**PCPS Succession Institute 2016 Succession Survey Results**
**Part 5 – Multi-Owner Firms**

Public Practice E-News
October 2017

*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**
This article is part 5 in a series summarizing selected results of the Private Companies Practice Session (PCPS) and Succession Institute (SI) 2016 Succession Planning Survey. In the article, Bill Reeb discusses policies for transitioning client relationships, as well as the challenges that firms are facing that represent barriers to their firms' effective management of succession planning. Survey results revealed that many firms have not made appropriate plans for transitioning client relationships as partners retire. Owners who are retiring need to be held to specific transition procedures. Succession strategies were also examined in the areas of mergers/acquisitions and the readiness of future leaders to step into their designated roles as current partners leave the firm. It was clear that while firms are getting better at managing succession issues, there are still many accounting practices that need to do anywhere from a little to a lot of work in succession management.
Read Reeb's commentary
Link to article

**The End of the Staff Shortage? Demand for New Hires Softens as College Talent Pipeline Sets Record**
There are new signs emerging that productivity gains from new technologies are beginning to result in hiring plan reductions in the accounting profession. An analysis of new data shows the academic pipeline is full, with a record number of students enrolled in accounting programs. At the same time, there's been an easing of the hiring rate from record highs, but future hiring is expected to increase.
Rick Telberg takes a closer look
Link to article

**Engaging Partners in the Firm's Future**
An accounting firm's success is ultimately tied to its partners' performance. Before firms can work on performance, they need to work on getting partners involved and committed to the future. If partners don't believe in what the firm is doing, they will never be effective role models who think firm first and actively bring the whole of the organization's services to their clients.
Get the details
Link to article

**Admitting New Partners to Your CPA Firm**
With increased competition for top talent, CPA firms often become more lenient in selecting partner candidates. Technical competence is the foundation of being a CPA and for becoming a partner in a firm. However, there is so much more needed if you really want your firm to become

one of the leading firms in your market. This article from Adamson Advisory Practice Management Consultants discusses certain questions that should not be overlooked during the selection process.
Read the article
http://www.checkpointmarketing.net/n.cfm/page/e105/key/366829594G2693J4682114N9N231888P0P10354197T0/

**Five Qualities That Differentiate Your Firm**
Have you considered what makes your firm unique and different? This article discusses five qualities that can distinguish your firm from your competition.
Read the article
https://www.accountingweb.com/practice/practice-excellence/5-qualities-that-differentiate-your-firm

**Are You Overlooking Prospective Clients?**
A substantial shift in intergenerational wealth is currently underway. Serving the millennial generation represents a huge opportunity for accounting practitioners. Millennials often have a different outlook on work, life and retirement from that of their parents. There are simple steps practitioners can take to tap into this potentially large client base.
Learn more
http://blog.aicpa.org/2017/09/are-you-overlooking-prospective-clients.html#sthash.Sia58RqB.dpbs

**Why You Should Discuss the Non-financial Aspects of Retirement With Your Clients**
Planning for retirement involves more than being financially prepared. An important component of retirement planning is missing if the non-financial aspects are ignored. By broadening their focus, advisors can expand relationships with clients, helping them create a more accurate and relevant financial plan that reflects individual lifestyle, goals and financial needs.
Allan Kunigis takes a closer look
https://www.journalofaccountancy.com/newsletters/2017/sep/nonfinancial-aspects-retirement.html

**Nine Facts That Can Make or Break Your Firm's Future**
The business world today is complex, evolving, extremely high-tech and moving very quickly. Within a significantly different business landscape than it was just a decade ago, there are nine important things to know about today's decision-makers.
Get the details
http://blog.aicpa.org/2017/09/9-facts-that-can-make-or-break-your-firms-future.html#sthash.mq4zn0Lt.dpbs

**Retaining and Building Loyalty With the 'Right' Clients**
Accounting firms should make it a priority to identify and retain the "right" clients and develop loyal relationships with them. Without these relationships, firms may eventually be replaced by competitors or even technology. In addition, it's more expensive to attract a new client than it is to invest in retention efforts.

Mary Ellen Biery takes a closer look
https://www.accountingtoday.com/opinion/retaining-and-building-loyalty-with-the-right-accounting-firm-clients

**How to Future-Proof Your Firm's Marketing**
As the pace of change and technological development increases, the accounting profession must adapt and innovate to continue its success and growth. Firm marketing plans should now include newer technologies. This article covers five key areas to consider.
Read the article
https://www.journalofaccountancy.com/newsletters/2017/sep/future-proof-cpa-firm-marketing.html

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This article summarizes selected results of the Private Companies Practice Session (PCPS) and Succession Institute (SI) 2016 Succession Planning Survey. (The full survey results are available through the PCPS Resource Center.) This is the fourth such survey conducted since 2004.

Part 1 of this article series covered the results for solo practitioners and sole proprietors. Part 2 covered demographics, succession plan status, ownership retirement projections and firm infrastructure. Part 3 started with mandatory retirement and concluded with the calculation of the original valuation of the retirement benefit. Part 4 reviewed how firms might adjust the original valuation benefit based on actions or inactions of the retiring partner.

We pick up in this article, part 5, by discussing policies for transitioning client relationships and continuing through the challenges firms are trying to address that represent barriers to their firms' effective succession management.

## Policies for Transitioning Client Relationships

In this year's survey, we provided an expanded set of options for firms to pick from with regard to client transitioning policies. As a result, we learned that 44 percent of the 387 firms responding to this question have not addressed transitioning of client relationships.

As with past surveys, when owners are two or three years away from retirement, about 30 percent (2016 – 30 percent, 2012 – 32 percent and 2008 – 32 percent) of the participating firms require them to start transferring clients under a plan set out by the firm.

Similar to prior years, about 20 percent (2016 – 21 percent, 2012 – 18 percent, 2016 – 17 percent) of the firms require the retiring partner to transition client relationships to people chosen by the firm's managing partner. New this year is the statistic on required transitioning of referral sources, of which 27 percent of the firms require.

Due to the expanded set of answer options and relatively low number of responses to many of the options, no other significant trends emerged in this year's survey.

It is interesting that 74 percent of multi-owner firms expect succession planning challenges within the next five years (see section Status of Succession Planning), yet only 44 percent have addressed client transitioning at this time. Putting it off will only make matters worse. In our experience, we find that discussing policies like this when no one is close to retirement generates the most rational conversations. The closer to being "out the door" that someone is, the more the discussion regarding policies like this may be perceived as the firm trying to claw back some benefits the retiring partner is ready to put in the bank.

We suggest that firms not delay addressing this and related issues. Whatever conflict your owner group experiences now will become exponentially greater with each year that you get closer to someone departing. Avoiding these discussions does not make them go away, but rather, as time passes, they will move from what would have been rational discussions to emotional confrontations augmented with personal hurt feelings and attacks.

**When owners are two or three years out from retirement, which of the following describes your firm's practices?**

| Answer | | 2016% | 2012% | 2008% | 2004% |
|---|---|---|---|---|---|
| Client transition is not something we have addressed as a firm. | | 44% | 30% | 23% | 31% |
| Are required to start transferring their clients to owners or managers specifically selected by the firm. | | 30% | 32% | 32% | |
| Are required to start transferring their referral sources to owners or managers. | | 27% | | | |
| Are required to start transferring their clients to owners or managers selected by the retiring partner. | | 21% | 18% | 17% | NA |
| Are not required to do anything relative to transition at any time prior to retirement. | | 15% | | | |
| Are required to start transferring their clients to owners or managers using a formal system that outlines the transition activities necessary for each client to be classified as properly transitioned. | | 11% | | | |
| Are removed from the firm-wide partner compensation plan and a special compensation plan is set up to motivate them to focus on client transition and other non-client facing activities. | | 11% | 5% | 7% | |
| Are penalized financially during this transition period for falling short or non-compliance with specific client transition activities and goals. | | 9% | 4% | 4% | 1% |
| Are penalized after retirement for improperly transitioned clients who leave the firm. | | 9% | | | |
| Are not required to do anything relative to transition until they are one year away from retirement. | | 8% | 25% | 27% | 25% |
| Are rewarded financially during this transition period for achieving specific client transition activities and goals. | | 7% | | | |
| Are required to start transferring their referral sources to owners or managers using a formal system that outlines the transition activities necessary for each referral source to be classified as properly transitioned. | | 7% | | | |

| Answer | 1-7.99 FTEs | 8-15.99 FTEs | 16-25.99 FTEs | 26-50.99 FTEs | 51-100.99 FTEs | 101-200.99 FTEs | 201 or more FTEs |
|---|---|---|---|---|---|---|---|
| Client transition is not something we have addressed as a firm. | 74% | 61% | 38% | 21% | 19% | 6% | 0% |
| Are penalized after retirement for improperly transitioned clients who leave the firm. | 2% | 8% | 14% | 8% | 19% | 6% | 15% |
| Are required to start transferring their clients to owners or managers specifically selected by the firm. | 17% | 24% | 35% | 39% | 38% | 53% | 46% |
| Are required to start transferring their clients to owners or managers using a formal system that outlines the transition activities necessary for each client to be classified as properly transitioned. | 3% | 6% | 13% | 11% | 22% | 35% | 23% |
| Are required to start transferring their clients to owners or managers selected by the retiring partner. | 20% | 11% | 22% | 26% | 27% | 12% | 38% |
| Are removed from the firm-wide partner compensation plan and a special compensation plan is set up to motivate them to focus on client transition and other non-client facing activities. | 2% | 4% | 14% | 13% | 14% | 47% | 31% |
| Are rewarded financially during this transition period for achieving specific client transition activities and goals. | 0% | 3% | 11% | 8% | 8% | 24% | 23% |
| Are not required to do anything relative to transition at any time prior to retirement. | 12% | 15% | 21% | 13% | 11% | 0% | 0% |
| Are penalized financially during this transition period for falling short or non-compliance with specific client transition activities and goals. | 2% | 4% | 3% | 8% | 22% | 41% | 46% |
| Are required to start transferring their referral sources to owners or managers using a formal system that outlines the transition activities necessary for each referral source to be classified as properly transitioned. | 0% | 2% | 3% | 15% | 8% | 18% | 23% |
| Are not required to do anything relative to transition until they are one year away from retirement. | 3% | 5% | 8% | 11% | 22% | 18% | 0% |
| Are required to start transferring their referral sources to owners or managers. | 14% | 19% | 22% | 36% | 35% | 41% | 54% |
| Total | 96 | 161 | 129 | 129 | 90 | 51 | 39 |

As might be expected, if you look at all of the responses above by firm size, the larger the firm, the more likely it is that the firm will require transitioning of clients (part of the reason why the firms have grown to the size they are). Similarly, as firm size grows, generally the more we see the firm/managing partner selecting to whom clients are transferred, as well as the firm providing financial rewards and/or penalties based on transitioning activities (see those survey responses shaded in gray).

For example, once firms reach the 100+ FTE size range (47 percent and 31 percent respectively, at least more than double the responses of firms at any other size), the partners are removed from the standard compensation system and are rewarded financially for transitioning client relationships. We find that, if you don't carve out special compensation plans for retiring owners to motivate them during the transition period immediately prior to retirement, you can expect those owners to continue to develop their relationships with their clients as they try to maintain their client service responsibilities and billings. This often results in poorly transitioned clients and, most damaging, retired partners who still maintain key client relationships in the firm.

As has been similar in the past, overall 21 percent (18 percent in 2012 and 17 percent in 2008) of the firms allow the retiring partners to choose to whom they transfer their clients. We always suggest that firms should ask the retiring partner for his/her suggestions as to who might be best suited to take over specific client relationships and be the most seamless fit, in the end; the firm is responsible for determining how their resources (partners) need to be utilized. To allow a retiring owner to have control over this critical of a process is to basically allow that person to determine how the remaining organization is going to operate in the future.

The counter argument comes from the retiring owner saying something like, "Since I will be penalized if the client is lost, I want to turn my client over to the person I think has the best chance of maintaining a long-term relationship." If this is the case, you have a problem on this side, as well. The retiring owner needs to be held to a specific transition plan. If he/she follows the identified plan for each client, then whether the client leaves the firm or not, there should be no penalty to the retiring owner. If the client leaves after proper transitioning, it is because the firm lost the client.

On the other hand, if the retiring partner does not execute on the transition plan per the instructions articulated for each client, then the retiring partner should be held responsible (because he/she did not give the firm an adequate chance to keep the client) for any of these improperly transitioned clients who subsequently leave. This balanced approach is equitable: the retiring owner is protected if he/she does the right things and the firm is protected if it does the right things.

**Succession Strategies**

**Which describes the transition of your firm when the current senior owner(s) retire?**
Some new answer options were added to this year's survey, as well as some of the previous options revised slightly. Consequently, comparability with prior years has been affected.

This question changed from prior years, because we shifted it from “select all that apply” to “choose the best answer.” In the past, it was fairly apparent that while the vast majority of firms planned to sell internally, they also had a “wait and see” approach as options for sale and merger were also of high interest if the senior partners did not perceive that the younger partners were stepping up and living up to their expectations. We changed the question, because we wanted to know more definitely what the plan was. Certainly, regardless of the primary option, if things don’t work out, all options are on the table. But we were not sure whether merger/sale was the primary option with the backup being selling internally or vice versa. Seventy-six percent of the 392 firms plan to sell the firm internally to the remaining owners, with 11 percent having no idea (a new option this year) and 10 percent more planning on merger. This is a strong showing for remaining independent given the merger mania existing in the marketplace over the past decade.

As a side note, we believe that if the senior partners are not seeing their younger partners stepping up and living up to expectations, there’s a high probability that it is because the senior partners have made one or more of the following mistakes. They:

- made people partners who shouldn’t have been admitted as partners in the first place, or
- haven’t spent the necessary time developing their younger partners, or
- have not been making the necessary investments into building infrastructure and capacity to sustain the firm beyond the senior partners, or
- haven’t gotten out of the way long enough to find out what the younger partners have to offer.

As we always say, whether it is in our books, videos or speaking in public settings, while the senior partners can and should take a great deal of the credit for the exceptional successes their firms have enjoyed, they can equally take the blame for the firm’s shortcomings, because they are not addressing, or are poorly addressing, the areas in question.

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**Part 5 – Multi-Owner Firms**

| Answer | | 2016% | 2012% | 2008% | 2004% |
|---|---|---|---|---|---|
| The firm and the clients of the senior owners will be transitioned to the remaining owners or incoming owners per everyone's expectation. | | 76% | 83% | 79% | 86% |
| We have no idea, because we have not discussed, addressed or resolved this issue at this time. | | 11% | | | |
| The firm will most likely look for a merger candidate due to partner confidence in the firm's continuation as an independent firm (perceived lack of strong future leadership and/or the ability of the future leadership to buy out the retiring partners). | | 10% | 7% | 8% | 10% |
| Because no one else in the firm is interested in, has capacity for, or has the capability to do the work of the retiring partners, those retiring senior owners will likely sell off their part of the practice to some other firm and the rest of the partners will continue working in the firm just as they always have. | | 2% | | | |
| The owners all plan to retire at the same time and shut down the firm on their final day of work. If there is a ready market to buy the clients of the firm, then we will sell off our clients. If not, we will be ready to walk away and turn off the lights on our way out the door on our last day of work. | | 1% | 5% | 7% | 9% |
| Because no one else in the firm is interested in, has capacity for, or has the capability to do the work of the retiring partners, those senior owners will likely sell off their part of the practice to some other firm and the rest of the partners will likely split up into multiple firms. | | 1% | | | |
| Total | | 100% | | | |

| Answer | 1-7.99 FTEs | 8-15.99 FTEs | 16-25.99 FTEs | 26-50.99 FTEs | 51-100.99 FTEs | 101-200.99 FTEs | 201 or more FTEs |
|---|---|---|---|---|---|---|---|
| The firm and the clients of the senior owners will be transitioned to the remaining owners or incoming owners per everyone's expectation. | 56% | 65% | 83% | 93% | 97% | 94% | 100% |
| We have no idea, because we have not discussed, addressed or resolved this issue at this time. | 21% | 15% | 6% | 3% | 0% | 6% | 0% |
| The firm will most likely look for a merger candidate due to partner confidence in the firm's continuation as an independent firm (perceived lack of strong future leadership and/or the ability of the future leadership to buy out the retiring partners). | 17% | 13% | 11% | 3% | 3% | 0% | 0% |
| Because no one else in the firm is interested in, or has capacity for, or has the capability to do the work of the retiring partners, those senior owners will likely sell off their part of the practice to some other firm and the rest of the partners will likely split up into multiple firms. | 0% | 2% | 0% | 0% | 0% | 0% | 0% |
| Because no one else in the firm is interested in, has capacity for, or has the capability to do the work of the retiring partners, those retiring senior owners will likely sell off their part of the practice to some other firm and the rest of the partners will continue working in the firm just as they always have. | 4% | 4% | 0% | 0% | 0% | 0% | 0% |
| The owners all plan to retire at the same time and shut down the firm on their final day of work. If there is a ready market to buy the clients of the firm, then we will sell off our clients. If not, we will be ready to walk away and turn off the lights on our way out the door on our last day of work. | 1% | 1% | 0% | 0% | 0% | 0% | 0% |
| Total | 70 | 99 | 64 | 60 | 35 | 17 | 13 |

The above table essentially shows a continuation of past findings: the larger the firm, the higher the expectation that ownership will be transitioned internally (from 56 percent at a low for the smallest firms and a 97 percent average for the largest firms, an average of 51 FTEs or more at 97 percent + 94 percent + 100 percent divided by 3). Smaller firms, while apparently desiring to see the transition occur internally as expected, are still contemplating merger (at 17 percent for firms with less than eight FTEs). And the smaller the firm, the more likely that the partners have NOT addressed this issue yet (21 percent and 15 percent for FTEs of less than eight and less than 16 respectively).

**Have you been in active merger or acquisition discussions with a firm (or firms) in the past 24 months or are you planning on looking into merger or acquisitions in the next 24 months?**

| Answer | | Response | % |
|---|---|---|---|
| No | | 203 | 51% |
| Yes | | 193 | 49% |
| Total | | 396 | 100% |

Up somewhat from past years (44 percent in 2012), 51 percent of the 396 firms answering this question have been actively discussing mergers or acquisitions/sales in the past 24 months or are considering looking into them over the next 24 months.

**Which best describes your role in the merger and acquisition discussions you have been having?**

This question was answered by 191 of the 193 firms that are actively looking into mergers. Consistent with the previous year's survey results (62 percent in 2016 and 64 percent in 2012), nearly two-thirds are doing so as an acquirer with roughly one out of five (18 percent in 2016 and 21 percent in 2012) looking at both sides of the merger transaction – both as an acquirer and as a potential target for acquisition. Therefore, 80 percent (62 percent + 18 percent) of the respondents are looking to acquire other firms.

| Answer | | 2016% | 2012% |
|---|---|---|---|
| We are the "mergor" (the acquiring firm). | | 62% | 64% |
| We are the "mergee" (the firm being acquired). | | 20% | 15% |
| Both of the above: We have had discussions with firms when our firm was the one to be acquired, as well as when our firm was to be the acquirer of another firm. | | 18% | 21% |
| Total | | 100% | 100% |

Now, let's take a look at these two questions by size of firm to see how the numbers skew by size.

**Have you been in active merger or acquisition discussions with a firm (or firms) in the past 24 months or are you planning on looking into merger or acquisitions in the next 24 months?**

| Answer | 1-7.99 FTEs | 8-15.99 FTEs | 16-25.99 FTEs | 26-50.99 FTEs | 51-100.99 FTEs | 101-200.99 FTEs | 201 or more FTEs |
|---|---|---|---|---|---|---|---|
| Yes | 33% | 37% | 48% | 51% | 73% | 88% | 85% |
| No | 67% | 63% | 52% | 49% | 27% | 12% | 15% |
| Total | 70 | 99 | 65 | 61 | 37 | 17 | 13 |

The larger the firm, the more likely it has been considering a merger or sale/acquisition, with 73 percent or more of firms that have 51 FTEs or more indicating that they have been in active discussions or are planning to engage in such discussions. If you assume (just based on our experience) that 51 FTEs would correlate on a low end to about $5 million in revenue (51 FTEs times $100,000 per FTE at a low end), that means that three out of four firms over $5 million in revenues have (in the last 24 months) or will (plan to have in the coming 24 months) active discussions about merger/acquisition regarding their firms.

**Which best describes your role in the merger and acquisition discussions you have been having?**

| Answer | 1-7.99 FTEs | 8-15.99 FTEs | 16-25.99 FTEs | 26-50.99 FTEs | 51-100.99 FTEs | 101-200.99 FTEs | 201 or more FTEs |
|---|---|---|---|---|---|---|---|
| We are the "mergor." | 48% | 47% | 50% | 61% | 67% | 100% | 100% |
| We are the "mergee.” | 43% | 28% | 33% | 16% | 0% | 0% | 0% |
| Both of the above. | 9% | 25% | 17% | 23% | 33% | 0% | 0% |
| Total | 23 | 36 | 30 | 31 | 27 | 15 | 11 |

| Answer | $1 - $500,000 | $500,001 - $750,000 | $750,001 - $1,000,000 | $1,000,001 - $2,000,000 | $2,000,001 - $3,500,000 | $3,500,001 - $5,000,000 | $5,000,001 - $8,000,000 | $8,000,0001 - $15,000,000 | $15,000,001 - $25,000,000 | $25,000,001 - $60,000,000 | $60,000,001 - $160,000,000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| We are the "mergor." | 50% | 14% | 64% | 65% | 38% | 52% | 67% | 69% | 82% | 100% | 100% |
| We are the "mergee." | 50% | 71% | 27% | 23% | 34% | 19% | 19% | 0% | 0% | 0% | 0% |
| Both of the above. | 0% | 14% | 9% | 13% | 28% | 29% | 14% | 31% | 18% | 0% | 0% |
| Total | 6 | 7 | 11 | 31 | 29 | 21 | 21 | 26 | 11 | 8 | 8 |

We wanted to take a look at this from an FTEs and revenues perspective. As you can see, firms above 101 FTEs or $25 million in revenues are only considering being the mergor. Firms from 51 FTEs to less than 101 and those from $8 million to less than $25 million are still looking at both options. And everyone smaller than $8 million, except for firms less than $500,000 in revenues, are looking at both options.

**What is the targeted size (in annual revenues) of firms you are looking to acquire?**
This is a new “select all that apply” question added to the survey this year. For firms of all categories, merger targets of 10 percent to 30 percent of the acquiring firm’s annual revenues are fairly common. In the smallest size category, the greatest apparent interest lies in mergers with firms equal to about half of the acquirer’s revenue. As we expected, there are very few firms looking at trying to acquire and merge firms larger than theirs.

| Answer | 1-7.99 FTEs | 8-15.99 FTEs | 16-25.99 FTEs | 26-50.99 FTEs | 51-100.99 FTEs | 101-200.99 FTEs | 201 or more FTEs |
|---|---|---|---|---|---|---|---|
| About 10% of our annual revenues | 15% | 15% | 50% | 38% | 59% | 47% | 70% |
| About 20% of our annual revenues | 15% | 23% | 40% | 58% | 63% | 67% | 70% |
| About 30% of our annual revenues | 31% | 35% | 30% | 35% | 26% | 33% | 50% |
| About 40% of our annual revenues | 15% | 19% | 15% | 23% | 11% | 40% | 20% |
| About 50% of our annual revenues | 46% | 27% | 30% | 23% | 7% | 27% | 20% |
| About 75% of our annual revenues | 8% | 8% | 10% | 4% | 0% | 7% | 10% |
| About the same size annual revenues | 8% | 15% | 25% | 8% | 0% | 7% | 0% |
| About 125% of our annual revenues | 0% | 4% | 0% | 0% | 0% | 0% | 0% |
| About 150% of our annual revenues | 0% | 4% | 0% | 0% | 0% | 0% | 0% |
| More than 150% of our annual revenues | 0% | 0% | 0% | 4% | 0% | 0% | 0% |
| Total | 18 | 39 | 40 | 50 | 45 | 34 | 24 |

**What is the optimum size of the acquisition targeted (in annual revenues) for firms you are looking to acquire?**

| Answer | Response | % |
|---|---|---|
| $1 - $300,000 | 13 | 9% |
| $300,001 - $750,000 | 35 | 25% |
| $750,001 - $1,500,000 | 36 | 26% |
| $1,500,001 - $3,500,000 | 26 | 19% |
| $3,500,001 - $5,000,000 | 7 | 5% |
| $5,000,001 - $8,000,000 | 10 | 7% |
| $8,000,001 - $15,000,000 | 9 | 7% |
| $15,000,001 - $25,000,000 | 2 | 1% |
| $25,000,001 - $70,000,000 | 0 | 0% |
| $70,000,001 - $120,000,000 | 0 | 0% |
| More than $120,000,000 | 0 | 0% |
| Total | 138 | 100% |

Once we had asked about acquiring firms as a percentage to their size, we then asked what were the annual revenues of the firms they were looking to acquire. So between the first question and this one, we gain an insight as to size proportional to the acquiring firm, as well as revenues of interest to those firms. Firms with volumes between $300,000 and $1.5 million have the most interest overall in the merger/acquisition marketplace, with the average for this question falling between $750,001 and $1,500,000.

However, a different story is told when you look at this next table that breaks this question down by firm size.

| Answer | 1-7.99 FTEs | 8-15.99 FTEs | 16-25.99 FTEs | 26-50.99 FTEs | 51-100.99 FTEs | 101-200.99 FTEs | 201 or more FTEs |
|---|---|---|---|---|---|---|---|
| $1 - $300,000 | 36% | 18% | 17% | 4% | 0% | 0% | 0% |
| $300,001 - $750,000 | 64% | 59% | 33% | 22% | 0% | 13% | 0% |
| $750,001 - $1,500,000 | 0% | 9% | 39% | 43% | 40% | 0% | 0% |
| $1,500,001 - $3,500,000 | 0% | 14% | 0% | 26% | 44% | 27% | 0% |
| $3,500,001 - $5,000,000 | 0% | 0% | 6% | 4% | 4% | 13% | 10% |
| $5,000,001 - $8,000,000 | 0% | 0% | 6% | 0% | 12% | 13% | 30% |
| $8,000,001 - $15,000,000 | 0% | 0% | 0% | 0% | 0% | 27% | 50% |
| $15,000,001 - $25,000,000 | 0% | 0% | 0% | 0% | 0% | 7% | 10% |
| $25,000,001 - $70,000,000 | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| $70,000,001 - $120,000,000 | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| More than $120,000,000 | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Total | 11 | 22 | 18 | 23 | 25 | 15 | 10 |

Now you can see that firms under 16 FTEs are most interested in merging or acquiring firms at $750,000 or less, with firms with 16 FTEs and less than 26 FTEs most interested in firms from $300,000 to $1.5 million. Firms from 26 FTEs to less than 101 are most interested in mergers/acquisitions from $750,000 to $3.5 million. Firms with 101 FTEs to less than 201 FTEs are most interested in firms from $1.5 million to $15 million, and the largest of firms are most interested in merging with firms from $3.5 million to $25 million. So while the overall average firm of interest for merger or acquisition is in the size range of $750,000 to $1.5 million, this is due to the greater volume of firms in our profession being smaller firms. But as you can see, as firms grow larger, the optimum merger/acquisition target grows right along with them.

**What is the size (in annual revenues) of firms that have been looking at acquiring you?**

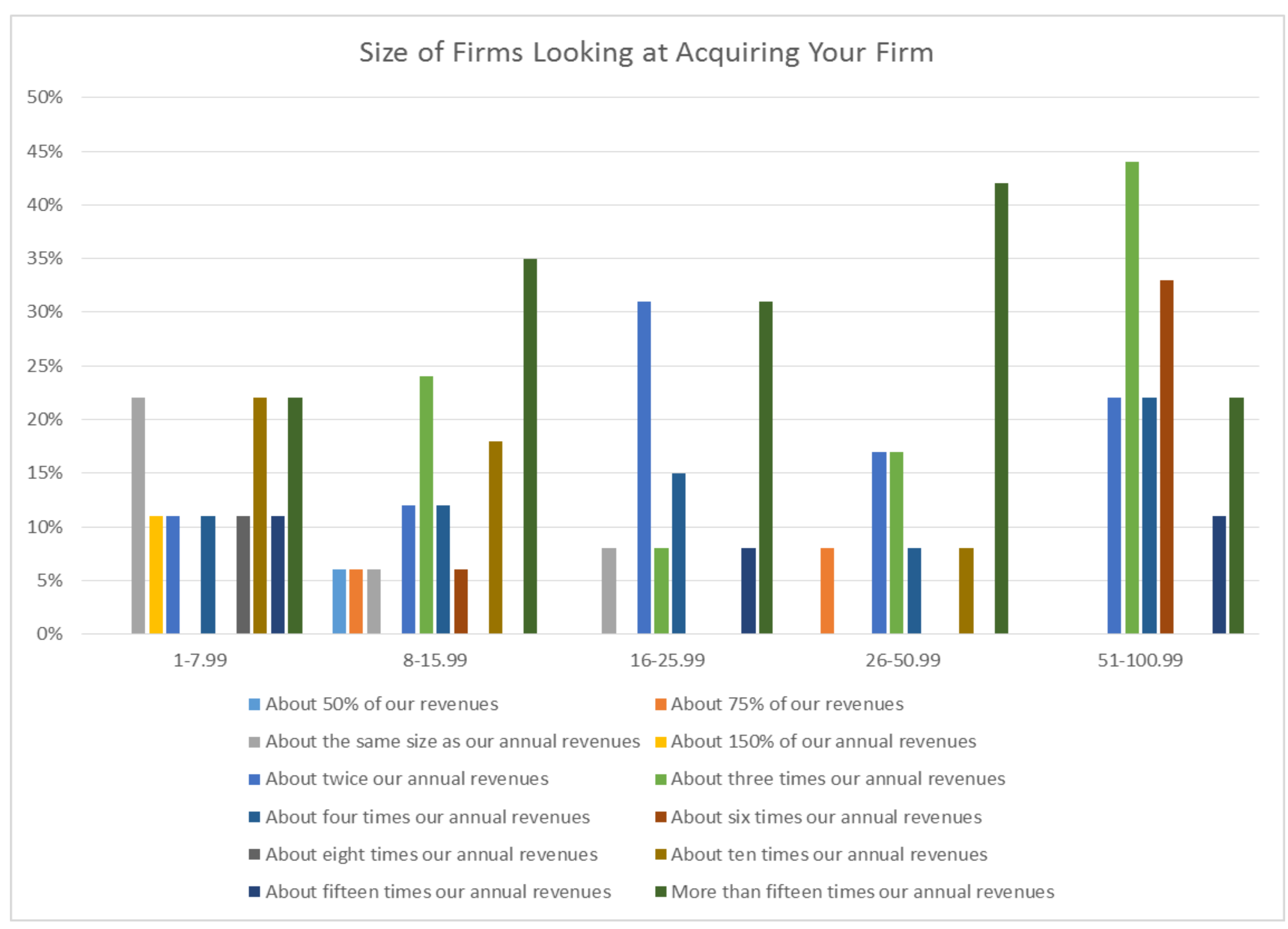
| Answer | Response | % |
|---|---|---|
| About 50% of our revenues | 1 | 2% |
| About 75% of our revenues | 2 | 3% |
| About the same size as our annual revenues | 4 | 6% |
| About 150% of our annual revenues | 2 | 3% |
| About twice our annual revenues | 12 | 18% |
| About three times our annual revenues | 12 | 18% |
| About four times our annual revenues | 9 | 14% |
| About six times our annual revenues | 4 | 6% |
| About eight times our annual revenues | 2 | 3% |
| About 10 times our annual revenues | 6 | 9% |
| About 15 times our annual revenues | 3 | 5% |
| More than 15 times our annual revenues | 20 | 30% |

Of the 66 firms that responded they were in merger discussions as the mergee, the proportional size of the mergor firm (the firm interested in acquiring or merging their firm) to their firm was as follows.

| Answer | 1-7.99 FTEs | 8-15.99 FTEs | 16-25.99 FTEs | 26-50.99 FTEs | 51-100.99 FTEs | 101-200.99 FTEs | 201 or more FTEs |
|---|---|---|---|---|---|---|---|
| About 50% of our revenues | 0% | 6% | 0% | 0% | 0% | 0% | 0% |
| About 75% of our revenues | 0% | 6% | 0% | 8% | 0% | 0% | 0% |
| About the same size annual revenues | 22% | 6% | 8% | 0% | 0% | 0% | 0% |
| About 150% of our annual revenues | 11% | 0% | 0% | 0% | 0% | 0% | 0% |
| About twice our annual revenues | 11% | 12% | 31% | 17% | 22% | 0% | 0% |
| About three times our annual revenues | 0% | 24% | 8% | 17% | 44% | 0% | 0% |
| About four times our annual revenues | 11% | 12% | 15% | 8% | 22% | 0% | 0% |
| About six times our annual revenues | 0% | 6% | 0% | 0% | 33% | 0% | 0% |
| About eight times our annual revenues | 11% | 0% | 0% | 0% | 0% | 0% | 0% |
| About 10 times our annual revenues | 22% | 18% | 0% | 8% | 0% | 0% | 0% |
| About 15 times our annual revenues | 11% | 0% | 8% | 0% | 11% | 0% | 0% |
| More than 15 times our annual revenues | 22% | 35% | 31% | 42% | 22% | 0% | 0% |
| Total | 11 | 21 | 13 | 12 | 14 | 0 | 0 |

As noted earlier, firms with 101 FTEs or more were not engaging in these discussions as the mergee and that is reflected above. But we were surprised that firms of almost every size were interested in merging/acquiring firms with less than eight FTEs. The data also show that 22 percent of these firms (with less than eight FTEs) indicated firms more than 15x their size were in merger discussions with them. It is interesting to note further that a fairly large level of interest (ranging from 22 percent to 42 percent) is being shown by firms 15 times the size of the firms in every size category (except for firms with 101 FTEs or more). Firms about twice the size of the acquisition targets account for a range from 11 percent to 31 percent of responses.

We developed the following graphic by firm size to more clearly display the relative size of firms that have been approaching them for merger or acquisition.


Size of Firms Looking at Acquiring Your Firm
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
1-7.99
8-15.99
16-25.99
26-50.99
51-100.99
About 50% of our revenues
About 75% of our revenues
About the same size as our annual revenues
About 150% of our annual revenues
About twice our annual revenues
About three times our annual revenues
About four times our annual revenues
About six times our annual revenues
About eight times our annual revenues
About ten times our annual revenues
About fifteen times our annual revenues
More than fifteen times our annual revenues

**What challenges are you trying to address that represent barriers to your firm's effective succession management?**

| Answer | | 2016% | 2012% | 2008% |
|---|---|---|---|---|
| Senior partners feel that the younger members of the firm are not ready to step into leadership positions. | | 33% | 42% | 38% |
| There is no penalty that can be assessed against retiring partners for improperly transitioning their clients. | | 23% | 25% | 22% |
| The firm has multiple owners with conflicting personal goals, so there is no agreed upon shared vision or future strategy for the firm at this time. | | 16% | 26% | 25% |
| The firm does not have a written and approved owner agreement. | | 14% | 28% | 26% |
| Retirement age partners are unwilling to retire. | | 12% | 11% | 11% |
| Retiring partners are unwilling to transition clients. | | 12% | 16% | NA |
| The firm does not have a mandatory retirement age, so partners retire in place (working less, but drawing large compensation). | | 12% | 19% | NA |
| None of the above - we have no challenges at this time. Our plan is working well. | | 23% | | |
| None of the above - we have no succession plan. | | 10% | | |
| None of the above - we have no internal successors within the firm. The owners are all likely to retire at the same time and we do not have any partner candidates identified in the near horizon. | | 8% | | |
| Retirement payout is based on book size or hours billed, so retiring partners do a poor job of transition because they are motivated to maximize their income instead. | | 7% | 9% | 7% |
| Partners have retired, but still maintain a significant number of client relationships and therefore can constantly make demands of the partner group if we want to keep those clients. | | 2% | 6% | 6% |
| Other, please specify. | | 7% | 12% | 13% |

The options for answers to this question were expanded this year, so overall comparability has been affected because of that. However, from the 384 responses answering this question, two issues clearly can be viewed in terms of trends: lack of penalties for improperly transitioning clients (23 percent) and concern about the next generation's readiness to take over (33 percent). But the real trend here is that firms are getting better at managing succession issues, with or without a plan, as overall the numbers in each question are either about the same or trending in a more positive direction.

| Answer | 1-7.99 FTEs | 8-15.99 FTEs | 16-25.99 FTEs | 26-50.99 FTEs | 51-100.99 FTEs | 101-200.99 FTEs | 201 or more FTEs |
|---|---|---|---|---|---|---|---|
| The firm does not have a written and approved owner agreement. | 17% | 21% | 20% | 8% | 6% | 0% | 0% |
| Retiring partners are unwilling to transition clients. | 6% | 7% | 6% | 22% | 19% | 41% | 15% |
| None of the above – we have no internal successors within the firm. The owners are all likely to retire at the same time and we do not have any partner candidates on the near horizon. | 20% | 11% | 2% | 0% | 0% | 0% | 0% |
| Senior partners feel that the younger members of the firm are not ready to step into leadership positions. | 12% | 36% | 32% | 45% | 53% | 47% | 31% |
| Other, please specify. | 4% | 6% | 11% | 10% | 6% | 6% | 15% |
| Retirement payout is based on book size or hours billed, so retiring partners do a poor job of transition because they are motivated to maximize their income. | 1% | 7% | 9% | 10% | 6% | 0% | 0% |
| Retirement age partners are unwilling to retire. | 7% | 10% | 12% | 10% | 8% | 41% | 15% |
| There is no penalty that can be assessed against retiring partners for improperly transitioning their clients. | 12% | 15% | 34% | 32% | 33% | 24% | 15% |
| The firm has multiple owners with conflicting personal goals, so there is no agreed upon shared vision or future strategy for the firm at this time. | 9% | 15% | 20% | 25% | 14% | 12% | 8% |
| Partners have retired, but still maintain a significant number of client relationships and can constantly make demands of the partner group if we want to keep those clients. | 0% | 1% | 3% | 3% | 6% | 12% | 0% |
| None of the above – we have no challenges at this time. Our plan is working well. | 26% | 15% | 15% | 20% | 31% | 47% | 38% |
| The firm does not have a mandatory retirement age, so partners retire in place (working less, but drawing large compensation). | 13% | 13% | 17% | 8% | 6% | 6% | 0% |
| None of the above – we have no succession plan. | 20% | 16% | 8% | 0% | 0% | 0% | 0% |
| Total | 102 | 171 | 123 | 116 | 67 | 40 | 18 |

In reviewing the table showing data by firm size, one will note that the three middle size ranges covering 16 to less than 26 (34 percent), 26 to less than 51 (32 percent) and 51 to less than 101 (33 percent) FTEs are struggling the most with not having a penalty for improperly transitioning clients.

With respect to whether the senior partners feel that the younger members are ready to step into their shoes, the table shows surprisingly that firms from the size of 26 to less than 201 FTEs (45 percent, 53 percent, 47 percent respectively) are having the most difficult time with this.

Generally speaking, our experience is that the larger the firm, the less this is a problem. But even for firms from 101 to less than 201 FTEs, almost 50 percent of the firms said this was a problem.

Although these opinions about the lack of readiness among the next generation of partners could be valid, we often find diamonds in the rough in such situations who just need some polishing to prepare them for leadership. In these and other cases, it not uncommon that the reason senior owners don't have people on board with whom they're comfortable is because the senior partners have not taken the time to develop the people below them. Or just as common, the current leaders don't see the emerging leaders stepping up, because the current leaders won't get out of the way.

The fact is that firms only need, and only can handle, so many leaders at any one time. Therefore, until a leadership void is created or becomes available to be filled (we recommend that existing leaders create those openings), it is highly likely that no one will step up. Often the future leaders won't step up out of respect for the existing leaders. It is not because the future leaders are unwilling to do the work necessary; these young leaders don't want to appear to be pushing the existing leaders aside. The good news, however, is that if a firm <u>has at least a three-year window</u> to conduct the necessary deferred maintenance in leadership development, much can be done to remove this perceived barrier to success.

And the biggest surprise of all is that in firms with 101 to less than 201 FTEs, 41 percent are having trouble getting retirement-age partners to retire (and therefore 41 percent are probably having trouble getting them to transition clients). When the highest percentage of acknowledgement of this issue for the other sizes of firms is 15 percent, 41 percent is clearly a significant proportion.

The fact that firms in all size ranges, except for the largest size category of FTEs, have no mandatory retirement age points to future problems for them in succession management. The good news is that this statistic is trending in the right direction. The problem we encounter regularly is that when the senior owners are doing their job to create strong future leaders, but the senior owners decide to stay around on an indefinite timetable, the firm will often lose some of their most promising succession candidates. These people will leave either to start their own firms or to go to work in another firm in order to find a home with more certainty as to exactly when they will be able to step into the senior leadership roles.

A piece of good news in this year's findings is that 23 percent of the firms indicate that their succession plan is in place and working well, where the larger the firm, the more likely this response was selected (with 31 percent, 47 percent and 38 percent respectively for firms with 51 FTEs or larger). However, even with this positive progression, there are still a lot of firms that need to do anywhere from a little to a lot of work in succession management.

We were also happy to see the downward trend of retired partners still being allowed to manage a significant number of client relationships. From our experience, however, we still find this situation in almost every size firm we work with, except for the largest firms that don't allow retired partners to work in the firm at all after retirement. Regardless of firm size, rarely does any good come from having retired partners maintain client relationships after they have sold their

ownership. It will most often lead to the firm being held hostage by these retirees, with the retirees ending up double-dipping by earning extra compensation post-retirement to do what they should have already done pre-retirement.

## Wrap-Up

We will pick up at this point in the survey for our next article, part 6, as the survey addresses the people side of succession. The article will provide insight into requirements for new partners, changing infrastructure and developing future leaders.

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## The End of the Staff Shortage?

### Demand for new hires softens as college talent pipeline sets record

*By Rick Telberg*
*CPA Trendlines*

New signs are emerging that the profession may be approaching a long-awaited inflection point: Productivity gains from new technologies are finally showing up in reductions in hiring plans. That's good news for some, not so much for others.

Are we on the verge of a CPA glut? Are we going to see lines of unemployed accountants at the entrance of industrial parks holding signs that say, “Will do tax prep for food?"

Well, no. But new data suggest we are seeing a record number of students enrolled in accounting programs. At the same time, there’s been an easing of the hiring rate.

Let’s do the math.

Glut is hardly the projection, according to the American Institute of CPAs (AICPA’s) *Trends in the Supply of Accounting Graduates and the Demand for Public Accounting Recruits*. It’s more like a long-awaited filling of accountancy’s perilously thin ranks. The academic pipeline is gushing and the slight slowing in new hires is coming down from a record high in 2014-15. Future hiring is expected to increase.

The trends report finds that total projected accounting enrollments remain constant with the record level seen in 2014-2015. Bachelor’s degree student levels have increased by 5 percent, though that was balanced by slight decreases in other related degree types. Overall, the numbers were the same, but with a perceptible shift in focus from MBA accounting to tax accounting.

Yvonne Hinson, AICPA academic-in-residence, senior director, Academic & Student Engagement, says: “The high number of undergraduate enrollments in accounting programs bodes well for the goal of continuing a strong pipeline of talent entering the profession. Projected accounting enrollment is still at an all-time high, with no overall change since the record levels seen in 2014-15.

Hinson reports: "We have seen a shift, however, in the proportion of bachelor’s versus master’s enrollments. Projected master’s enrollments have declined, returning to pre-2014 levels ... There are many reasons students may not be pursuing master’s degrees at the same scale as

previous years. The rising cost of college tuition may be compelling students to seek lower-cost alternatives to reach their state's hourly requirements for CPA licensure."

Nevertheless, the pipeline also bodes well for the majority of *CPA Trendlines* members who for years have been reporting the difficulty of finding good employees. Staff shortages have contributed to complaints of excruciating tax seasons.

**The Supply is High and Steady**

The 2015-16 academic year saw 216,482 people enrolled in bachelor's programs, up from 207,071 the year before. At the same time, master's in accounting numbers dropped drastically from 39,641 to 29,429. Students pursuing an MBA in accounting remained relatively stable, inching down from 3,107 to 3,014. Master's in taxation went about as far the other direction, rising from 2,068 to 3,177. The report did not interpret whether the declines were due to graduation or changes in educational pursuits.

The gender proportions continue to be close to the proportions of the general population. A few years ago, it looked like women were going to hold a slight lead in enrollment. From 2006 until about 2008, they held a two-point lead. But in 2009, the lines crossed. By 2011, males accounted for just over half of enrollment and today, they hold 52 percent of the college-level classroom.

**The Demand is Dipping**

Meanwhile, the hiring of recent graduates by CPA firms has slowed. New adds of professionals with brand-new bachelor's degrees were 24,931 in 2014, but only 21,167 in 2016. The drop in hires of those with master's degrees was even steeper, down to 13,722 from 18,321.

Hiring projections could be described as guardedly optimistic. Of firms that hired accounting graduates in 2016-17, 45 percent expected to continue hiring at the same rate, but only 14 percent expected to increase hiring; 18 percent expected the hiring pace to decline. But that left almost a quarter of CPA firms unsure.

Future hiring of non-accounting graduates is far more unsure. Fully half of firms that had hired new non-accounting graduates in 2016-17 couldn't say what the future would bring. Only 3 percent expected hiring to increase, while 23 percent foresaw a decrease.

AICPA President and CEO Barry Melancon is bullish in his interpretation of the trends report. "While technology and data analytics are reshaping the global economy," he says, "CPAs remain uniquely positioned to take advantage of these trends."

However, you need to square that with the fact the next generation of accountants in the collegiate pipeline set a record last year and remains at that level this year, even as firms appear to be backing off on expanding headcounts with new graduates, according to new research.

In addition, the value of the CPA credential in the job market may be eroding. More young accountants are moving ahead with their careers without a CPA license. The number of new CPA candidates increased 13 percent between 2015 and 2016, but the number of CPA candidates who passed their 4th section of the CPA Examination increased at half that rate – 7 percent.

Still, it wasn't long ago that the accounting profession looked a little shaky. College enrollment figures showed fewer and fewer people crazy enough to go into accountancy. In 1993, an estimated 189,863 people were pursuing a bachelor's degree in accounting. Over the next five

years, the number declined steadily, dipping to 127,960 in 1999. The number seeking a master's degree in taxation dropped by almost half.

But the trend turned around – slowly at first, then faster. It took 15 years for the enrollment figures to return to their 1993 levels. The economic concerns following the Bush administration may have fueled a big increase around that time. Accounting may not be the sexiest profession, but there's always a job out there.

There are an estimated 216,482 people seeking bachelor's degrees – almost 10,000 more than last year – and over 36,000 seeking post-graduate degrees, about 10,000 fewer than last year, according to AICPA's *2017 Trends in the Supply of Accounting Graduates and the Demand for Public Accounting Recruits.*

**The Growing Diversity in Accountancy**

Also encouraging: a strong increase in ethnic diversity. Whites are still the preponderant ethnic population in accounting programs, but the percentage of nonwhites has become almost as large. In 2016, the Asian/Pacific Islander cohort represented 13 percent of undergrads. African-Americans represented 12 percent, pretty close to their 13.3 percent portion of the general population. Hispanics accounted for another 12 percent of future accountants. In all, just over 40 percent of incoming accountants are nonwhite. The numbers are about the same for those who just graduated.

About 30 percent of new hires were nonwhite, but if the pipeline is any indication, that number is going to move upward in the next few years. New hires at the upper levels of the profession, however, are still disproportionately white, an inevitable reflection of earlier ethnic percentages. Ninety-five percent of partners hired in 2016 were white. Just 2 percent were black and under 1 percent were Hispanic – radically different from new student enrollments! It will be interesting to see what partners look like 20 years from now.

In addition, American higher education must be doing something right. In 2015-16, 13 percent of accounting graduates were from other countries. One in five postgraduates were foreign students.

**Women a Big Part of the Profession**

Slightly more than half of bachelor's and master's degree students were women 10 years ago. In 2008, that started to change. In 2010, the percentages were just about 50-50. By 2016, 53 percent of undergraduate accounting majors were male, but women still held a one-point lead in postgraduate studies.

**Demand High, But in Decline**

The demand for accounting graduates is still high, though it has been higher. New hires in 2014 set a record at 43,252, up from 40,350 the year before. In 2016, it was "only" 34,889, a decline, yes, but still the third-highest level since AICPA began tracking trends in 1971. That number for 2016 reflects 21,167 recent grads with bachelor's degrees plus 13,722 with master's diplomas.

How this softening demand will meet up with the burgeoning supply is a question that may come to a head in three or four years. A lot depends on the trend between now and then. The stats bode well, as 16 of 20 firms in the largest category said they expected to hire as many or more new graduates in 2016.

The number of people taking the CPA Examination increased dramatically – 13 percent from 2015 to 2016. Hinson says, "This increase is due to the new exam launch in April 2017, the

efforts of state societies and AICPA to encourage exam takers, and the efforts of firms to encourage individuals to take the exam, aligned with our research that shows encouragement as a key driver to taking the exam."

Hear that, ye of the profession? Be encouraging! And ye in study mode: be encouraged.

**Key Trends in Hiring at U.S. CPA Firms**

- "Public accounting firm hiring projections have slowed after several years of growth," according to AICPA. "As technology advances, we expect that the largest firms may not need to hire as many new accounting graduates as entry-level employees. We are also seeing that university accounting programs are starting to incorporate more data analytics to keep up with the pace of technology change in the profession. For example, the KPMG Master of Accounting with Data and Analytics Program is one of many data-focused programs you will see launch in the next few years."
- After several years of growth, hiring has declined for both bachelor's and master's in accounting graduates. Total demand in the latest survey stands at about 35,000 new graduates a year, down from 43,000 the year before.
- Of firms that hired one or more accounting graduates in 2016, 59 percent expect to hire the same number of new accounting graduates or more in 2017. Only 14 percent say they're hiring more.
- Future hiring of new non-accounting graduates at CPA firms is uncertain. Of firms that hired one or more new non-accounting graduates in 2016, 50 percent are not sure how many non-accounting graduates they will hire in 2017.
- 65 percent of all U.S. CPA firms expect to add no new CPA positions this year and 13 percent plan on reductions or aren't sure.
- 12 percent of firms expect to add new non-CPA positions this year, while 71 percent expect no change.
- Firms overall expect a decrease in the number of partners in 2017, and 9 percent expect the same or fewer.

Rick Telberg is president and CEO of *CPA Trendlines Research*, providing actionable intelligence to tax, accounting and financial professional worldwide, at cpatrendlines.com.

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**Engaging Partners in the Firm's Future**

No one would ever question that a firm's success is ultimately tied to its partners' performance. And yet getting the partners to work across practices to increase partner performance is one of the key issues facing the majority of firm leaders we talk to. Our advice on how to resolve the performance issue comes from our work over the last 20 years in all sizes of firms across Europe, the U.S. and Canada and confirms what we all intuitively know – the more the partners are engaged in the firm's future, the better they perform.

So, before you can work on performance, you need to work on getting your partners involved and committed to the firm's future. Partners won't be committed to the future if they haven't had any involvement in deciding what it should be. And if they aren't committed, they essentially work for themselves, not the firm.

Partners are the culture in a professional services firm – what they believe, what they reward, what they do and how they do it determines what and how things get done. If they don't believe in what the firm is doing, they will never be effective role models who think firm first and actively bring the whole of the firm's services to their clients.

**Challenges**

In our work, we have identified six major challenges that firms need to address to engage their partners and to ensure everyone moves forward together. They are:

1. Un-motivational firm vision
2. Lack of clearly defined core values
3. Lack of clarity around what being a partner means
4. Ineffective or non-existent partner performance reviews
5. Performance systems not tied to strategic initiatives
6. Lack of successful firm leaders

Most firms consider the above six challenges to be merely "touchy feely" aspects of running a professional services firm. They take time to implement and the common response is that "we have clients to serve and this stuff just detracts us from our real job." However, unless you embrace these challenges and get your partners actively engaged and performing for the firm and its future, you may find yourself without clients and without a viable future.

**1. Un-motivational firm vision**

More firms now have a vision and a strategy in the hope of engaging partners and employees – but the partners aren't always involved in their creation and often don't buy in to the vision. This can be because the vision just isn't compelling enough or because the partners are more interested in their own practice rather than creating a real firm. This type of professional services firm is usually referred to as a "siloed" firm and never succeeds in bringing the full capabilities of the firm to bear.

A vision tells us what we want to be in the future, not what we are today. Perhaps we have a vision of being a cross-border accounting firm or an international law firm. The problem with most visions is that they do not provide a powerful picture of what the firm will look like in five, 10 or more years from now. Most visions are neither motivating nor audacious. And often, they lack a larger sense of purpose. Do partners understand and see what the end game looks like? Do they think they are putting steel girders together or are they building a bridge? Building a bridge is more inspiring than just welding girders together. Visions must be compelling. They have to create excitement, enthusiasm and engage the partners and employees.

**2. Lack of clearly defined core values**

Most partners we know can't recite their firm's core values. That's a problem. A more serious problem is that the list of core values that you often find on the firm's website don't mean anything. Core values should define the parameters of partner and employee behavior. They should provide guidance on how individuals in the firm are supposed to act.

Core values are much more than minimum standards. They inspire those in the firm to do their very best at all times. They are the common bond and the glue that unifies and ties the firm together. Each firm, first, needs to identify their core values. Next, they need to be defined. Finally, partners and employees have to identify representative behaviors and live them every day.

**3. Lack of clarity around what being a partner means**

There are many different reasons to make someone a partner - unique talent, need to fill a position, succession planning, etc. What many firms lack today is clarity around what being a partner means.

The following characteristics are found in those firms that have embraced a one-firm concept. Partners:
- put the firm first,
- are team players, not lone wolves or prima donnas,
- live the firm's values,
- share their clients with others,
- are accountable for their own actions and don't pass the buck,
- go out of their way to help others,
- have staff members who want to work with them,
- have the highest degree of personal integrity,
- treat others with respect,
- can laugh at themselves,
- are willing to embrace change and stretch outside of their comfort zone.

**4. Ineffective or non-existent partner performance reviews**

Managing partners always ask us what it takes to achieve sustained, consistent partner performance. While the answer is easy, maybe simplistic, the implementation is difficult in most firms. To consistently get uplift in partner performance, it is necessary to have written annual partner performance goals and an effective performance management process.

You can't expect a change in performance if partners do the exact thing they did the previous year. You have to be clear about what you want and make sure the partners have the capabilities to deliver.

**5. Performance systems not tied to strategic initiatives**

It's not necessarily the performance system itself that's the issue; it's what the system rewards that is critical. If your system currently rewards entitlement criteria (seniority, equity interest, etc.), then you can't be surprised if some partners don't take accountability seriously, aren't good citizens and don't put the firm first.

However, if you reward partners for their competency – their skills and their results – as well as their integrity and intent, then you can start moving toward a culture that uplifts partner performance. If you are serious about rewarding those who help the firm achieve its strategic initiatives and its vision, compensation must be tied to individual and team results. The key for a good compensation system is to have a balance between individual and team goals, and between production and capacity-building goals.

**6. Lack of successful firm leaders**

Our research over the past two years into what successful firm leaders do identified what separates the top leaders from everyone else. Unsurprisingly, it starts with helping the partners create a compelling direction

and vision, the strategies for achieving them and the values the firm stands for. With the partners active participants in the firm's future, successful firm leaders continually engage their partners and help them become even more effective with clients and, critically, successful leaders themselves given their influence on what everyone in the firm does. It sounds easy, but it isn't.

While we heard some stories of great firm leaders, we heard too many where the leaders didn't succeed in making a difference. And yet, there is no way firms will make any of the things we've described a reality unless they have leaders who know what to do and can do it.

**Final Thoughts**

Some firms have driven up performance to the detriment of unity, while many firms' efforts to engage their partners and increase their performance have not generated the uplift hoped for or expected to succeed and create a firm where all of the partners work to build an even better firm.

**-August Aquila**

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