

Public Practice E-News  
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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 Texas Society of CPAs 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](mailto:bill@tscpa.net).*

### **From the BILLiverse**

In the previous article in this series, Read Reeb reviewed the goal-setting process, introduced how the managing partner should orchestrate partner goal setting and discussed why the goals should be based on normal expectations of any partner rather than on exceptional performance of a specific partner. In this article, Reeb discusses who is in charge of what parts of the compensation-setting process. The managing partner should be responsible for the goal-setting process for partners and the allocation of the performance pay based on individual goal achievement. However, since there is more to compensation than just performance pay, he takes a look at where it is logical for a compensation committee to come into play. The job of the compensation committee is not to control all performance funding. In addition, evaluation of performance and goal achievement is something that should be performed multiple times during the year. Managing partners should be conducting frequent, informal feedback sessions on how they feel each partner is performing.

Read Reeb's commentary

[Link to article](#)

### **Making Mergers Work: After the Deal is Done and the Celebrations End, the Hard Work Begins**

After the deal is closed to merge CPA firms, there are always surprises. It's at this time that plans move from the financial side to the human side of the merger. This article covers the issues that should be considered to fully integrate two firms.

Rick Telberg takes a closer look

[Link to article](#)

### **Digital Marketing: Please Try the Content Soufflé**

The specific online accounts you select to promote your firm matter, but the ingredients used are the key to successful online marketing. CPAs amass a great deal of knowledge and wisdom that can be easily shared as content online. These tips can help you develop effective content.

Read the tips

<http://www.journalofaccountancy.com/issues/2016/sep/content-marketing-for-cpa-firms.html>

### **Three Steps to Improve Your Relationships with Clients**

The most critical concern for any CPA firm should be the client's perception of value. There are three steps that can help you better understand your value, ensure that clients are aware of all that you're worth to them and enable you to take your client relationships to a much deeper level.

[Get the details](#)

<http://blog.aicpa.org/2016/08/3-ways-to-make-your-value-clear-to-clients.html>

### **CPA Firms Struggling with Succession**

As baby boomer partners reach retirement age, CPA firms are struggling to find ways to replace them. The percentage of multi-owner firms with succession plans has decreased in recent years and some leaders say their staff members aren't ready to take on important tasks.

Ken Tysiac takes a closer look

[http://www.journalofaccountancy.com/issues/2016/sep/cpa-firms-struggling-with-succession.html?utm\\_source=mn:cpald&utm\\_medium=email&utm\\_campaign=16Sep2016](http://www.journalofaccountancy.com/issues/2016/sep/cpa-firms-struggling-with-succession.html?utm_source=mn:cpald&utm_medium=email&utm_campaign=16Sep2016)

### **What You Still Don't Know About Value Pricing**

While the mere mention of value pricing is still a hot-button issue for some accounting professionals, the practice is being embraced more. However, there remains core questions about how charging clients in this way truly works for CPAs and the firm. This article covers several questions and issues accounting professionals still have about value pricing.

Read the article

<http://www.accountingweb.com/practice/practice-excellence/what-you-still-dont-know-about-value-pricing>

### **Five Things Leaders Should Never Say**

Today's up-and-coming professionals have many career options, which is why established leaders committed to retaining their best and brightest need to pay attention to the frustrating and disappointing things they might say. There are five phrases leaders should not say and alternative approaches to use that young or new talent might better appreciate.

Jennifer Wilson takes a closer look

<http://www.journalofaccountancy.com/issues/2016/oct/what-leaders-should-never-say.html>

### **Will Your Firm be Relevant in the Future?**

Firm leaders today are looking to strike a balance between growing their practice to keep up with changing times and maintaining the winning attributes that earned them their success and reputation for high-quality work. This blog post discusses how a few strategic moves can help firms embrace change while maintaining their excellence.

Read the blog post

<http://blog.aicpa.org/2016/10/5-tips-for-becoming-a-firm-of-the-future.html>

### **Four Ways CPAs Can Get More Out of Social Media**

Social media presents both opportunities and risks for CPAs. Demonstrating expertise and reaching new clients are among the ways social media can be a valuable resource for CPAs. There are approaches that can be used to establish, develop and sustain a successful strategy.

Learn more

[http://www.journalofaccountancy.com/newsletters/2016/sep/ways-accountants-can-get-more-out-of-social-media.html?utm\\_source=mn:cpald&utm\\_medium=email&utm\\_campaign=21Sep2016](http://www.journalofaccountancy.com/newsletters/2016/sep/ways-accountants-can-get-more-out-of-social-media.html?utm_source=mn:cpald&utm_medium=email&utm_campaign=21Sep2016)

### **New Rule Makes Drones a Viable Tool for CPA Firms**

A new Federal Aviation Administration rule makes it easier for CPA firms of all sizes to incorporate unmanned aircraft systems, commonly referred to as drones, into their operations. The new rule opens up the potential for drone operations and lowers the cost of entry to adapt audit and inspection processes. CPA firms are finding ways to use the unmanned aircraft systems to audit and inspect land, agriculture and facilities as a safer and more cost-effective alternative to manual inspections.

Learn more

<http://blog.aicpa.org/2016/09/drones-on-the-horizon-for-cpa-firms-in-2017.html>

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## **One-Firm Concept Partner Compensation – Common Points of Confusion, Continued**

(This article is partially excerpted and augmented from Bill Reeb's and Dom Cingoranelli's AICPA published books *Securing the Future, Building Your Firm's Succession* and *Securing the Future; Implementing Your Firm's Succession Plan*)

Previously, we reviewed the goal-setting process, introduced how the managing partner should orchestrate the partner goal-setting process and discussed why the goals should be based on normal expectations of any partner rather than on exceptional performance of a specific partner. In this article, we will discuss who is in charge of what parts of the compensation-setting process and more.

### **Who's in Charge of What Parts of Compensation?**

Once the decision has been made to implement systemic changes to hold partners accountable to specific performance expectations rather than just relying on everyone to put in a self-proclaimed "good day's work," the next battleground is how compensation is determined and who is responsible for which parts of the process. As we have said in the previous articles, everyone likes the idea that "I" will hold "me" accountable. But few like the idea of "anyone else" holding "them" accountable.

So the discussion always shifts to "let's have a group of people, such as a compensation committee, hold us accountable." The reason is simple: If I get crossways with one person (or I ignore the direction from one person who is holding me accountable), I will pay a penalty for that action. As I add more people to the evaluation process, it is easier to find a friend or an ally who will be willing to overlook my infractions and fight for my benefit. Just for the record, anytime we hear that performance assessment will be a group function, if we had a loud aggravating buzzer, we would be sure to set it off non-stop until a new idea emerges.

As we stated in the last article, the managing partner should be solely responsible for the goal-setting process for partners and the allocation of the performance pay based on individual partner goal achievement. However, there is more to compensation than just performance pay, especially since most of a partner's compensation isn't performance pay, so let's take a look at where it is logical for a compensation committee to come into play.

Certain pay-related functions in many firms could fit well under a compensation committee. It is not a question of whether you should have a compensation committee; rather, it is more the question of its charge. First, remember that a compensation committee, if formed, is a committee of the Board of Directors (or Board of Partners, etc.). It is not a committee that has unique dictatorial authority. What confuses this sometimes is that many firms' compensation committees are made up of partners who collectively have enough voting power on the board to

make their recommendation and then vote in whatever they recommended. But these are two separate functions that simply look like one.

When functioning properly, the compensation committee normally makes a compensation recommendation at the beginning of each year. The board then modifies, rejects or accepts that recommendation to finalize it. In our opinion, compensation committees should be charged with:

- development of the firm's compensation system philosophy or framework to be approved by the board,
- if there are base salaries or guaranteed pay involved, the committee should recommend expected pay for the upcoming year assuming 100 percent goal achievement, as well as adjustments to overall pay (assuming 100 percent goal achievement), if appropriate, for approval by the board,
- establishment of firm-wide expectations and/or incentives that will support the accomplishment of the firm's strategic plan and support of the budget, and
- acting as an advisory group or sounding board for the managing partner as he/she is pulling together his/her final compensation recommendation when combining guaranteed pay (base pay) with incentive pay.

Notice that the compensation committee does the heavy lifting at the beginning of the year when determining base/guaranteed pay along with any firm-wide expectations as it develops the compensation framework. The managing partner does the heavy lifting at the end of the year by individually making the final evaluation regarding goal accomplishment at that time. In the end, both groups should have their final recommendations approved by the board, with the board only looking at the proposals for fatal flaws.

Without at least minimal oversight of the compensation committee or managing partner regarding the compensation process, it would be easy to place too much power in the hands of a very few who could end up using that power for personal gain. For example, we have been brought into many firms that have granted too much power to either the compensation committee or the managing partner, where that power was used inappropriately and sometimes unethically to threaten severe compensation adjustments if a partner or partners wouldn't support some specific, self-serving position from someone serving in one of these two functions.

Now, it would be easy to conclude that what we just covered above muddies the water and that there is more overlap than should be between the roles of the compensation committee and the managing partner. Hopefully, the following will provide some added clarity on this topic. The general compensation framework guides all partners.

Some firms have specific, objective metrics (in addition to individualized goals set by the managing partner) that apply to all partners that are merely calculations as they are not based on observation, communication, interactions, etc. For example, many firms will have a minimum number of charge hours (we recommend that client service partners fall somewhere between 900 and 1,100 and technical partners between 1,100 and 1,300). Other examples might be completing timesheets timely or that their billings and collections are conducted in line with firm policy. These kinds of expectations are considered minimum requirements to living up to the role of being a partner, with some of them having specific, identified financial consequences, which can be fairly assessed based on data provided by administrative personnel to a compensation committee.

Many firms don't have this second layer of objective metrics for partner performance – they only have individualized goals and base or guaranteed pay. If this is the case for your firm, the compensation committee should really only focus on developing the compensation framework and recommending annual pay adjustments. But if you have a second layer of objective metrics, then consider that base or guaranteed pay is earned by meeting these minimum objectives as a partner and when partners underperform in these areas, that is cause for the compensation committee to consider an overall pay adjustment in the following years.

An individualized goal process driven by the managing partner would sit on top of base pay and meeting any firm-wide expectations. This is due to the fact that each partner has strengths and weaknesses, and each partner has different responsibilities and job duties that will impact the firm's ability to achieve its strategic plan. Therefore, it is appropriate to assign a customizable set of goals to each partner based on:

- leveraging strengths,
- improving weaknesses,
- meeting minimum standards of performance across all competencies, and
- accomplishing those tasks that are uniquely the responsibility of a particular partner.

For this, management by committee (the compensation committee) is a bad idea. Why? The most significant and success-driving job of the managing partner is to manage the partners. If he/she directs a partner to accomplish something specific or change a behavior or attitude without a material compensation “stick” to reward achievement or punish failure, there is virtually no way for the managing partner to consistently hold the directed partner accountable. The most common argument posed here is that the managing partner can work through the compensation committee to affect the same outcome. There are situations where this might work ... not because the system is designed to work, but because the specific people on the compensation committee and the managing partner have such respect for each other that they can overcome the dysfunction of the system in place.

It is essential for the sustainable success of firms to put governance systems in place designed to work effectively, regardless of who occupies the various roles, rather than to build systems around specific people that quickly fail when there is a shift in talent filling those roles. To put this in very clear terms:

*The managing partner needs a compensation stick under which he/she has final authority to determine the achievement level for each partner regarding the specific individualized goals set for each partner.*

Please recognize the difference between governance rights and privileges, and common sense. For example, a managing partner should:

- set clear goals for each partner,
- outline the goals at the beginning of the year,
- meet with each partner to discuss those goals, provide a current assessment of accomplishment and offer guidance as to where to focus additional attention to achieve the goals, and
- meet regularly enough to provide the partner with insight as to his/her performance, with time to make course corrections so he/she can achieve those goals, which would be at a minimum quarterly, often every other month and sometimes even monthly.

The managing partner's job is to help every partner achieve his/her goals, not just sit in judgment of them. When a managing partner is not following common sense values and objectives such as those outlined above, it does not mean that you should dilute the power of the managing partner's position. Do not turn over the powers a managing partner requires to be effective to a compensation committee just because you have an incompetent managing partner. Rather, elect a new managing partner who will do the job as outlined.

It is one thing for a compensation committee to evaluate performance regarding objective criteria – those metrics that are approved as part of the overall compensation plan each year that require no interaction or conversation with the partner to assess performance. It is entirely another to have a compensation committee assess a partner's individual performance against customized goals that often have some qualitative (subjective) aspect to them, if not being entirely qualitative in nature. It is not the job of the compensation committee to meet with any partner and assess progress. That function belongs solely to the managing partner. It is not the job of the compensation committee to regularly coach partners in behavior and developmental transitions. Once again, that function also belongs to the managing partner.

### **Performance Pay for the Managing Partner's Allocation**

Based on the above, you can see why we believe it is clearly NOT the job of the compensation committee to control all performance funding. This is because some amount needs to be reserved for the managing partner to make clear that his/her assessment of individual performance throughout the year has enough meaning for partners to pay attention to those communications. And it also follows that a reasonable amount of performance pay should be earmarked and reserved for goal accomplishment to motivate partners to want to achieve them. The common amount we suggest is 20 percent of total expected pay. Some firms start off with 10 percent, with an agreed-to increase to 15 percent a year or two later and then eventually migrating to 20 percent (with some evolving to even higher amounts).

The problem with 10 percent to 15 percent is that if a partner has four or five goals, by the time you spread that amount across them, the amount for accomplishment of a specific goal or two has been so small that we have heard partners say, "For \$5,000, I will just contribute that money to the firm and keep doing what I have always done. There isn't enough money at stake to make me care about changing the way I work."

Most firms are against a 20 percent contingent portion of pay reserved for the managing partner, with some resistant to holding back even a 10 percent reserve. Those same firms are almost always struggling with silo operations and common rogue partner behaviors, coupled with partners who pick and choose the parts of the partner role they want to live up to rather than be held to fill the entire role of partner.

There are two predominant reasons why partners struggle with reserving compensation for the goal-setting process. The first and foremost is that someone in the past, usually a previous managing partner, had too much control over owner compensation – all compensation – and that power was perceived to be abused. For this reason, partner groups fight the idea of going back to a system that includes any discretionary components. However, as a side note, when all of the metrics are objective, we tend to find partners dramatically manipulating the system for their own benefit, with little to no way for the firm to align partner behavior with the strategic plan or to agreed-to operational change.

To be doubly clear here, nothing we have written above is advocating that the managing partner have control over all of the compensation. We believe that would be an example of excess power for that position. However, we do believe that because the job of the managing partner is to manage the partners, he/she should have some kind of compensation stick to hold each partner accountable to his/her individualized goals, which should be tied to the strategic plan.

The second reason most firms don't like this type of system is that partners simply don't want ANYONE telling them what to do. You might say it is the "So who died and crowned you king?" perspective. Most partners believe that because they have proven themselves over 10 to 20 years of performance before being named a partner, they have earned the right to do things their way and people need to trust that the choices they are making are for the best for the firm.

The problem is that this perspective is riddled with flaws. For example, while we would agree that partners generally prove themselves over long periods of time through their performance, during all of that time someone or some group was managing them. So why, just because an individual is named a partner, should he/she move from a managed environment to one with total autonomy? That doesn't make sense. If we have 20 years of good performance being managed, why would we stop doing something that has been working so well?

Another flaw is the assumption that partners will make the best use of the resources of the firm. Commonly found compensation systems prove that idea wrong all of the time. For example, assume that a partner compensation system focuses on only two common variables for CPA firms: 1.) book of business and 2.) personal charge hours. Now consider that a partner has an opportunity to bring in new clients, although the work is at a very marginal rate. This work, from the firm's perspective, will tie up scarce resources and provide minimal profitability, if any. From the perspective of the partner bringing in the work, he/she will have increased the size of his/her book of business, which is one of the two performance metrics. Clearly, in this example, the partner would be motivated to accept work that is not in the best interest of the firm. Just FYI, we know we could easily remedy this specific situation with a formal client acceptance process, but we could spend another 10 pages walking through common inappropriate book management manipulations, so we just covered a very basic example.

Another common scenario pertains to charge hours. When a partner is compensated for charge hours, whatever charge hours he/she can muster, he/she is being motivated to increase chargeable work personally that others might be able to do and avoid other work that only a partner can do. So consider that a partner has work queued up that he/she is about to do. And in this case, let's also assume that one of the managers or supervisors who has the skills to do that work has capacity and could work on that project instead of sitting idle. When partners, in cases such as these, are paid for every charge hour they can bill, they will be motivated to do the work themselves to enhance their pay. So instead of doing the right thing, in our view, of always passing down the work to the lowest possible levels to create leverage and free up partner time, they will choose to misuse firm resources. The compensation system in this scenario is motivating the partners to make the wrong decision – to ignore idle resources and do the work themselves rather than passing the work down and freeing up time to do those tasks or functions that only partners can do.

### **Conclusion of the Goal Process – Monitoring**

Evaluation of performance and goal achievement is something that should be performed multiple times during the year. Unfortunately, many CPAs tend to think of management as a waste of time and evaluations as purely a human resources (HR) requirement created by the

government to protect employees to the disadvantage of the organization. Well, that is one way to look at it. But we think it's the wrong way. We think that the higher you rise in your firm's organizational chart, the more time you need to dedicate to developing others and providing them with thoughtful and constructive feedback. So this is not something you should be doing for five minutes every few months, but a normal, recurring part of every work week. That is, you should be thinking about and monitoring those who report to you, as well as monitoring your own progress and checking in with your boss routinely.

While it is normal protocol to monitor those who report to you, why would we suggest that you monitor yourself as well? Because it is your job, as management, to provide appropriate feedback and coaching to your people, and it is your job as a direct report to keep your boss informed about progress, resource requirements and problems as you tackle your own work assignments.

If we approach this phase from an HR perspective, many partners will default to giving one appraisal per year (or one formal feedback session) and that simply is not enough. It could be enough to have one formal appraisal or feedback session as long as there are several informal feedback sessions (clearly set up for that purpose) in the interim. For higher-level personnel, the importance of making sure they are focusing on the priorities of the organization and working toward the organization's goals is critical. The absurd thing is that in most organizations, the lower the hierarchical level of the employee, the more often the feedback is given; while at the higher levels in the organization, the more we find people talking about expectations, but never actually holding anyone accountable to their commitments or their actions.

The misguided theory behind this is simple. When you are a lower level of employee, you don't know anything. So we need to regularly tell you how you are falling short of expectations so you will try harder. With higher-level people, since they have already proven themselves, we just need to get out of their way. In our opinion, everyone needs frequent feedback, from top to bottom. We suggest this not because we are trying to manipulate people into working harder, but rather, we want everyone's efforts to be focused on doing whatever is best for the firm or making the personal changes required for them to be more effective in the future.

If we can get our top performers and key people acting as a group supporting the firm, then getting everyone else at each layer down in the organizational chart to respond accordingly gets much easier. However, most firms focus on making the lowest levels accountable first, when the fact is that the higher-level people in the firm keep mucking up the system. Every leadership and management book will have some statement that the top people in any organization need to "walk the walk" for the talk they talk. That is all accountability is – walking the talk – and setting the example that you want others to follow.

Therefore, it should not be surprising that we believe the managing partner should be conducting frequent, informal feedback sessions on how he/she feels each partner is performing, whether this is every month, every other month, five or six scheduled times a year dropping out the busiest of deadline months, or whatever schedule works for your firm. Once a quarter should be a minimum, once again adjusting the timing for busy seasons. But to be clear, this isn't about an HR function, but rather about aligning the scarce resources of the most powerful and talented assets you have in your business.

We will pick up here next time to walk through the financial side of assessing goal accomplishment and how it works with actual firm profits.



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## **Making Mergers Work: After the Deal is Done and the Celebrations End, the Hard Work Begins**

*By Rick Telberg*

[CPA Trendlines](#)

Congratulations! After years of planning and months of tough negotiations, you've finally closed the deal to merge your CPA firm with another. Whether merging up, down or sideways, there are always surprises. Mostly unhappy surprises. It may take years to fully integrate two firms after a merger.

Bill Reeb and Dom Cingoranelli of the The Succession Institute, for instance, cite eight potential areas of friction between two organizations:

1. Strategic perspective
2. Owners' styles, goals and relationships
3. General cultural match
4. Client bases and services offered
5. Performance management and pay systems
6. Firm ownership and governance models
7. Business processes and practices
8. Succession management practices

That said, the deal isn't done just because the champagne is flowing. "You might be thinking the most difficult work is behind you," says August Aquila of Aquila Global Advisors. "Think again! You now have to move your eye from the financial to the human side of the merger. Your work has just begun and may last for 12 months or more." Aquila provides a 24-point checklist of post-merger integration issues, beginning with: The so-called soft side of doing a merger is just as important, if not more important, than the financial side. A few questions include: 1.) Has an integration team with senior leaders and staff from each firm been created? 2.) Have senior leaders determined how the new firm will operate? 3) How will you capture feedback on what is working and what is not working?

"Vae victis," warns Peter Fontaine of Newgate Partners, a Chicago-based law firm that specializes in partner agreements and mergers. "Woe to the acquired." By the time the acquiring firm gets deep into the inner workings of the acquired firm, Fontaine says, "The initial sheen of a very attractive target usually becomes dulled in the eyes of the buyer."

Their big mistake? Forgetting the cultural issues. Fontaine said: "Although they might want to say otherwise, acquiring firms frequently attempt to impose nearly all of their culture on the acquired firm, regardless of whether elements of the seller's culture are objectively superior to the buyer's."

Fontaine cites two reasons:

1. There is a presumption that the acquiring organization is more successful and more capable than the one being acquired, and

2. “In a word, laziness,” Fontaine says. Buyers too often believe they will simply impose their culture on the acquired firm. But it takes hard work to identify synergies, to open channels for cooperation and exchange, and to adopt the acquired firm’s better practices.

Marc Rosenberg of Rosenberg Associates ***reminds clients of least 10 issues that can't be overlooked, beginning with the*** announcement of the merger to staff, clients, referral sources and vendors. “The announcement needs to be different for each group,” Rosenberg advises, adding, “At least two kinds of announcements are needed: functional ones informing people who need to know and PR-type announcements that give the new firm name recognition in the market.”

Following that, Rosenberg’s list goes on to include: convening meetings to introduce the personnel from each firm to one another; inspecting the equipment of the other firm to determine compatibility, especially computer hardware, software and other technology; and addressing training issues, such as standard practices for doing accounting and tax work, how the software works, preparing engagement letters, doing job evaluations for staff, how clients are billed and how bills are collected, and use of office equipment.

“Integration is the hardest part of doing a merger,” Dom Esposito told me a while ago when he was chief operating officer at J.H. Cohn & Co. Today, he is an independent consultant at EspositoCEO2CEO.

Yet the tempo of mergers among accounting firms seems to be picking up. “Mergers are happening at a quicker pace,” confirms one New York-based managing partner. One explanation: “The economy has made it so that larger firms need to grow their top lines like never before. And smaller firms need economies of scale in things like technology, overhead and specialized experience.” In the last five years, Metis has doubled in size, mostly through mergers. In the next 10 years, by one estimate, 75 percent of all CPAs will become eligible for retirement.

Sometimes, you end up on the other side of a deal, with unexpected post-merger issues. “It can’t be an ‘us-versus-them’ atmosphere,” cautions Esposito. “Many firms are good at getting the paperwork done, but not really good at making things happen after that.” That’s why Esposito recommends creating a kind of SWAT team to manage the integration. An elite crew of partners and staff is paired with counterparts at the incoming firm to both mentor the newbies and glean new best practices that can be spread throughout the new firm. “They’re making sure that, in the process of merging, everybody understands that we’re all building a bigger, better team together with everyone contributing.” You can’t rush the process, Esposito says. “It takes about two years.”

The biggest obstacle for most sellers is that they understand, perhaps all too well, that their staff, systems and processes may not be up to snuff. For the buy-side firm, that may represent opportunity to fatten margin. For the sell-side firm, that could mean painful changes.

The hardest thing for most sellers is giving up control. After all, they started their own practices because they wanted to work for themselves and no one else. But after the

merger, they come in, sit at their desk and ask themselves: I'm a managing partner, but now what do I do?

If you start now, by upgrading your people, plans and processes to state-of-the-art, you may never need to ask, "What do I do now?" Well, that is until you're sipping a daiquiri on a sunny beach somewhere.

*About the Author: Rick Telberg is CEO and founder of CPA Trendlines Research, which provides actionable business intelligence to CPA firms at [cpatrendlines.com](http://cpatrendlines.com).*