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 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 6 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 begins by addressing the people side of succession planning. In previous years, the succession surveys have seen a consistent percentage of responses showing that many firms do not have formal written requirements for admission to partnership. Generally speaking, few firms are using formalized, objective competency frameworks to set out expectations for admission as partners. The article also covers how accounting practices are addressing technology, work flow, delegation and billing rates. Compensation systems are discussed as well, along with other types of business service lines that CPAs are offering. These services can easily be tied to the expanding scope of offerings that would naturally be of interest to the personal and business clients of an accounting firm.
Read Reeb's commentary
Link to article

The Battle for Business Escalates

While 2017 saw an extremely high level of competition among CPA firms, 2018 could be even tougher. New research findings from *CPA Trendlines* points to an increasingly competitive marketplace as firms battle for new business, struggle to retain their most profitable clients and work to make smarter investments in new growth strategies.
Rick Telberg takes a closer look
Link to article

Don't Fire Clients, Serve Them

Although there have been countless articles that tell CPAs to fire clients, they fail to appreciate that the client also has a stake in the relationship. If people perceive they receive value for the services the firm provides, they're more likely to pay the fees. This article discusses a process that can be used to create more loyal and profitable client relationships.
Read the article
Link to article

Understanding Your Influence Over Firm Culture

As an owner or partner in a CPA firm, you have a strong influence on the culture and can set the tone needed to retain top performers. Owners and managers have the opportunity to make employees feel valued. To reduce turnover, it's essential to set clear expectations and provide a well-defined career path for your staff.
Learn more
Link to article

Managing Conflicts of Interest
Many conflicts of interest can be successfully managed by CPAs. Paying attention to three important areas and taking appropriate steps can help reduce the risk.
Learn more
https://www.journalofaccountancy.com/issues/2017/nov/how-to-manage-conflicts-of-interest.html?utm_source=mnl:cpald&utm_medium=email&utm_campaign=28Nov2017

Why Firms Shouldn't Just Pay CPAs Based on their Billable Hours
High-performing firms set goals, align the partners on what skills each person possesses and assign the duties everyone should be performing based on their strengths. There's a system of coaching, mentoring and accountability. Paying partners and staff to focus on their strengths provides dividends for the entire firm.
Get the details
https://www.journalofaccountancy.com/newsletters/2017/oct/firms-pay-billable-hours.html?utm_source=mnl:cpald&utm_medium=email&utm_campaign=31Oct2017

Redefining Yourself as a Strategic Advisor
To thrive in today's professional landscape, CPAs need to transform from their more traditional role as static service providers to become strategic advisors for clients. Three critical assessments should be made in this process.
Deanna Arteaga takes a closer look
https://www.accountingweb.com/practice/practice-excellence/redefining-yourself-as-a-strategic-advisor

How to Build Trust with Employees
Trust between bosses and employees is essential for your business to profit and grow. There are five leadership habits that can cultivate this atmosphere in your organization.
https://www.inc.com/marcel-schwantes/employees-trust-bosses-that-display-any-of-these-5-successful-leadership-habits.html

Stop Scaring Away Your Future Leaders
Talent retention is a top issue for almost every size accounting firm. This article explores eight things firms do that future leaders dislike and some actions to consider taking instead.
Read the article
https://www.journalofaccountancy.com/newsletters/2017/nov/stop-scaring-away-future-leaders.html

Best Practices for Accountants in the Digital Age
The services CPAs offer remain highly sought after in the digital age, but demand is starting to shift from a purely math-centered approach to the expectations of a more holistic approach that also accounts for human involvement. Adopting some best practices can help set you apart from the competition.
https://www.accountingweb.com/community/blogs/morakhiya2711/best-practices-for-accountants-in-the-digital-age

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. Part 5 discussed policies for transitioning client relationships and continued through the challenges firms are trying to address that represent barriers to your firm's effective succession management.

Now, we pick up with the final section of the survey results, Part 6, which starts by addressing the people side of succession, compensation and other entities CPAs commonly utilize.

Dealing with the People Side of Succession Planning

Over the years, these succession surveys have seen a consistent percentage of responses showing that many firms do not have formal written requirements for admission to partnership. This year’s survey featured some revised and some additional response options that take into account the more predominant “other” responses from past surveys.

What are your firm's identified and formalized requirements for new owners?

Answer		2016%	2012%	2008%	2004%
We do not have formal written requirements, but rather informal ones that are different among different owners.		37%	71%	70%	74%
We have not identified any requirements, neither formal nor informal, as we have not considered adding new partners at this time.		32%			
We have identified and documented minimum subjective qualities and characteristics that must be met to be considered for ownership.		24%	29%	24%	27%
We have created a non-equity/income partner track to make sure new partners fit culturally with the firm before becoming equity owners.		22%	27%	22%	NA
We have a competency model in place that documents both objective and subjective qualities that must be met to be considered for ownership.		17%	15%	NA	NA
We have an identified and documented minimum "client book" size for potential owners to meet to be considered for ownership.		12%	13%	11%	11%
We have identified and formalized the requirements to move from non-equity/income partner to equity partner.		11%	12%	NA	NA
We have identified and formalized the requirements to move from manager or director to non-equity partner.		10%			
We have identified a net revenue per partner requirement for the firm, so partner slots only open up as the firm reaches revenue thresholds.		8%	12%	11%	NA
We have an identified and documented minimum "new business development" amount for potential owners to meet to be considered for ownership.		7%	9%	6%	7%

This year, in the 387 responses to our question about formalized requirements for new owners, we see that still about 70 percent (32 percent + 37 percent) of all firms do not have either formal or informal requirements for admission to partnership, partly (32 percent) because they are not currently considering adding any new partners at this time and partly just because they use informal guidelines that vary among partners (37 percent). About one-fourth of the firms (24 percent in this survey; 24 percent to 29 percent in past surveys) indicate that they've documented some minimum subjective requirements for admission to partnership.

Generally speaking, few firms (17 percent) are using formalized, objective competency frameworks to set out expectations for admission as partners. In our view, even if a firm does not have current candidates for admission as a partner, the partners should define what it takes to become a partner now so their current professional staff will know what they need to do to become a partner in the future. Creating a clear path to partnership helps identify competency gaps that need to be closed and allows those gaps to be closed through coaching and development opportunities.

As the following table illustrates, the larger the firm, the more likely a positive response to the statement "we have created a non-equity/income partner track to make sure new partners fit culturally with the firm before becoming equity owners." This is wise inasmuch as it helps avoid time-consuming, costly efforts that are often required when the decision to become an equity partner is made without the benefit of the additional time working together in a partner-level position having partner-level discussions.

The smaller the firm, the more likely that it does not have formal written requirements for new owners, including clearly defined expectations for revenue per partner, new business developed or competencies at the partner level. However, across all firm sizes and higher than expected response rates at larger firms, many simply are using informal requirements that are different among different owners. It seems that succession management could be facilitated far more easily if more firms used a clearly defined competency framework as a career path to partnership. People at all levels would know what is expected of them to advance; training and coaching could be more focused and effectiveness of developmental efforts would be improved dramatically with higher ROIs on such efforts.

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 have created a non-equity/income partner track to make sure new partners fit culturally with the firm before becoming equity owners.	0%	7%	16%	41%	54%	71%	69%
We have not identified any requirements, neither formal nor informal, as we have not considered adding new partners at this time.	78%	42%	17%	10%	5%	0%	8%
We have an identified and documented minimum "client book" size for potential owners to meet to be considered for ownership.	0%	7%	9%	17%	24%	12%	38%
We have identified and formalized the requirements to move from manager or director to non-equity partner.	0%	3%	5%	15%	24%	35%	46%
We have an identified and documented minimum "new business development" amount for potential owners to meet to be considered for ownership.	1%	6%	5%	8%	16%	12%	23%
We have identified a net revenue per partner requirement for the firm, so partner slots only open up as the firm reaches revenue thresholds.	0%	2%	3%	19%	22%	18%	31%
We have identified and documented minimum subjective qualities and characteristics that must be met to be considered for ownership.	0%	8%	25%	47%	43%	71%	54%
We have identified and formalized the requirements to move from non-equity/income partner to equity partner.	1%	3%	6%	17%	24%	47%	46%
We have a competency model in place that documents both objective and subjective qualities that must be met to be considered for ownership.	1%	9%	13%	27%	30%	53%	54%
We do not have formal written requirements, but rather informal ones that are different among different owners.	18%	44%	50%	39%	41%	29%	31%
Total	68	129	95	142	105	59	52

Infrastructure Put in Place to Facilitate Leadership Transition

What initiatives/processes are you implementing or have implemented to create an operating environment that will facilitate the seamless transition in governance with minimal disruption of profitability, culture, services, etc. between the retiring owners and the remaining owners?

In this "select all that apply" question, we featured some additional and revised response options derived from the more predominant "other" responses from past surveys and current best practices in the profession regarding seamless transitions and maintenance of effective and efficient operations.

The data is fairly consistent among this and the previous two surveys for the choices "Holding partners accountable to operating policies and procedures and individual goals using compensation as a stick to reward or punish compliance" and "Updating your partner compensation system so that the managing partner can hold partners accountable to achieving annual specific goals."

The 378 responses to this question show that there has been an uptick in the number of firms moving from a silo or "Eat What You Kill" business model to a one-firm business model, with a total of 44 percent indicating this is the case, compared to about 37 percent in past years.

On the other hand, the percentage of firms indicating that they are changing expectations to avoid working excessively long hours has consistently decreased from 43 percent in 2008 to 38 percent in 2012, down to 32 percent this year. In our experience, we find a variety of firm practices regarding the number of hours people are expected to work. For example, some firms continue to acquire more work than can be comfortably done with existing staff capacity, albeit with the intention of adding more people who never seem to get hired. We also see some firms that actively discourage partners, directors and managers from working excessively long hours because of the implicit negative message it sends to up-and-coming staff that might be candidates for leadership in the future ("you too can look forward to working these long hours soon").

Answer	2016%	2012%	2008%
Moving away from the “Eat What You Kill” or the “Silo” model of operations (where each partner operates very autonomously, with only limited, if any, commitments to and accountability for achieving firm-wide goals) to more of a "One Firm" model (where partners are held fully accountable by the managing partner for achieving their portion of the firm’s goals and for maintaining a minimum level of competency across a broad range of areas).	44%	37%	38%
Making it a priority for everyone to push work down at every level.	42%	49%	
Implementing training throughout the firm on soft skills topics, such as management, delegation, communication, conflict, change, etc.	34%		
Changing the way you operate so that the firm is not built around the expectation that everyone, including partners, should work excessively long hours.	32%	38%	43%
Creating clear roles, responsibilities, powers and limitations of your leadership team, including the board, executive committee (if you have one) and managing partner roles.	32%	39%	25%
Creating clear roles, responsibilities, powers and limitations for partners, including line partners, service line owners, department heads, etc.	30%		
Recently updated, or are updating, your partner/retirement agreements to reflect current needs.	30%	25%	36%
Moving from an upside-down pyramid (or hour-glass shape) from a capacity standpoint to a right-side up pyramid so that the lowest level of employee is always busy (because of more delegation and employee development) freeing up people at the higher-level positions in the firm to do the jobs only they can do (like client relationship development, implement firm strategy, etc.).	29%		
Implementing training to close technical competency gaps at every level throughout the firm.	28%		
Requiring the partners to spend more time managing client relationships and less time processing the work in the office.	26%	41%	33%
Holding partners accountable to operating policies, procedures and individual goals using compensation as a stick to reward or punish compliance.	24%	27%	27%
We are doing none of the above to set up a seamless transition from our current generation of owners to the next generation of owners.	22%		
Requiring partners to manage bigger books of business by pushing more work down to create more leverage.	20%	46%	43%
Updating your partner compensation system so that the managing partner can hold partners accountable to achieving	20%	20%	20%

Answer	2016%	2012%	2008%
annual specific goals.			
Implementing "lean" methodology or other process improvement approaches to streamline firm operations.	18%		
Creating more focus and oversight on how partners are utilizing their non-chargeable time to implement and support firm priorities.	18%		
Implementing a formal Partner-in-Training program.	13%	20%	17%
Setting policy that any new managing partner should be able fill that position, assuming they are doing a good job, for approximately 10 years or more to create stability and continuity rather than electing the next most senior partner to that position.	9%		
Creating an organizational structure where each person has only one person who is responsible for orchestrating that person's necessary coaching, development and evaluation, and is accountable for that person's performance.	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
Creating more focus and oversight on how partners are utilizing their non-chargeable time to implement and support firm priorities.	3%	8%	17%	20%	42%	53%	38%
Creating clear roles, responsibilities, powers and limitations of your leadership team, including the board, executive committee (if you have one) and managing partner roles.	2%	17%	33%	48%	61%	76%	85%
Changing the way you operate so that the firm is not built around the expectation that everyone, including partners, should work excessively long hours.	11%	27%	39%	43%	53%	47%	15%
Setting policy that any new managing partner should be able fill that position, assuming they are doing a good job, for approximately 10 years or more to create stability and continuity rather than electing the next most senior partner to that position.	2%	4%	6%	16%	14%	24%	23%
Moving away from the “Eat What You Kill” or the “Silo” model of operations to more of a "One Firm" model.	22%	36%	53%	61%	47%	76%	62%
Implementing a formal Partner-in-Training program.	2%	6%	11%	25%	28%	29%	23%
Creating clear roles, responsibilities, powers and limitations for partners, including line partners, service line owners, department heads, etc.	5%	14%	31%	43%	58%	82%	77%
Holding partners accountable to operating policies, procedures and individual goals using compensation as a stick to reward or punish compliance.	8%	8%	20%	41%	47%	71%	62%
Moving from an upside-down pyramid (or hour-glass shape) from a capacity standpoint to a right-side up pyramid so that the lowest level of employee is always busy.	12%	20%	33%	48%	33%	47%	38%
Recently updated, or are updating, your partner/retirement agreements to reflect current needs.	14%	15%	33%	46%	47%	59%	38%
Updating your partner compensation system so that the managing partner can hold partners accountable to achieving annual specific goals.	3%	6%	16%	28%	44%	71%	46%
Implementing training to close technical competency gaps at every level throughout the firm.	6%	19%	36%	36%	56%	47%	54%
We are doing none of the above to set up a seamless transition from our current generation of owners to the next generation of owners.	48%	33%	13%	5%	3%	6%	0%
Making it a priority for everyone to push work down at every level.	12%	34%	47%	59%	78%	59%	38%
Implementing training throughout the firm on soft skills topics such as management, delegation, communication, conflict, change, etc.	6%	16%	27%	52%	78%	76%	77%
Requiring partners to manage bigger books of business by pushing more work down to create more leverage.	5%	15%	19%	25%	33%	35%	46%
Creating an organizational structure where each person has only one person who is responsible for orchestrating that person's necessary coaching, development and evaluation, and is accountable for that person's performance.	2%	2%	11%	11%	17%	6%	15%
Requiring the partners to spend more time managing client relationships and less time processing the work in the office.	9%	14%	22%	36%	50%	41%	62%
Implementing "lean" methodology or other process improvements to streamline firm operations.	11%	9%	16%	20%	39%	35%	54%

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
Total	117	288	308	403	298	160	111

It is natural for small firms to start off using the silo or “Eat What You Kill” (EWYK) business model. But as the firm grows and becomes more successful, the benefits that the EWYK model provided quickly become overshadowed by the problems that the model creates. Therefore, growth necessitates moving from a business model that was foundational to a firm’s success to one that is unknown and foreign to them (what is commonly called the one-firm concept or what we call “Building a Village”).

As you can see, this trend is borne out by these survey results when you look at firm size. In addition to this, many larger firms retain some elements of the silo/EWYK model, so we see them moving toward a more complete one-firm business model. This is evidenced by the results of the other issues listed in this question. (These other questions outside of the business model are predominantly a list of tactics firms implement as they move from a silo/EWYK model of operations to the one-firm business model.) Generally, the smaller the firm, the less likely it would be embracing the tactics to move away from a silo/EWYK business model that still might be working for them.

Which of the following are you doing right now to develop the future leaders of your firm?

We received 382 responses to this “select all that apply” question, which has, as many questions have throughout this survey, an expanded and revised list of options from which respondents could choose. The percentage of responses indicating identification of, and training for, specific competencies continued to decrease from a high rate in 2008 of 75 percent to 53 percent this year. We believe that this is probably attributable to the fact that more and more firms have become more familiar with the concept of competencies and competency frameworks, rather than an actual decrease in usage thereof. As in the past, fewer firms claim they are using competency frameworks to identify requirements for admission to partnership (17 percent this year) than claim to be using competency-based training to develop leaders.

Response rates addressing formal education in soft, or interpersonal, skills and in management and delegation are fairly consistent with past survey response rates, as are responses regarding the use of formal in-firm mentoring programs and partner or manager development programs.

Answer		2016%	2012%	2008%
Identification of, and training for, specific competencies (preferably based on a competency model).		53%	60%	75%
Formal training or education in soft skills like management, assertiveness, handling conflict, communication, change, etc.		36%	30%	36%
Formal training or education in management and delegation.		34%	31%	44%
Formal in-firm mentoring program.		26%	22%	24%
Nothing is being done at this time.		21%	26%	
Formal in-firm staff training programs.		18%		
Experiential assignments chosen to develop competencies.		18%	24%	25%
Formal in-firm coaching program.		15%		
State Society formal staff training programs.		15%		
CPA firm association formal leadership (partner or manager) development programs.		13%	16%	17%
CPA consultant offered formal leadership (partner and manager) development programs.		13%		
Formal in-firm partner or manager development programs.		12%	12%	15%
AICPA formal staff training programs.		11%		
State Society formal leadership (partner or manager) development programs.		11%	6%	NA
No employees or partners to develop at this time.		10%		
CPA firm association formal staff training programs.		10%		
AICPA formal leadership (partner or manager) development programs.		8%	5%	17%
Formal CPA consultant led coaching program.		5%		

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
CPA firm association formal staff training programs.	1%	4%	6%	11%	19%	35%	46%
Formal CPA consultant led coaching program.	1%	2%	5%	13%	8%	6%	15%
Formal training or education in management and delegation.	3%	20%	34%	48%	68%	76%	77%
Identification of, and training for, specific competencies (preferably based on a competency model).	28%	47%	55%	69%	70%	71%	85%
Formal training or education in soft skills like management, assertiveness, handling conflict, communication, change, etc.	6%	20%	31%	48%	76%	94%	92%
No employees or partners to develop at this time.	35%	9%	5%	0%	0%	0%	0%
AICPA formal leadership (partner or manager) development programs.	1%	1%	11%	7%	27%	18%	15%
AICPA formal staff training programs.	1%	5%	15%	11%	24%	29%	15%
State Society formal leadership (partner or manager) development programs.	4%	7%	8%	16%	27%	12%	15%
Formal in-firm coaching program.	6%	7%	12%	16%	30%	53%	62%
CPA firm association formal leadership (partner or manager) development programs.	0%	5%	6%	18%	49%	24%	38%
Nothing is being done at this time.	32%	28%	23%	10%	3%	6%	0%
Formal in-firm partner or manager development programs.	1%	3%	2%	13%	35%	35%	77%
Formal in-firm staff training programs.	0%	7%	18%	23%	35%	59%	69%
Experiential assignments chosen to develop competencies.	12%	21%	17%	21%	27%	12%	15%
State Society formal staff training programs.	4%	13%	20%	20%	24%	24%	15%
Formal in-firm mentoring program.	7%	13%	17%	41%	65%	47%	54%

CPA consultant offered formal leadership (partner and manager) development programs.	0%	2%	8%	20%	41%	41%	38%
Total	99	214	190	247	232	109	95

Generally, the larger the firm, the more likely it is employing some to many of the techniques listed above. Even with that general distribution of responses, it is alarming to note that there are any of the larger firms "doing nothing to develop leaders at this time," but as you can see, 3 percent and 6 percent respectively of the firms in the 51 to 100 FTE and 101 to 200 FTE categories gave this response. Of course, the smaller the firm, the more likely it is not doing anything at this time to develop future leaders, which in some cases is due to the fact that in the smallest firms there are no employees at that level to develop.

Which are you doing to make your firm more profitable, increase its value or make it more attractive to either an internal or external buyer?

Answer		%
Leveraging technology whenever possible.		66%
Streamlining workflow and processes.		65%
Increasing fees/billing rates.		65%
Delegating – hand off lower-level work.		62%
Spending more time training your people.		49%
Improving client base by: (1) firing low-quality clients (those who don't pay on time, abuse staff's time, etc.), (2) converting lower-quality clients (smaller clients who have fewer needs, such as a tax return, financial statement or bookkeeping) to higher-quality clients (those who utilize more of your firm's services, are more profitable to the firm, actively promote your firm, don't argue about fees and value your involvement), and (3) by going after more higher-quality clients.		46%
Supporting a try-before-you-buy intern program to build a pipeline of people to hire, as well as get additional help during peak periods.		42%
Recording all of your time to better understand the actual cost of servicing a client instead of not recording the time due to the assumption that you won't bill it anyway.		38%
Utilizing more than one billing rate to recover for the inefficiencies that are present in various lines of service.		37%
Growing the overall bottom line through better expense management.		37%
Hiring people constantly so that you are not always being held hostage by marginal employees because you don't have the capacity to let them go (in other words, you can't afford to let go of your marginal people since there is no one else to do the work because you are so shorthanded).		33%
Growing organically the overall top line by implementing a formal business development and marketing program.		32%
Running off marginal clients.		29%
Stop giving away work in the slow periods to keep busy.		21%
Updating your compensation system to better focus people on the activities you want them to focus on.		19%
Growing the overall bottom line by implementing performance pay throughout the organization.		18%
Embracing and implementing the trusted business advisor or the business general contractor role within your firm where you proactively get out in front of your top clients three to four times a year to see personally what is going on in their operations and gain an understanding of the non-tax, non-financial, general management challenges and opportunities they are facing and what		18%

they are attempting to do about them.		
Growing the overall top line through a strong acquisition/merger initiative.		15%
We are happy where we are; we are not worried about making changes and we are doing what we have always done as that is working for us.		7%
Other, please specify:		2%

There were 385 responses to this question, which showed that over 60 percent of firms are addressing technology, work flow, delegation and increased billing rates. Nearly half are spending more time training staff and trying to improve their client base.

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
Leveraging technology whenever possible.	45%	56%	82%	82%	86%	76%	85%
Streamlining workflow and processes.	51%	59%	60%	84%	84%	88%	69%
Increasing fees/billing rates.	54%	63%	69%	70%	70%	88%	85%
Delegating – hand off lower-level work.	46%	67%	65%	72%	70%	76%	38%
Spending more time training your people.	23%	39%	51%	72%	84%	65%	69%
Improving client base by: (1) firing low-quality clients (those who don't pay on time, abuse staff's time, etc.), (2) converting lower-quality clients to higher-quality clients (those who utilize more of your firm's services, are more profitable to the firm, actively promote your firm, don't argue about fees and value your involvement), and (3) by going after more higher-quality clients.	35%	36%	45%	54%	65%	71%	62%
Supporting a try-before-you-buy intern program to build a pipeline of people to hire, as well as get additional help during peak periods.	9%	29%	52%	59%	65%	88%	85%
Recording all of your time to better understand the actual cost of servicing a client instead of not recording the time due to the assumption that you won't bill it anyway.	30%	37%	46%	43%	38%	41%	38%
Utilizing more than one billing rate to recover for the inefficiencies that are present in various lines of service.	26%	36%	51%	39%	54%	41%	8%
Growing the overall bottom line through better expense management.	26%	40%	29%	34%	62%	47%	62%
Hiring people constantly so that you are not always being held hostage by marginal employees because you don't have the capacity to let them go (in other words, you can't afford to let go of your marginal people since there is no one else to do the work because you are so shorthanded).	7%	16%	40%	57%	59%	76%	46%
Growing organically by implementing a formal business development and marketing program.	12%	20%	28%	46%	59%	76%	77%
Running off marginal clients.	23%	23%	28%	33%	43%	41%	46%
Stop giving away work in the slow periods to keep busy.	19%	18%	22%	23%	24%	18%	23%
Updating your compensation system to better focus people on the activities you want them to do.	9%	11%	25%	30%	27%	47%	15%
Growing the overall bottom line by implementing performance pay throughout the organization.	7%	15%	28%	18%	32%	24%	15%
Embracing and implementing the trusted business advisor or the business general contractor role within your firm where you proactively get out in front of your top clients three to four times a year to see personally what is going on in their operations and gain an understanding of the non-tax, non-financial, general management challenges and opportunities they are facing and what they are attempting to do about them.	10%	9%	15%	31%	27%	35%	77%
Growing the overall top line through a strong acquisition/merger initiative.	6%	8%	11%	20%	35%	35%	38%
We are happy where we are; we are not worried about making changes and we are doing what we have always done as that is working for us.	13%	9%	9%	0%	0%	0%	8%

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
Other, please specify:	0%	2%	3%	3%	3%	0%	8%
Total	311	583	492	531	366	176	119

Many or most of the profitability improvement tactics listed in this question are being utilized more by the larger firms than the smaller firms. For example, firms in the largest size category are almost twice as likely to be leveraging technology than those in the smallest category. Technology can be an even more powerful lever for the smaller firms that have limited personnel resources, so it is interesting to see the lower rates of response on this.

The very largest firms cited the use of delegation with the least frequency. This is probably because they have been delegating fairly broadly for some time and continue to do so. For the firms in the other size categories, however, the response rates probably reflect an interest in doing more delegation, in an effort to move owners into more partner-level functions and tasks. This squares with our experience, where we find that much work remains to be done in delegation among many of the smaller to medium-sized firms.

Smaller firms, particularly those in the less than 16 FTEs size categories, seem to be spending less time training their people, are using interns less and are not hiring as constantly as other sizes of firms. This may be due in part to the fact that they have fewer people and less leverage to begin with, which makes it seem to be more difficult to take advantage of these tactics. However, unless they can find a way to begin doing more of these things, they may always be short of the capacity to grow to the next level.

Similarly, the smaller sized firms seem to be missing out on leveraging their role as Most Trusted Business Advisors™ compared to the larger firms. This can make their clients easy targets for competitors. We believe that part of the reason for the lower response rates among the smaller firms is that the owners and managers are not leveraged properly and therefore either do not have, or do not take, the time to function in a business advisory capacity. This lack of leveraging, related to lack of appropriate delegation, can also lead to the lower utilization of formal business development plans seen in the above table.

The largest firms are nearly twice as likely to be improving their client base as the firms in the two smallest client categories. Smaller firms need to embrace this approach, as well. Moving "upstream" to better clients will not only improve profitability, but also add more opportunities to function as a Most Trusted Business Advisor™.

As might be expected, the larger the firms, the more likely they may be using mergers and acquisitions to grow their business.

Compensation Process and Accountability

Does your firm use an open (every owner knows what the other owners are paid) or closed (only a select few like the managing partner or compensation committee know what all the owners are paid) compensation system?

Answer		2016%	2012%
Open compensation system		76%	84%
Closed compensation system		24%	16%
Total		100%	100%

In this survey, there was a somewhat higher percentage of firms using a closed compensation system, 24 percent, compared to the previous survey, 16 percent.

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
Open compensation system.	81%	85%	84%	79%	59%	41%	38%
Closed compensation system.	19%	15%	16%	21%	41%	59%	62%
Total	68	99	63	61	37	17	13

Although the firms in the two largest size categories favor closed compensation systems, a rather high proportion of the rest of the firms maintain “open” compensation systems where every owner knows what every other owner makes. This makes sense, because as firms grow larger, especially when they get to around 20 partners in size, most partners don’t even know what most of the other partners do or how well they are doing it. But when firms are smaller, everyone works more closely together and at least has a feel for the value that a partner brings to the firm.

In the end, the value of a closed compensation system is the fact that no one knows what anyone else makes, so there is less squabbling about relative pay levels. The value an open compensation system brings is the transparency that can lead to greater trust. Both types of compensation systems have their place, but each has both positive and negative consequences. Therefore, it is important for each firm to weigh the pros and cons against and determine what is best for it.

Which of the following best describes your compensation system? Our owners get paid:

The breakdown by type of compensation system this year is very similar to what it was in the previous survey:

Answer		2016%	2012%
A guaranteed portion of their salary (or base pay) with an additional incentive component based on both subjective/qualitative criteria and objective/quantitative formulas in our compensation plan.		37%	41%
Based only on objective/quantitative formulas in our compensation plan. Any money a partner receives during the year is simply a draw against that final calculation.		23%	25%
Based on both subjective/qualitative criteria and objective/quantitative formulas in our compensation plan. Any money a partner receives during the year is simply a draw against that final calculation.		20%	19%
A guaranteed portion of their salary (or base pay) with an additional incentive component based only on objective/quantitative criteria in our compensation plan.		20%	20%
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
A guaranteed portion of their salary (or base pay) with an additional incentive component based only on objective/quantitative criteria in our compensation plan.	30%	24%	24%	17%	14%	6%	8%
Based only on objective/quantitative formulas in our compensation plan. Any money a partner receives during the year is simply a draw against that final calculation.	32%	34%	24%	19%	11%	0%	15%
Based on both subjective/qualitative criteria and objective/quantitative formulas in our compensation plan. Any money a partner receives during the year is simply a draw against that final calculation.	6%	13%	22%	34%	14%	29%	31%

A guaranteed portion of their salary (or base pay) with an additional incentive component based on both subjective/qualitative criteria and objective/quantitative formulas in our compensation plan.	32%	28%	31%	31%	62%	65%	46%
Total	50	82	59	59	37	17	13

Smaller firms generally tend to favor primarily objective metrics for pay, while larger firms have more of a tendency to look at both objective and subjective measures, most likely because they have found that it provides the firm with better results overall and can't be gamed as easily. Doing some math outside the tables shows that objective-only incentives had the highest response of 62 percent (30 percent + 32 percent) from firms with less than eight FTEs. The lowest response rate for objective-only incentives, at 6 percent (6 percent + 0 percent), came from firms with 101 to less than 201 FTEs. On the other hand, the larger firms make much greater use of some combination of subjective (qualitative) and objective incentives than the smaller firms do (94 percent compared to 38 percent). Firms with 26 FTEs and larger averaged a 78 percent response rate for utilizing both incentives in their compensation system.

However, we wanted to break this down even further. When you look at the size of firms that pay a base salary plus incentive, whether the incentives are objective or subjective, more firms are opting towards this approach. In calculating an average of the percentages from the columns by size of firm, we find that roughly 60 percent pay a base salary plus incentive, compared to about 40 percent paying no guaranteed salary with all pay during the year being simply a draw against final incentive performance. There was no clear pattern looking at guaranteed salary versus draw when it came to firm size. Firms with less than eight FTEs were at 62 percent (30 percent + 32 percent) versus 26 to less than 51 FTEs being at 48 percent (17 percent + 31 percent) versus firms with 101 to less than 201 FTEs totaling 71 percent (6 percent + 65 percent) used guaranteed salary. Nor was there a pattern regarding firm size regarding those who opted to use the draw against incentives method.

Which factors impact the distribution of earnings in your compensation system?

In this "select all that apply" question, with 381 responses, we added some new options based on concentrations of answers last year in the "other" category. Profitability, a new option for this year, garnered a 59 percent response – the highest of all of the earnings factors. We expected some of the new factors to score much higher than they did:

- "performance of individual goals trickled down from the strategic plan" ended up with only 13 percent and
- "business transferred to other partners/managers" came in at only 11 percent.

These are two factors we almost always discuss as potential options for consideration. Generally, we find all of these factors being used over the course of working with multiple firms of various sizes, with some of them more commonly found in the silo/EWYK model and others mostly seen in the one-firm model of operations.

Answer		2016%	2012%	2008%	2004%
Profitability of firm/overall profits.		59%			
Ownership %.		56%	45%	48%	48%
Billable/collectable hours.		47%	31%	32%	32%
New business developed.		38%	35%	34%	28%
The size of the owner's client book or fees managed.		36%	34%	34%	38%
Profitability of book.		29%	29%	30%	
Performing certain identified firm functions (managing partner, department heads, chairing committees, etc.).		28%	27%	29%	28%
Growing the existing business with a current client.		25%	24%	21%	17%
Training/development of staff.		21%	19%	19%	
Implementation of firm strategy.		17%			
Profitability of office.		14%			
Capital accounts.		14%	16%	20%	15%
Performance on individual goals trickled down from the strategic plan.		13%			
Cross-selling non-traditional services within your client base.		13%			
Leverage of work being done (ratio of partner to staff work).		12%	10%	10%	
Business transferred to other partners/managers.		11%			
Profitability of department.		10%	10%	11%	
Client satisfaction goals.		8%	7%	9%	5%
None of the above.		5%			
Other, please specify.		5%	9%	9%	15%

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
Performance on individual goals trickled down from the strategic plan.	0%	2%	12%	16%	32%	65%	38%
Business transferred to other partners/managers.	0%	3%	9%	11%	24%	47%	62%
Ownership %.	60%	64%	48%	56%	54%	41%	54%
Profitability of firm/overall profits.	47%	47%	60%	75%	73%	82%	100%
Capital accounts.	13%	4%	25%	21%	14%	18%	31%
Cross-selling non-traditional services within your client base.	0%	2%	5%	18%	22%	71%	54%
The size of the owner's client book or fees managed.	13%	27%	40%	56%	51%	59%	62%
Other, please specify.	4%	2%	6%	8%	5%	6%	8%
Profitability of book.	9%	14%	35%	41%	41%	71%	77%
Billable/collectable hours.	31%	40%	46%	57%	62%	71%	62%
Profitability of department.	1%	0%	5%	15%	22%	53%	38%
Performing certain identified firm functions (managing partner, department heads, chairing committees, etc.).	7%	11%	28%	41%	49%	76%	85%
Training/development of staff.	0%	6%	17%	31%	46%	71%	77%
Client satisfaction goals.	3%	1%	6%	10%	5%	41%	46%
Leverage of work being done (ratio of partner to staff work).	1%	4%	12%	18%	19%	47%	23%
Implementation of firm strategy.	0%	5%	12%	26%	35%	71%	46%
New business developed.	16%	17%	38%	56%	68%	88%	92%
Profitability of office.	18%	12%	9%	11%	16%	24%	46%
Growing the existing business with current client.	4%	9%	22%	38%	46%	82%	85%
None of the above.	7%	6%	6%	2%	3%	6%	0%
Total	161	275	287	371	254	185	141

The factors highlighted in gray above represent common factors that are important to implementing and sustaining a one-firm model of operations, because they are about partners doing something separate and apart from owning a specific equity interest, doing the work, managing the clients, etc. They focus on how one approaches doing those things, such as using leverage or being asked to make an impact on a strategic planning initiative or improving competencies and capacity through training. These types of factors typically require an incentive pay system if you want to make headway in accomplishing them. All of these, generally, trend upward with firm size.

This table has a number of surprises in it. For example, ownership and capital as a factor doesn't really have a pattern or change much based on firm size. New business developed and billable/collectable hours, which in the silo/EWYK model is very common, came in far lower for smaller firms than we expected and far higher than we expected in larger firms.

As we expected, use of profitability of a book, of a department, of an office and of the firm as pay factors tend to increase with firm size. And we definitely expected to find more importance attached to the management roles and responsibilities that a person fills in larger firms. Based on these survey results, there is a dramatic difference based on firm size. In many smaller firms, especially under the silo/EWYK model, management isn't considered to be really important, but rather a nuisance factor that people have to do once they finish their "real" job of doing billable work.

Which best describes the role of the managing partner in the partner compensation process?

Answer		2016%	2012%
The managing partner does not set goals for each partner and has NO individual ability to adjust partner pay.		45%	46%
The managing partner does not set goals for each partner but HAS the discretionary ability to adjust partner pay.		25%	24
The managing partner sets individualized goals for each partner based on the strategic plan AND has a discretionary compensation stick to hold partners accountable for achieving their goals.		16%	13%
The managing partner sets individualized goals for each partner based on the strategic plan but does NOT have the ability to hold partners accountable with discretionary compensation.		7%	7%
The managing partner sets individualized goals for each partner based on his/her individual ideas and criteria (not based on the firm's strategic plan) AND has a discretionary compensation stick to hold partners accountable for achieving their goals.		4%	8%
The managing partner sets individualized goals for each partner based on his/her individual ideas and criteria (not based on the firm's strategic plan) but does NOT have the ability to hold partners accountable with discretionary compensation.		4%	3%
Total		100%	100%

Of the 363 responses to this question, the highest rate of response (at 45 percent of firms) for the role of the managing partner in the compensation process shows that he/she doesn't really have a role in the compensation process. Unfortunately, this is the worst possible answer if a firm wants to hold any of its partners accountable for anything. Coming in with a 16 percent response is the answer that is the most effective way to successfully implement firm strategy and hold partners accountable, which is for the managing partner to set goals based on the firm

strategy and have a compensation stick to hold partners accountable to achieving them. As you can see, there hasn't been much change in these responses between this survey and the last one.

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 managing partner sets individualized goals for each partner based on the strategic plan AND has a discretionary compensation stick to hold partners accountable for achieving their goals.	5%	6%	16%	17%	32%	41%	42%
The managing partner does not set goals for each partner, but HAS the discretionary ability to adjust partner pay.	44%	21%	29%	22%	19%	12%	8%
The managing partner sets individualized goals for each partner based on the strategic plan, but does NOT have the ability to hold partners accountable with discretionary compensation.	5%	9%	2%	12%	8%	6%	0%
The managing partner sets individualized goals for each partner based on his/her individual ideas and criteria (not based on the firm's strategic plan), but does NOT have the ability to hold partners accountable with discretionary compensation.	2%	1%	5%	3%	14%	0%	8%
The managing partner sets individualized goals for each partner based on his/her individual ideas and criteria (not based on the firm's strategic plan) AND has a discretionary compensation stick to hold partners accountable for achieving their goals.	5%	1%	0%	2%	8%	18%	8%
The managing partner does not set goals for each partner and has NO individual ability to adjust partner pay.	40%	62%	49%	43%	19%	24%	33%
Total	63	94	63	58	37	17	12

There are several points to note when looking at the data based on firm size. First, the larger the firm, the more the managing partner is expected to set goals based on the strategic plan and to have a compensation stick to hold partners accountable. The smaller the firm, the more likely the managing partner doesn't bother to set goals, but has a compensation stick to hold partners accountable (this is almost assuredly because the managing partner is also the single biggest shareholder and has that power by vote).

Then, when a firm grows, as you can see somewhat supported by the table data, the managing partner loses voting control and as a result, the managing partner doesn't set goals, but the rest of the partners strip away the power to impact compensation. Having the managing partner set goals without a compensation stick is, in our experience, a waste of a very scarce resource. Nothing significant or dependable will come out of that effort.

Letting the managing partner set goals based on his/her individual opinion rather than the strategic plan, with or without a compensation stick, is a severe violation of good governance. The few larger firms that have managing partners who set goals based on their individual opinions, with a compensation stick, probably do so because the managing partner is a founding owner or an owner who still has voting control. A managing partner who has power to ignore firm strategy and hold partners accountable to his/her own agenda is a managing partner with too much authority. This violation of good governance is almost guaranteed to stop once that owner retires, inasmuch as the remaining partners will not allow anyone to have that potentially abusive level of authority going forward.

If the managing partner does not set individualized partner goals, who does, if anyone?

Answer		%
We don't have formal individualized goals for partners.		61%
Each partner sets his/her own goals.		24%
The entire partner group.		11%
The Executive Committee.		2%
The Compensation Committee.		1%
The Partner Board.		1%
Total		100%

Firms responding that their managing partner does not set individualized goals were asked the question above; 92 respondents were provided this question and 61 percent of that group stated that partners do not have formal individualized goals set for them. Of those who did have formal goals set for partners, 24 percent said that each partner set his/her own goals, 11 percent said the partner group as a whole set goals for the partners, with the remaining 4 percent leaving that function to a smaller group of partners (Executive or Compensation Committee or Partner Board).

While you might guess that those answering set goals (versus the ones who said they do not set any goals) are much better off, generally speaking, we don't see that. When individuals set goals for themselves, even if they achieve them, because no one person is making sure those goals align with the other partners and with strategy, the goal system is marginally effective at best. This is because of the lack of alignment and due to the lack of accountability to achieve those goals. On the other extreme, when goals are set by a group of people, and therefore individual partners are held accountable by a group of people, that usually means that no one

will be held accountable. The exception to this is when a group sets objective firm metrics for all partners to achieve. The objective-metrics approach creates accountability since the resulting compensation is simply a formula-based answer. But in our experience, these systems only work well under the silo/EWYK model of operations and as the firm grows, these pure compensation calculations rarely support the strategic changes a firm has identified. Furthermore, these systems often result in selfish, dysfunctional partner behavior and motivate those who manipulate the formula for personal gain rather than firm success.

Compensation Averages for Multi-Owner firms

As this point of the survey, all participants were brought back together to answer all of the questions that follow. Since many firms don't want to share their compensation history, rather than collect made-up data to allow participants to finish the survey, we asked if they would be willing to share their results. Out of the 850 survey participants, 110 did not even answer this question and 493 (or 67 percent of the 740 respondents answering this question) agreed to share their compensation statistics.

Are you willing to share your average compensation for your most recently completed fiscal year?

Answer		%
Yes, I am willing to share my or our compensation numbers knowing that Succession Institute will not share our individual data with any other organization.		67%
No, I am unwilling to share my or our compensation numbers.		33%
Total		100%

Next, we wanted to make it clear what numbers we wanted them to share. For multi-owner firms, we specified that we wanted average partner compensation, which included salary, bonuses and profit distributions. While we shared compensation numbers in the "Who Responded to This Survey" section, we have shared the data in this section based on revenues (rather than FTEs) to give you a different look at the numbers.

Please provide your average compensation for your most recently completed fiscal year.

For the 303 responses from multi-owner firms:

Net Annual Revenues	$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
Average Annual Owner Compensation	100,556	141,948	208,549	232,737	267,022	326,292	356,078	367,423	566,191	511,000	654,500
Total Responses	9	26	18	77	53	31	33	32	10	8	6

This table provides a clear message. The larger the firm, the more money owners can make. CPA firms make money by leveraging staff. Partners can work an enormous number of hours in small firms, taking on all of the burden of being the owner, manager, financial technician, client service person, work horse, etc., and they can clearly make an excellent living. However, the more staff a partner has working for him/her, the more money he/she can make.

With each jump in annual net revenues, except for one category, average owner revenue went up. Only the group from $25,000,001 to $60,000,000 went down as compared to the previous category. And because there were only eight firms in this response group, this lower number could be explained by a few of those firms being over-partnered at the time of this survey in preparation for some succession changes.

CPA firms are in the people business. You simply make more money by having more staff time to sell, not by having more partners to do the work. This is why we believe it is important for firms to pay attention to leverage (one of the compensation factors listed above) so that the partners will stop trying to carry the burden of work themselves. This will require them to delegate as much work as possible to staff (which requires staff training, another compensation factor we focus on), so that they can focus on doing the parts of their current jobs they are not doing because they are too busy being the firm's work horses.

Other Services

In this new question we asked this year, we wanted to understand how firms were organized to deliver their various service offerings. Of the 361 respondents, the larger the CPA firm, the more likely the firm will have other businesses supporting their service offerings (from 90 percent of the firms providing all of their service offerings through the CPA firm in the smallest size category to 38 percent doing the same in the largest firm size category).

Is your CPA firm operating more than one business entity to house its various service lines? (In other words, having a separate legal organization for the building you may own would NOT qualify as a separate business service line, but offering a wealth management service through a separate legal entity from the CPA firm would qualify here as a separate business service line.)

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 operate all of our business service lines through our CPA firm.	90%	86%	86%	67%	62%	59%	38%
We have more than one business entity supporting our various service lines.	10%	14%	14%	33%	38%	41%	62%
Total	70	98	65	61	37	17	13

Next, we wanted to find out more about the additional service lines, as well as businesses our CPA firms were supporting.

Which of the business service lines below do you operate?

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
A merger and acquisition firm.	0%	0%	0%	5%	0%	14%	38%
A consulting firm.	29%	0%	11%	30%	7%	43%	63%
A wealth management firm.	43%	85%	67%	60%	64%	57%	75%
A CPA firm.	86%	92%	100%	90%	93%	100%	88%
A technology firm.	0%	8%	11%	10%	29%	14%	63%
An outsourcing or small business controller firm.	14%	8%	0%	10%	7%	29%	38%
A recruiting or headhunter firm.	0%	0%	0%	10%	0%	14%	50%
Other, please specify the different entities your firm utilizes to support business service lines.	0%	23%	22%	25%	7%	14%	13%
Total	12	28	19	48	29	20	34

Among the 190 responses to this question, wealth management firms were the most popular second business operation, with consulting firms and technology firms roughly tied for second most favored. Outsourcing or business controllership was of greatest interest to the largest firms, but showed up in all size categories except the 16 to less than 26 FTEs size category. Merger and acquisition and headhunter operations were mostly only of interest to the two largest size categories of firms. These types of services have been offered in CPA firms for a long time, but in order to be able to attract the right talent to run them, many firms are formalizing these services in separate organizations to create more ownership flexibility. All of the services listed above can easily be tied to expanding the scope of services that would naturally be of interest to the personal and business clients of a CPA firm.

Finally, there were a number of responses for “Other.” Some of the written responses we received for this selection included:

- Payroll
- Trust and fiduciary
- Risk management firm/cost containment
- Low income housing tax credit, government subsidies
- HR outsourcing
- Family office
- Information security

Please share with us your firm's net annual revenue for all of the other business service line entities (gross revenue less write-offs) for your most recently completed fiscal year.

Answer	Min Value	Max Value	Average Value
Net revenue for all other business service line entities supported by the CPA firm.	0	85,000,000	3,456,368

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
Net revenue for all other business service line entities supported by the CPA firm	281,349	319,219	485,877	1,202,600	2,716,236	7,398,734	37,666,667

Of the 63 responses, the annual net revenue for these other service offerings had a minimum value of zero, a maximum value of $85,000,000, with an average response of almost $3.5 million. As you can see, the larger the firm, the more revenues are generated in businesses outside the CPA firm.

Wrap-Up

We will pick up at this point in the survey for our last article on the survey, Part 7, with workload compression. We will include some additional insight that was not part of the survey report to share some ideas you should be embracing and implementing now to help you mitigate the damage that continually expanding workload compression will predictably create within your firm in the next few years.

Understanding Your Influence Over Firm Culture

By Gary Adamson

Adamson Advisory

If you are a partner in a CPA firm, you are a leader and a role model for your employees. If you are the managing partner, you are not only a role model for your employees, you are a role model for your partners.

In your role as owner, you might not realize how much control you have over the firm culture and your ability to retain top performers at your firm.

As many experts are telling us now, people don't leave companies/jobs, they leave managers (their boss). In an accounting firm, partners and managers are in the role of boss.

When assessing whether the "people leave their direct supervisor" theory for your firm, think about how it plays out in real life. Managers have been with you for a number of years. They mirror your example because they have been guided by your example and advice over those years.

So, if employees are leaving a firm because of their manager, is it the manager's fault or is it because the manager is simply doing what they think is expected of them by the owner group?

In the larger picture, you, the owners, set the tone for day-to-day life inside the firm. You are the ones responsible for creating the firm culture and brand. You are creating an environment where accounting careers can flourish or fail. Owners and managers in a CPA firm have much more power and control than they might perceive.

Cameron Morrissey, in a recent blog post, gives us the four most common reasons that employees leave an organization:

Loss of trust or confidence – Does the manager set a fair atmosphere? Are they honest and transparent? Do they explain their decisions? Do they follow through on what they say they are going to do? Do they demonstrate a knowledge of the direction of the department and how to reach departmental goals?

Feeling undervalued – Is the manager listening to employee feedback? Are they giving constructive feedback to the employee? Are they showing appreciation and noticing successes? Are they empowering their employees to be able to do more than the basics?

Set clear expectations – Does the manager flip flop between priorities? Are there two or more sets of rules depending on who they are talking about? Do they decide things or procrastinate on a decision? Do they communicate the goals and vision for the department?

No path for growth – Does the manager help set career goals with their employees? Do they meet about those goals at regular intervals? Are they training their team on new things? Are they exposing their team to different areas? Do they have a succession plan?

Owners and managers in a CPA firm "own" these areas. They are the ones who can instill confidence and trust. They have ample opportunities to make employees feel valued. They must set clear expectations and provide a well-defined career path for people committed to a career in public accounting.

Don't downplay the importance of retaining top talent and doing everything you can to create a strong bond between your people and your firm. It might seem overwhelming at times, but don't give up.

As Morrissey states, "… it is meant to be a wakeup call to just how much power and influence you as a leader have in your organization and over your team. So, the next time you want to throw up your hands and say it's out of your control, remember that you may just have a whole lot more control than you think. Don't give it up; seize it.

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Don't Fire Clients, Serve Them

There have been countless articles that tell CPAs to fire clients. Most of them tell us to rate clients A, B, C and D. You want "A" clients since those are the ones who pay you the most, while D clients pay little or have a very low realization rate.

These articles go on to tell you what to do with your clients – increase the fee, reduce the scope, spend less time, etc. In short, these articles tend to place the blame on the client for being a "poor or bad" client. They tell you to speak with the client, get them in shape or fire them. After all, isn't it the client's fault anyway?

They fail to appreciate that the client also has a stake in the relationship. We should ask ourselves: How does the client perceive us? If the client perceived that he/she received value for the services, he/she would be more likely to pay the fees. From the client perspective, the equation is Value Received = Fees Paid.

Do You Really Have A Lot of D Clients?

It may be true that your firm has its share of clients it shouldn't keep. And it makes perfect sense to do something with those clients who don't belong with your firm. The only clients you should not have are those who are not profitable and fall outside of your target markets. (See Quadrant IV below.) These should be outsourced immediately. And if a majority of them belong to one of your partners, he/she might like to go with them.

Clients in target markets

PROFITABLE	NON PROFITABLE
I. KEEP & NURTURE	II. TRANSITION
III. MONITOR	IV. DISCARD

Clients outside of target market

At your next partners' meeting, have each partner assess every one of his/her clients by placing each one in one of the four quadrants above.

Examine the clients who are profitable for the firm – Quadrants I and III. What can you learn from the partners who are serving these clients? What can you learn from the clients themselves? Clients in Quadrant III are profitable, but fall outside of your target market(s). They need to be constantly monitored. As long as they don't take valuable resources away from your targeted clients, there is no reason not to keep them.

By definition, Quadrants I and II have no "D" clients. Your focus in these two quadrants should be to make your "C" clients "Bs" or "As."

Finally, look at Quadrant II clients. They are in your target market, but are unprofitable. These need to be transitioned to the profitable Quadrant I. Ask your partners why these clients are unprofitable for the firm. If you can't transition them into Quadrant I over some reasonable period of time, either transfer the clients to

another partner or outsource them. Keeping an unprofitable client with the same partner will only get you the same results – and you already know what those are.

How, then, does the firm implement this? How do you retrain your partners so you get them to provide clients with services that make them more profitable? How do you provide them with value?

Is Your Firm Value or Production Oriented?

If your firm is inward or production oriented, then you will always blame your clients for being inefficient, slow payers and unprofitable for the practice. Production-oriented firms sell time. In fact, partners tend to horde chargeable hours, even though another partner could better service the client. Finally, production-oriented firms tend to take on more work outside of their target markets than value/marketing-oriented firms. Production-oriented firms don't provide clients with a lot of value, because their focus is on the billable hour.

But if your firm is value oriented, you know that these issues are not necessarily the client's fault. In fact, rather than blaming the clients, your focus is on how the firm and how individual partners are viewed by your clients. You need to retrain partners or fire them. What other choices do you have?

What's important to clients and how do you measure it in your firm? There are a handful of things that matter to most of our clients – service performance – what does the service do for the client, timeliness or meeting promised deadlines, the overall relationship with the firm and the cost of the service. If the client perceives that he/she has received a lot of value from the service, for example you suggest he/she set up an irrevocable insurance trust to keep the value out of his/her estate, he/she won't mind paying you for your advice.

Conducting a client satisfaction survey at the end of the year is one way of measuring how well you did from a client perspective. Satisfaction surveys, however, are lagging indicators. They only tell you how you did in the last period. They don't tell you what the future may hold. That's why you also want to measure leading indicators.

If you want to change the behavior of your partners (and staff), you do so by developing internal measures that tie into the client perspective. In other words, how are each of your partners doing when it comes to value, timeliness, relationship and fees?

Consider setting standards in each of the following measurements:

- Engagements completed/open engagements
- Delivery dates met
- Client turnover percentage per partner
- Number of client complaints
- Client longevity

These are just examples. It is more important for you to determine what is critical to measure in your firm to drive change and achieve success. Develop your own set of measures.

What Does the Firm Get?

At the end of the process, the firm gets more loyal and profitable client relationships. Isn't that what you wanted in the first place? So, the next time someone tells you to fire some of your clients, look a little closer to home. Make sure you shouldn't fire some of your partners before your clients fire you.

-August Aquila

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