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*This electronic newsletter is prepared especially for public practitioners and is sent bi-monthly to members of the Puerto Rico Society of CPAs. This e-newsletter features regular commentary from TSCPA Member Bill Reeb, a CPA firm consultant based in Austin. For questions or comments concerning the articles featured in this issue, or to suggest future topics, please e-mail Reeb at bill@tscpa.net.*

**From the BILLiverse**
In the second article of this series on partner compensation, Bill Reeb discusses the goal-setting process and evaluating performance. He writes that accountability is best described as having a system in place that rewards partners for following processes and procedures, living up to their roles and responsibilities, and implementing the firm's strategy. It's up to the partners to do their jobs effectively, impact how much they earn and determine the amount of work product they produce. The goal of accountability is to motivate all employees to work toward the objectives established by the organization. Positive reinforcement can be used to reward those acting in accordance with and exceeding expectations. Experience also dictates that it is equally important, even if only used as a deterrent, to clearly identify sanctions for the lack of compliance or marginal performance. Accountability is not passive; it usually requires a change in the philosophy of most CPA firm cultures. It demands that partners and employees, not management, be and feel more empowered regarding their performance.
Read Reeb's commentary
Link to article

**Top CPE Trends: How CPAs Are Re-Tooling for 2017**
With busy season behind them, America's CPAs are assessing the best ways to put the rest of their year to good use. According to preliminary results of a new survey, the focus for CPE will largely be a matter of technical self-improvement. The survey is asking CPAs in which of two dozen areas they will be devoting increased time and effort this year.
Learn more in this article from Rick Telberg
Link to article

**Top Three Issues Keeping Firm Leaders Up at Night**
There are three issues that many firms are struggling with now: inefficient processes, lack of a one-firm vision and technology. This article provides an explanation of the issues and solutions for how to deal with them.
Read the article
http://www.accountingweb.com/practice/practice-excellence/top-3-issues-keeping-firm-leaders-up-at-night

**Making Workflows Work**
Firms that leverage workflow processes effectively can improve their productivity and client satisfaction and retention. These five best practices can help to ensure your workflow processes work well and are designed for optimum performance.
Learn more
http://www.journalofaccountancy.com/issues/2016/jul/workflow-best-practices.html

**Controlling Your Data**
CPA practices can be a treasure-trove of information for cybercriminals. Most firms have acknowledged that data security represents a critical risk requiring careful management. However, implementing controls over data security can be unfamiliar territory.
Learn more
http://www.journalofaccountancy.com/issues/2016/aug/protect-cpa-firm-from-cybercriminals.html

**Pitfalls to Avoid While Volunteering in Your Community**
Many CPA firms have outreach and volunteer initiatives in their local communities. Although involvement can lead to more clients and a better connection in your area, there are common pitfalls to avoid when getting involved in community organizations.
Bryce Sanders takes a closer look
http://www.accountingweb.com/practice/growth/8-pitfalls-cpas-should-avoid-while-volunteering-in-your-community

**How CPAs Can Develop an Olympic Mindset**
A winning mindset can make the difference between achieving our goals and falling short. This mindset is as important for professionals striving to achieve their career objectives as it is for elite athletes. An Olympic gold medalist explains an approach for accessing the power of the mind to defuse pressure and fuel success.
Get the details
http://www.cgma.org/Magazine/News/Pages/developing-a-winning-mindset-olympian-sally-gunnell.aspx?utm_source=mnl:cpald&utm_medium=email&utm_campaign=16Aug2016

**Eight Tips for Navigating Office Politics**
While it is almost impossible to avoid office politics, CPAs can keep from making political gaffes if they are perceptive and diligent about how they act and react to others. Experts offer tips and strategies for evading mistakes at work and for dealing with situations that often cannot be avoided.
Cheryl Meyer takes a closer look

http://www.journalofaccountancy.com/newsletters/2016/jul/8-tips-for-navigating-office-politics.html

**How to Grow Your Practice by Focusing on a Niche**
Focusing on a niche can provide long-term benefits for accounting firms. It's a strategy that takes dedication and resolve, but can deliver dividends for years to come.
Get the details
http://www.accountingweb.com/community/blogs/lee-reams-ii/how-to-grow-your-tax-accounting-practice-by-focusing-on-a-niche

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## One-Firm Concept (or Building a Village) Partner Compensation

**By Bill Reeb, CPA, CITP, CGMA**

In the past, we wrote a six-part series on partner compensation that started out discussing the following:

- The Eat What You Kill (EWYK) model of operations and how that impacts partner compensation.
- The most common criteria used in EWYK partner compensation formulas.
- The Building a Village (BAV), or One-Firm Concept, model of operations and why partner voting has to be addressed to clear the way for changing partner compensation.
- Addressing the retirement issue and separating it from partner compensation so that you are finally positioned to create a BAV partner compensation model.

Based on our experience, these are all issues that need to be discussed and addressed before a firm WILL make the decision to move from an EWYK to a BAV compensation system. In the BAV system, to review some basics from part six of the last series, partner compensation should be built around:

- The firm's strategy;
- Individual goals for partners established to support that strategy;
- Developing a clear understanding of what is expected of each partner, both objective and subjective;
- Management being willing to financially reward partners who do what is expected of them and punish those who don't, to the point of termination; and
- Providing the managing partner with a significant compensation stick to reward or punish behaviors.

Because examples of compensation goals and how they work are built around strategy, and I don't know what your strategy is, I am going to provide some examples of strategy and then talk through how those might be reflected in a partner compensation model.

Let's say one of your key strategic objectives for the next three years is to leverage the partners by increasing the average book size each could effectively manage. Based on the last series of articles, called *The Long-Term Impact of the Upside-Down Pyramid*, parts one through three, it is common to find that firms evolve through success to the point that the partners are doing too much of the detail work and acting more like over-qualitied managers than filling the role they are being paid to do – that of being a partner. This typically occurs because the firm does not hire enough staff and adequately train them in proportion to the growth the firm is experiencing.

Given this lag in capacity, not only does workload compression increase throughout all levels in the firm, but this is especially true for the partners and managers. To meet the client demand, partners and managers spend more and more time doing chargeable work, which is then rewarded by a short-term gain in profits (which gives a false sense that the partners and managers are doing the right thing for the firm). However, because the partners and managers are doing too much chargeable work, they fall short on many other fronts, such as developing the people immediately below them, implementing firm strategy, regularly visiting their good clients and referral sources, etc. So, short-term, because of the extra billing hours partners are delivering, while profits go up, a dysfunctional spiral starts to build speed. Because the partners are not spending enough time taking care of critical partner duties, organic revenue growth starts to decline or flatten, initiatives the firm wants to implement slow to a halt and a gap in competency starts to expand between layers in the firm.

The gap in competency occurs because the partners or managers don't have enough time to train those below them because their personal chargeable workload is so high. Revenue starts to flatten since the partners and managers don't have time to fill basic business development expectations. And firm strategy doesn't make any headway for the same reason – there is no time left to do it. This commonly results in partners and managers needing to deliver a higher than reasonable (reasonable meaning the extra hours required start cutting into the time necessary to perform other critical partner/manager functions) number of billable and collectable charge hours each year. In many cases, the number of expected charge hours will continually grow, as well.

We tell all of our CPA firm clients that, by the time you get to be a partner or manager, what you do with your non-charge hours becomes as important as what you do with your charge hours. And how (the quality of) you spend your charge and non-charge hours also becomes more important. For example, while we expect every partner to deliver a minimum amount of revenue based on their own billable time, we don't want them racking up charge hours doing work others below them should be doing. What I'm saying is that all charge hours are not alike. At the partner level, we are looking at advisory work, high-level review work and client-facing work like understanding client needs, keeping them looped into progress, planning work, etc. as being reasonable.

Even more important, we want to have this same level of selectivity when it comes to how partners are spending their non-charge time. Most firms track all non-charge time in a nondescript account as if it doesn't matter. While I'm not suggesting that if you created multiple, more descriptive non-charge hour buckets to track how that time is being spent that it won't be easily gamed by the partners, it is at least more accountable than the way it is handled in the vast majority of systems today. Most firms track both and don't care much about what you did to be chargeable or what you accomplished with your non-charge time. Our premise is that if you want to create profitable and sustainable leverage that allows your people to have work/life balance, it has to start by caring a lot about how partner and manager charge and non-charge hours are spent.

So, circling back to our strategy of partner leverage, that might break down – customized to each individual partner and their current level of performance in this area – to these kinds of initiatives:

1. Get the partners to stop spending so much time doing lower level technical work.
2. Require the partners to spend more time with their key clients to not only be available for higher level advisory work, but to be more visible, thereby creating more opportunities for the firm to assist those clients (business generation).
3. Force the partners to spend more time training, coaching and mentoring their direct reports to improve the technical competence of that group so that more difficult technical work could be delegated to them.

As you can see, now that these points have more clarity, it doesn't seem so complicated, but it always is. So, let's look at some of the likely issues that will get in the way of achieving these objectives:

- Many partners are currently being compensated predominantly based on their charge hours and book-size without regard to the quality of those charge hours.
- What partners do with their non-charge hours is often ignored in most compensation systems and even when they aren't ignored, they are compensated with menial dollars.
- Typically, the larger booked partners have more top clients to manage than they have time for, and the smaller booked partners don't have nearly enough. Therefore, the group as a whole vacillates between either under-serving some key clients or over-serving some low level clients, depending on the size of book the partner is currently managing.
- Training culturally is considered a marginal activity. Those people who spend time developing others are often considered to be performing administrative duties rather than fulfilling key functions that are everyone's responsibility.
- There is too little available capacity in-house to do all of the work, so firms are always in crisis mode, which does not allow time to appropriately monitor, assess weaknesses and train people at all levels to close competency gaps, usually resulting in burnout and turnover of the people a firm least wants to lose.

- To reach higher incentive pay, partners, managers and others in higher-level positions have learned to hoard work instead of passing it down to make sure they hit their minimum charge hour targets, which undermines the leverage system.
- Firms put too much focus on realization as they confuse realization with profitability. When you have idle people, while having them shadow more experienced personnel will lower specific job realization, it won't lower the firm's overall profitability since you are paying those people regardless. And rather than having them shadow people to learn versus letting them fill up their entire day doing too low a level of work because nobody is around to train them doesn't help either. So most firms need to de-emphasize realization so that they can gain the benefit of lower level people learning and being able to take on high-level work more quickly, which actually supports greater leverage and profitability.
- Many partners are comfortable being "order takers" waiting for the phone to ring and are too busy to proactively be setting up appointments to go see clients and make it their job to understand their holistic needs.

So, to achieve the firm strategy and overcome common hurdles such as these, firms incorporate individualized goal systems to focus the partners on the various actions each needs to take to play their part. All partners have their strengths and weaknesses, hence the need for customization to make sure that each partner is paying attention to those hurdles that are perceived to be directly in their way.

We will pick up here next time and get into the specifics of a BAV (One-Firm Concept) partner compensation system. We will start with some scenarios utilizing base pay plus incentive (performance) pay. In these scenarios, we will cover how goals are evaluated, how that evaluation impacts final pay, how you deal with a shortfall in profitability against paying out incentive pay, how you distribute excess profits, how base pay changes, and more.

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## How Savvy CPAs Turn Problem Clients Into New Opportunities

***And How to Make it a Habit***

By RIck Telberg
*CPA Trendlines*

You know who we're talking about here. They show up in early April with everything you need to prepare their taxes. But it isn't on a CD. It's in a soaking-wet shoebox. Or they've got everything ready on January 2, except it turns out they aren't sure whether they made their quarterly IRS payment last July. Or when you ask for their total payroll tax paid, they say, "payroll tax?"

Or their numbers just don't add up. Or they desperately need a refund this year, no matter what. Or they say they'll get back to you, but don't. Or they keep asking for your legal advice. Or they just don't have time, what with mom and her broken hip, the kid needing to be picked up from ballet class, the dog needing to go for a walk at 5:30 *or else*. Or they can't get their capital gains records from their financial advisor … guy named Madoff … he just disappeared!

One thing you can do about these headache clients, of course, is invest heavily in an aspirin company. But that's treating the symptom, not the problem.

If your client is causing you headaches, odds are it's because of a systemic problem with the client's business process. Something isn't working right.

- If the tax records are in a shoebox or their numbers don't add up, they need a bookkeeper.
- If they aren't sure about that quarterly payment, they need someone to ride herd on their periodic requirements.
- If they're confused about taxes, they need a consultant to assess and periodically review their tax strategies.
- If their computer is making their life a living hell, they need an IT consultant or tutor.
- If they need legal advice on the cheap, maybe they need a cheap lawyer.
- Maybe they need ... Madoff? Well, not much you can do about that, but maybe you can recommend an honest wealth manager.
- If their life is an overstressed mess, maybe they need someone in eldercare, kid shuttling, dog-walking, lawn care …

The point here is that the cause of the headache is actually a need that you may be able to satisfy. Maybe you can offer the needed service. Maybe you can recommend someone else – a client, ideally, or someone you'd like to snag as a client.

These solutions are going to cost something, of course, but they may well end up lowering the cost of an audit, tax preparation, office administration or other aspect of business. You may need to explain this to the client by:

1. identifying and defining the problem,
2. offering the solution, and
3. showing, in dollars and cents, how the solution can cost less than it saves.

In the end, what you get is:

1. a stronger client company,
2. perhaps a favor owed by whomever you recommend as a solution, and
3. a headache avoided.

**What the Best CPAs Do by Habit that the Rest Learn the Hard Way**

Every accounting firm has a problem. Sometimes many problems. *Something* is preventing exponential growth or inhibiting sales or tangling up the IT system or requiring too many weekends at the office or causing clients to drift away or … well, the list could go on forever. No organization is perfect any more than any human being is perfect or any machine is perfectly efficient. Somewhere in every firm there is a problem which, if solved, would make the firm better.

You need to find that problem and solve it. You need a system. Here's how some of the smartest people we know go about tackling their problems.

Sometimes the problem is obvious and immediate:

1. We're going to lose this client.
2. The printer won't print.
3. Where are we going to find a CPA who knows EPA regs?
4. The toilet keeps clogging.
5. The rent's too high.

Sometimes the problem is more subtle:

1. Why am I working yet another a weekend in July?
2. How come our profit doesn't rise with billings?
3. Why aren't we as big as PWC?
4. What's stopping us from going regional?
5. How can we blame this on President Obama?

Those obvious, immediate problems need immediate attention, of course, but the subtle problems are there, too. There is always something preventing your practice from resembling springtime in Shangri-La.

So you have three challenges:

1. Solve the obvious immediate problems.
2. Identify the subtle problems.
3. Solve the subtle problems.

If the obvious problem doesn't have an obvious solution, here are some tricks to try:

1. Consider whether it's a negative problem or a positive problem. A printer not printing is a negative problem. You need to solve it just to get back to the status quo. But finding a CPA with niche expertise is more of a positive problem … arguably an opportunity. Redefining the problem this way might give you a clue to a solution. In fact, you may be able to turn a negative problem into a positive problem.
2. Consider the possible causes. Then consider the causes of the causes. List them. Analyze each. When you're sure you've identified the right cause and cause-of-cause,

write a page or two analyzing every possible aspect of the causes. How are they physical? Emotional? Historical? Technological? Inevitable? Reversible? Educational?

3. Consider who might be better equipped to solve the problem. Hand the problem to that person. Take the rest of the day off.
4. Try explaining the problem to someone who knows nothing about such issues. Your attempt to explain it in simple terms just might unearth a simple solution. Also, the person might see the problem from a different angle and come up with an innovative solution – but only if you're open to new ideas.
5. Consider whether time is the problem. Maybe it's the solution, too. Many problems resolve themselves if given time. Maybe all you need to do is apply patience.
6. Consider and reassess the goal that the problem is obstructing. Can you refine or restructure the goal so as to render the problem moot?
7. Swear at it. Sometimes that works.
8. Consider other stakeholders with an interest in solving the problem. What expertise, energy or ideas might they bring to the table? (And if they aren't willing to bring anything, what does that say about the problem?)

Any problem that doesn't kill you (or your firm) will make you (or your firm) stronger. Bless each little problem that comes your way. Then solve them.

*About the Author: Rick Telberg is founder and CEO of CPA Trendlines Research, at [cpatrendlines.com](cpatrendlines.com), a business advisory service for tax and accounting firms and the vendors that serve them.*