate Sustainability Reporting Directive (CSRD) took effect in 2023 and requires companies to disclose Environmental, Social, and Governance (ESG) information. In the United Kingdom, climate-related disclosures are mandatory for large corporations since 2022.

Additional information

Código JEL: M41, G32, G34, A22

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ISSN: 1850-6542
ISSN-E: 2618-5474

DOI: https://doi.org/10.24215/26185474e047

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