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This electronic newsletter is prepared especially for public practitioners and is sent bimonthly to members of the Puerto Rico Society of CPAs. This e-newsletter features regular commentary from Bill Reeb, a CPA firm consultant based in Austin, Texas.

From the BILLiverse

Bill Reeb, CPA, continues the discussion this month on succession planning. Now that you have determined how to pay the partner for his/her value in the firm, pinned down the mandatory sale of ownership date (MSO) so you can phase that partner out of serving in a leadership capacity within the firm, and covered the client transition process, it's time to talk about how to find replacements for the retiring senior partners. Take a look.

[Read Reeb's Commentary](#)

Marketing Tip: Creating and Communicating Value Statements

The last article from Krista Remer and Jennifer Wilson from *ConvergenceCoaching LLC* discussed ways to establish your firm's core values. Once your leadership team has agreed upon your firm's values, it's time to spread the word! In this article, Remer and Wilson will share some ideas for creating value statements, where to incorporate them, and tips for upholding your firm's values.

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A New Kind of Accounting Firm: Beyond Checklists and Templates

Rick Telberg, CPA, sheds light on ways CPAs are creating new business models for the profession. In his article, Telberg discusses how current factors in today's professional environment have led to a new way of thinking and why traditional MAP approaches might never be the same again.

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Performance Feedback: Don't Take the Path of Least Resistance

Rita Keller shares her insight on annual performance reviews and offers some of her best practices she's picked up along the way. Take a look at this brief article to learn why taking the path of least resistance might not be the best path to take.

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<http://www.bizactions.com/n.cfm/page/e105/key/230151100G2186J2576724P0P10240265T0/>

Independence is in the Eye of the Beholder

CPAs put forth significant focus and effort to comply with independence requirements related to everything from investments to business and employment relationships to services delivered to clients. But being what CPAs call independent in "fact" isn't enough. CPAs must be independent in appearance as well—a requirement detailed in various professional guidelines, including the *AICPA Code of Professional Conduct*. This *Journal of Accountancy* article discusses it in further detail.

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<http://www.journalofaccountancy.com/Issues/2013/Jun/20137656.htm>

The People CPAs Need to Follow on Twitter

Have you joined the Twittiverse and wondering who to follow? Bill Sheridan, Chief Communications Officer from the Maryland Society of CPAs, has compiled a list of regulators, experts and profession leaders worth following.

Take a look.

http://www.cpa2biz.com/Content/media/PRODUCER_CONTENT/Newsletters/Articles_2013/CPA/Apr/FollowonTwitter.jsp

Social Media: 10 Things Accountants Should Never Do

Chartered Accountant Mark Lee shares his list of the top 10 things accountants should never do when it comes to social media. Lee touches on best practices, marketing techniques, measurement and more in this *AccountingWeb.com* article.

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<http://www.accountingweb.com/article/social-media-ten-things-accountants-should-never-do/221837>

SUCCESSION FUNDAMENTALS – PART 4

BY BILL REEB, CPA, CITP, CGMA

To recap, in my past three columns, you have decided how to pay the partner for his/her value in the firm, you have pinned down the mandatory sale of ownership date (MSO) so you can phase that partner out of his or her leadership role in the firm, and you have covered the single most abused part of the succession process, which is client transition. It is now time to discuss how to find replacements for the retiring senior partners.

As we mentioned previously, the most commonly asked question on this topic is “How can we find people with the same technical skills, management ability, client service capacity, and vision for the firm’s future as those who are leaving?” The simple answer is “You won’t, so stop looking for that exact combination.” New partners simply can’t have the same level of skills as a partner with fifteen to thirty years of experience. They might have different skills, and might even have better skills in some areas, but they won’t match up competency area by competency area with the departing partner. Partners coming in from another firm won’t likely be a great fit skill for skill either. While they have experience as a partner, that doesn’t necessarily mean it is good experience, and based on our observations over the past three decades, they usually come over carrying some heavy baggage. If they were highly regarded in their own firm and tagged as future leadership, the odds of them switching camps are pretty small. So that means they were likely discontent in their current organization, with standard reasons such as they were being overlooked for key roles in their old firm, they were being pushed out due to lack of performance, compliance, teamwork, etc. For all these reasons, we believe looking for an exact replacement is a poor succession strategy.

Therefore, we propose that firms consider a different strategy all together. The simplest way to put this is, “Build your organization so that you can accomplish more with less.” For example, let’s say you have ten partners, with each managing on average a one million dollar client book of business. Let’s also consider that you have two partners who are going to retire in the next three years. Now, you tell me: which would be easier? Would it be easier to find two new extremely talented managers or principals ready to step into the retiring partners’ shoes (if you have them ready which few do, then you have a solution), or use the next three years to develop a deeper support structure so that each of the remaining partners can carry a greater client load (maybe boost the average client book size to \$1,250,000 per partner)? Or consider pushing the remaining eight partners to carry an average of \$1,100,000 and push all “C” level clients in those eight partner books (determined based on firm parameters) down to managers to manage.

The point I am trying to make is that in many cases, we don't have a partner shortage problem to fix when senior partners retire! Rather, the problem is often that our current partners are managing far too small a book of business because we have a structure that relies too heavily on the partner being the main technician doing the work. It is not uncommon to find some partners in firms with less than two million in revenues to max out at around \$400,000 in managed revenues and in firms from two million to forty million, we see some partners maxing out at around \$800,000 in managed revenues. If your firm's business model is to add a new partner every time you grow an additional \$800,000 in revenues, you will find with each passing year that it not only gets harder and harder for you to make more money, but being top heavy with partners creates more accountability and governance chaos than it is worth.

By the way, it is for this reason that so many firms with four to 20 partners have created powerful executive committees. They do it to offset the fact that they have allowed people to become partners over the years who do not perform as partners. So rather than deal with this issue head-on, they empower a small group of partners who they believe do fill the role of partner to make all of the decisions for the group. And this strategy works well until the firm reaches a certain point of success and a size where there are too many under-performing partners who slowly gain enough power to overthrow the system. Anyway, I digress. Back to the issue of replacing senior partners.

There are four potential capacities or functions that we have to be ready to replace when a partner retires. They are the:

- Technical competency of the retiring partner,
- Chargeable capacity of the retiring partner,
- The time it takes to build new relationships between the existing clients and the new partner being transitioned to manage them, and
- The time it takes to then maintain those client relationships that the retiring partner was managing.

For your largest and most important clients, who is the most logical to take over these accounts? The answer for this is usually pretty easy. It is either one of the soon-to-be dubbed senior partners in the firm – hopefully someone with at least six to ten years left before their planned retirement or one of the younger partners who already works on those accounts and has a great existing relationship with the owners or executive-level management in those client accounts. Recognize that, for vast majority of firms, the 80/20 rule or something approximating it applies to their revenues. We commonly find that 80% of a firm's revenues come from 20% of their relationships. Or it could be as concentrated as having 50% of their revenues coming from 5% of their relationships. The point here is that a small group of relationships make up a large part of the firm's income, so the right person to take over those relationships is almost never a newly appointed partner. The problem isn't who should take over the key accounts, but rather creating more capacity, or freeing up capacity, so that existing partners can step in and manage those important relationships.

This leads to the next question which is “How do we go about creating additional capacity or freeing up the necessary capacity to handle the client transitions that need to occur?” First, all of the “C” clients, which is our shorthand way of describing the smallest clients the firm serves (who while profitable, don't have much opportunity to hire us for additional services) should not be transitioned to partners, but rather to managers.

Second, the firm should consider creating two classes of partners (very large firms even more); one being a client service partner, the other being a technical partner. Client service partners should be expected to manage at least 50% to 100% more clients than a technical partner. We tell our clients that are averaging a managed client book size of one million dollars to plan on evolving their habits and skills so they can manage at least \$1.5 million in four to five years, and at least \$2 million per partner in subsequent four to five years. On the other hand, technical partners, while they might only manage \$700,000 to \$900,000 of volume, usually provide the backbone for the firm's processes, filling roles like being the tax or audit department leader, or the quality assurance leader, etc. Technical partners are not expected to manage as large of a client book because of their technical duties. But that limited expectation of developing business and managing a larger client book will also come with limited in voting rights in the firm, as well as lower average compensation than client service partners. Why? It is simple – the scarcest skill in public accounting is someone who can sell new projects and successfully manage large books of business. Or another way to say this is “our profession grows technical CPAs with much greater ease and frequency than CPAs who can manage client relationships.” By creating technical and client service partners, the firm can focus on developing the requisite skills in both roles to adequately create capacity. As a note to consider, a firm mostly should be developing client service partners. And perhaps a firm can afford the luxury of one in four being a technical partner. So if your mix is higher than that, start working on converting some of your technical partners to client services partners (which is often done, but it is a discussion for a future article).

A third area to focus on to create capacity is the quality of clients. Marginal clients don't make the firm money. They just add to an individual partner's power base. For example, many firms would actually make far more money if they ran off 15% of their most marginal clients and marginal staff. This move would end up freeing up important partner and staff time to take on the profitable and valuable clients that need to be transitioned from the senior partners.

Another area to consider is to add enough staff at the bottom to actually give you a chance to build capacity, which over time this move will also allow you the luxury of closing competency gaps that tend to exist at various levels in almost every firm. Most firms hire far too few people. For example, let's say the firm plans on growing its top line \$750,000 in the next year. Let's also assume you are averaging \$150,000 per FTE. That would suggest that you would need to add five people operating at full capacity right now in order to perform that additional work over the next 12 months. The problem is twofold. First, most firms won't hire the five necessary people ... they will hire three or four. Second, and even worse, the five needed people doesn't consider that one or two of the new hires probably won't work out, that you have one or two people that might presently need to be fired due to poor performance, that one or two good performers will quit due to their life choices, etc. What we commonly see is that most firms don't hire enough people to actually deliver on the revenues they are or plan to be selling. And because of this, each year, they get more and more behind the eight-ball, being less and less able to create additional capacity because everyone is so busy that no one has time to train, manage, hold people accountable and build a better firm.

While there certainly are more ways than the four ideas mentioned above that can help you create capacity, these at least give you a start to thinking about the issue in a more positive way. When you move partners away from being key technicians to being client relationship managers, their capacity to manage work increases. When you build a stronger support structure of competent technicians below partner so they can take on much of the work the partners are doing now, you not only facilitate the partner role change above but you also create more leverage and profits. When you move your smaller clients out of your partner

books and shift them to managers, you start building the necessary competencies at the manager level to be a future client service partner. As well, you free up more time for partners to spend in front of their top clients which then creates the opportunity for them to uncover new work and more profits. And when you run off marginal clients and staff, you free up capacity at every level, improve morale, while earning at least the same amount of money and maybe even more by working less. This approach to finding replacements for your retiring senior partners is not only more reliable, but the remaining partners will make more money than they ever have even after paying the retirement benefits. To conclude, we are not saying that you shouldn't add more partners, we are just saying you should promote people to partner when they are ready, add them in the role they are actually going to fill (technical or client service partner), and look at building capacity at all levels in the firm as your best and most reliable solution to fill the void retiring partners create in the areas of technical competency, charge hours and client relationship management.

In Part 5 of our columns on Succession, we will pick-up with some do's and don'ts as they relate to work retired partners should be allowed to do post retirement as well as how to structure those arrangements

Creating and Communicating Value Statements

Every organization should be clear about their core values – those things your organization holds dear and what you are committed to be known for and uphold - **as we shared in our last marketing tip**. Once your leadership team has agreed upon your firm's values, **it's time to tell the world** about them! In this article, we'll share some ideas for creating value statements, where to incorporate them, and tips for upholding your firm's values.

Craft each value you selected in our suggested value exercise into sentences, or value statements. **These value statements should describe the behavior and/or outcome you want the values to inspire or encourage in others.** Be sure to get input from others, including your leadership group. Remember, your value statements should help to further communicate what it is you care about, believe in, are committed to, and are willing to be held accountable for.

For instance, if one of your firm's chosen core values is **integrity**, your value statement might include a sentence that reads something like:

*"At FIRM ABC, we are committed to act with the utmost **integrity**, to keep our word, and promote an environment of honesty and trust in our relationships with others."*

When you have incorporated each of your firm's values into a written value statement and gained leadership buy-in, you're ready to communicate your values to others. There are many potential ways to make them known, but consider the following ideas for your written value statements:

- Introduce them to your staff in an **all-hands meeting**

- Go “deep” on one core value per **staff or department meeting** now and in perpetuity to keep your values alive and top of mind
- Include the value statements in your firm’s **employee handbook and new employee orientation manual**
- Produce value statement **premiums or giveaways**
- Incorporate your value statements into your firm’s overall **positioning and story**
- Devote an entire **page of your web site** to your firm values
- Utilize them as content for your **firm brochure**
- Introduce your values to **your clients**
- Incorporate them into a **well-designed and framed poster for your lobby**
- Use them in **proposals** to communicate “why you should choose us”

When you communicate your firm’s values, you set the bar for the conduct you expect from your partners and staff and express a commitment about what clients, prospects, and referral sources can expect from your firm. And, because so many firms don’t share their core values, the very fact that you have done so can be a genuine differentiator for your firm.

Next comes the hard part.

The most difficult aspect of this exercise is also the most important. It is a well-known tenant of leadership that your people’s actions mirror your behaviors. If you want them to uphold your core values, **you and your leadership team must live them first** – not just selectively, but uniformly and daily.

There is no way to outline specific activities to ensure that you’re modeling your firm’s valued behaviors because the activities you will undertake are dependent upon the values you choose. Instead, here are a few tips to consider regardless of your values:

- **Do not commit to**, or communicate, **core values that you know you cannot uphold**
- Recognize that your clients and staff **will use the values statements to argue their position** when they do not agree with the actions or policies of the firm and may **use them against you if you fail to abide by them**
- To create accountability, consider including value measurements in your partner, leader, and team member **performance appraisals**
- Explore the idea of including the values as elements of your **partner or owner code of conduct**

Define (or refine), communicate, and then live your firm’s core values. The very things you hold dear and that sustain you as a team will set you apart as unique and different from your competition.

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specializes in helping leaders achieve success. Learn more about the company and its services at www.convergencecoaching.com.

A New Kind of Accounting Firm: Beyond Checklists and Templates

CPAs Are Going Off the MAP to Create New Business Models for the Profession

By Rick Telberg

[CPA Trendlines](#)

You already know the fundamentals of managing an accounting practice.

Most CPAs know, or they think they know, all they need to know about: how to start a practice, how to find a new client, how to prepare a tax return or a compilation report, and how to keep up with changes in auditing and accounting standards. They may even know, in greater detail, how to organize their staff, how to write an employee manual, how to present a seminar on estate planning to the local Chamber of Commerce. They may know the metrics to manage their business, such as: income per partner, net fees per partner, net fees per person, realization, ratio of client service staff to partner, utilization, average charge hours for staff, average charge hours for partners, total work hours for staff, total work hours for partners and staff, billing rate of partners, overall net firm billing rate, billing rate multiples, and overhead expenses per person, just to name a few. And if they don't know, they can easily find out.

The references and benchmarks are plentiful in the CPA firm business. The largest and most comprehensive such benchmarking survey, of course, is the PCPS/Texas MAP survey from the American Institute of CPAs. But also, just as valuable in their own ways, are Inside Public Accounting's National Benchmarking Report, The Rosenberg Report, for mid-sized firms; state-by-state breakouts of the PCPS/Texas MAP results available through state societies; and surveys gathered by associations and networks of firms for their members. The list is nearly endless.

The fundamental elements of practice management, until now, have been all about metrics. And that makes sense. Every business needs metrics. You can't manage what you can't measure, or so it is said. And CPAs are particularly adept at gathering the data for metrics. So every CPA already knows a lot about practice management. In fact, you may know all you need to know about practice management. But, if the state of the industry is a guide, you'd be wrong. If you stop to think about it, most CPA firms are probably performing sub-optimally. Every CPA can see in their own practice that there's room for improvement. Yes, CPA firms are among the most profitable businesses in the country. But think for a minute how much more each practice would be worth if it was optimized.

And now we jump beyond MAP averages. If you follow MAP averages, you'll have an average firm. We already have too many average firms. But we won't get there with the traditional MAP studies, traditional MAP practices, or traditional MAP thinking.

The days of old-line MAP strategies are waning. Little more can be written or learned about how to run a traditional CPA practice. Remember, the term MAP only came into the profession's lexicon in the 1970's. Before that, operating a CPA firm was hardly deemed a science. By the 1980's, with the advent of competition and innovation unleashed by the 1977 Supreme Court Bates decision bringing CPA marketing out of the closet, firms were in dire need of standard systems and procedures to manage their practices like a business.

And the profession grew. Through the 1990's, CPA firms expanded at a rapid clip, so fast and profitably in fact, that they attracted the attention of Wall Street speculators looking to roll up dozens or hundreds of firms into new national companies. Some worked and are still here today. Most didn't and aren't.

Then in the early 21st Century, when the dot-com boom went bust, when Enron exploded and Arthur Andersen imploded, and when the government passed the Sarbanes-Oxley Act, the profession took off again, with their services in such high demand that the biggest issue was a staff shortage. Then the Great Recession hit in 2007, and finding staff wasn't the main priority.

In a matter of months or years, the accounting and bookkeeping sector had shed about 80,000 jobs, or almost 10% of its workforce, according to data obtained by CPA Trendlines. Today, accounting firms are cautiously enjoying a moderate recovery, chastened about over-hiring, motivated to drive efficiencies with new technologies, and with many feeling more urgent than ever before to make their exit before the economy turns again.

In today's environment, change management has become the single most essential skill for every business leader, not excepting accountants. Technology, demographics and globalization are demanding new business models from accountants. Shared values are now more important than kludgy hierarchies. Connectivity – mobile and 24/7 – is more important than actually being in the office. Time-based billing is under pressure from value-minded clients. Partner tracks are no longer measured in years, but in talent. And who wears a tie and jacket in the office anymore, anyway?

Today, habits and behaviors are turning out to be at least as important – even more important – than traditional MAP processes and procedures. This is why traditional MAP approaches may never be quite the same again. There is no single best way to run a firm anymore. The CPA firm of the future is being built on new thinking, a vision of – not the rule – but the exceptional.

Rick Telberg is president and CEO of CPA Trendlines Research (at cpatrendlines.com), a provider of actionable intelligence to CPA firms. This article is adapted from research developed for the [SevenKeys to Successful CPA Firm Management](#), a performance optimization program for growth-minded accounting firms.

Firm Values to Live By

Your firm's core values are intended to give language to the intrinsically valued behaviors in your organization – the things that you believe are desirable and important. They are the

beacons of light that your leadership team and staff will follow when making strategic and tactical decisions each day and are integrally related to your mission, vision, and objectives. Your values signal to others what your organization holds dear and what you are committed to be known for and uphold. And yet, many leaders and professionals – from firms both large and small – are unable to articulate their firm’s core values or guiding principles.

Why is this so important?

If you want your team to behave in a certain way, or produce specific outcomes, you have to define, communicate, and then model your expected behaviors and outcomes. The same is true related to your core values. In order for your people to live and embody your values, a few critical actions must occur.

First, your leadership team must define and commit to a set of core values. Then, these values should then be communicated on an ongoing basis to your entire team. Finally, your leadership team must uphold these values daily.

When these three actions occur, your core values will strengthen and inspire your team and contribute to the sound functioning of your organization.

How do you choose firm values?

First, **decide who will contribute to defining your organizational values.** At a minimum, we believe that all members of your leadership or partner group should have involvement in this process. Ideally, though, you will also solicit the input of several or all staff, too, which will encourage their understanding and buy-in to the values identified and will energize your team, too.

Then, compile a list of potential values. We have developed the list below that you may want to use as your starting point:

| Corporate and Firm Values Listing | | |
|-----------------------------------|--------------|--------------------|
| Accountability | Flexibility | Organization/Order |
| Appreciation | Fulfillment | Owner Income |
| Authenticity | Fun | Passion |
| Challenge | Growth | People/HR |
| Client Satisfaction | Hard work | Process/Systems |
| Collaboration | Honesty | Profitability |
| Communication | Humility | Punctuality |
| Community | Independence | Quality |

| | | |
|-------------|-------------|-------------------|
| Compassion | Initiative | Relationships |
| Consistency | Innovation | Respect |
| Courage | Integrity | Responsibility |
| Diversity | Intimacy | Teamwork |
| Efficiency | Intuition | Technology |
| Empowerment | Leadership | Trust |
| Excellence | Learning | Vision |
| Expertise | Listening | Vulnerability |
| Fairness | Loyalty | Wisdom |
| Family | Objectivity | Work/life Balance |
| | Opportunity | |

Distribute the list to those you've selected to participate and encourage them to add any values that are dear to them if they are not listed before your team members undertake the exercise.

All participants should **select their top 10 values in order of priority** (1 through 10, weighting the values by putting 10 points on the one value they “cannot live without,” 9 points on the next most important value, and so on.). The values they select should be what they believe truly reflect the firm’s essence – not what they think will make you look “good” or impress clients. Remember that those values you ultimately choose need to be upheld by your leadership team and embraced by your entire team. This exercise can be conducted as homework for a firm retreat and turned in prior so that you have time to compile responses for discussion during the retreat.

Once you have all inputs, **tabulate the values and identify the top choices**, allowing no more than 10 total values to “make the first cut.” You can use the ConvergenceCoaching, LLC [Values Compilation Grid](#) to speed the process of compiling your team’s value choices. This grid will enable you to calculate which values received the most points total and also those that were chosen most frequently in your team’s top 10.

Analyze the output as a leadership team and narrow the list to choose your organizational core values. Examine differences between the choices made by different members of your leadership team as these may point to areas where you lack unity and need discussion. Also look for differences between the values identified by the leadership team and those of the staff as they may highlight disconnects that need to be addressed. Work to narrow your list of final core values to no more than five values to enable the list to be easily communicated and memorable.

Once you have defined (or refined) the core values of your organization, you will be ready to share them with your team, clients, and others. In our next article, we’ll share some ideas for

creating values statements, where to incorporate them, and tips to motivate your leadership and other team members to model your firm's values.

In the meantime, gaining alignment among your firm's leaders and analyzing important differences among your team members' values will help set the tone for team and client interactions and all initiatives you undertake as a firm.

Krista Remer is a consultant and Jennifer Wilson is a partner and co-founder of ConvergenceCoaching, LLC, a leadership and marketing consulting and coaching firm that specializes in helping leaders achieve success. Learn more about the company and its services at www.convergencecoaching.com.