

August 2013

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

From the BILLiverse

This month, Bill Reeb, CPA, continues the conversation on succession planning. At this point in the discussion, we've covered how to pay your partner for his/her value in the firm, pinned down a mandatory sale of ownership date (MSO) so that you can phase partners out of their leadership roles at pre-designed times, outlined how to manage transition (the single most abused process in succession) and discussed how to find replacements for the retiring senior partners. Now it's time to look at some do's and don'ts as they relate to "soon-to-be-selling" and "post-sale-of-ownership" partners, some of whom will likely want to continue to work for the firm. Take a look.

[Read Reeb's Commentary](#)

Marketing Tip: Building a Successful Niche Practice

Industry and service specialization is hotter than ever. Firms with well-developed niche practices focus their investments in training, service delivery, marketing, and selling in those areas and develop efficiencies that increase engagement success and profitability.

Krista Remer and Jennifer Wilson from *ConvergenceCoaching LLC* say, "While the benefits of niche practice development are many, too many firms fail to make the investments needed to achieve real niche success." In this article, Remer and Wilson will discuss four practice management strategies that can facilitate niche practice success.

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Essential Advice for the New Managing Partner

There is an evident generational shift affecting the accounting profession, which will bring up questions about succession planning, mergers and millennials. This shift will also bring uncertainty into another area of the firm: the office of managing partner. In the following article, Rick Telberg, CPA, shares tips and advice for the new generation taking over the corner office.

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The Inverted Pyramid – Does Your Firm Look like This?

Gary Adamson, CPA, suggests that many firms are struggling with the same issue these days – the inverted pyramid, where there are lots of partners and managers, but little staff. In this article, Adamson offers advice to help correct the problem and provides a checklist for firms in this position to utilize.

[Read the Article](#)

The Case of the Costly Intern

According to a recent National Association of Colleges and Employers study, nearly half of all internships are unpaid; and unfortunately, unpaid interns do not find employment (37 percent) upon graduation as frequently as paid interns do (63 percent). The lack of employment opportunities for unpaid interns, as well as starting salary discrepancies have contributed to a flurry of lawsuits for back wages brought by unpaid interns against their internship sponsors. This article provides a number of ways accounting firms can structure their programs for interns in a way that minimizes exposure for wages and optimizes the interns' experience.

[Learn More](#)

How to Keep Your Website Healthy

If your website is in ill health, or if your online presence is fading fast, a "health check" might be just what you need to revive your site. This *AccountingWeb.com* article suggests you consider a number of visual clues such as layout, ease of use and navigation, as well as your existing analytics to assess your website's health.

[Read the Article](#)

<http://www.accountingweb.com/article/how-keep-your-website-healthy/222135>

20 Trends to Watch

In this slideshow, *AccountingToday.com* highlights 20 areas of change that CPAs should keep their eyes on. From virtual firms to "social listening" to opportunities in Obamacare, there's a lot of potential change coming to the profession and this article will leave you with things to consider.

[Watch the Slideshow](#)

<http://www.accountingtoday.com/gallery/20-trends-to-watch-67118-1.html>

SUCCESSION FUNDAMENTALS – PART 5

BY BILL REEB, CPA, CTP, CGMA

Thus far, in this Succession series, we have covered how to pay your partner for his/her value in the firm, pinned down a mandatory sale of ownership date (MSO) so that you can phase partners out of their leadership roles at pre-designed times, outlined how to manage transition (the single most abused process in succession) and discussed how to find replacements for the retiring senior partners. Now we will move on to reviewing some do's and don'ts as they relate to "soon-to-be-selling" and "post-sale-of-ownership" partners, some of whom will likely want to continue to work for the firm.

Let's start by considering some common problems with the "soon to be selling" owners. Consider this data gathered in the 2012 PCPS Succession Institute Succession Survey. The question was "Please indicate why your firm has paid a retiring partner above or below the originally agreed upon calculation."

	2012	2008
Partner wouldn't agree to retire without additional incentive	30%	12%

For this question, all I did was include the first response because I will address the rest of them a few paragraphs from now. But to put these in context, all of the responses relative to this question highlight common problems that should and can be avoided by either instituting "mandatory sale of ownership (MSO)" or by having a strong system of accountability driving performance and compensation. With either or both of these, the firm is in a position to retire or terminate partners anytime someone chooses to retire in place, stop performing or just hangs on too long. Based on the data gathered from our survey, 30% of the time, partners wouldn't retire without the firm sweetening their financial deal. We believe this should be close to zero percent instead of found almost a third of the time.

Now, take a look at the table below. As you can see, 11% of the respondents had to sweeten the deal by an additional 75% to 100% of the original retirement payout formula to get these partners to leave, while 22% had to enrich the retiring owners by more than 100% to get them to go away. When you are willing to pay

someone more than twice the agreed-to price to leave, that really highlights the greed of the retiring partner, the intense desire of the remaining partners to motivate a partner to leave, the lack of governance and policies to be able to manage a particular partner, or what we often find which is some combination of these.

You can see for yourself the results from the question “Choose the option that best describes the change in the retiring owner's payout formula (RPF) and overall package from what was originally prescribed:”

Answer	2012%	2008%
More than 50% below RPF	6%	47%
41-50% below RPF	0%	
31-40% below RPF	6%	
21-30% below RPF	6%	
11-20% below RPF	6%	
01-10% below RPF	6%	
01-10% above RPF	6%	7%
11-20% above RPF	28%	13%
21-30% above RPF	0%	13%
31-40% above RPF	6%	0%
41-50% above RPF	0%	7%
51-75% above RPF	0%	3%
76-100% above RPF	11%	10%
More than 100% RPF	22%	0%
Total	100%	

Now let's take a look at the rest of the responses from the question about why firms paid a retiring partner above or below the originally agreed upon calculation.

	2012	2008
Partner wouldn't agree to retire without additional incentive	30%	12%
Partner did not adequately transition client relationship	27%	NA
Partner did not work long enough to meet vesting requirement	17%	6%
Partner's performance warranted the adjustment	13%	15%
Partner left without adequate notice	13%	NA
Partner's unethical behavior warranted the adjustment	10%	6%
Partner left to compete with the firm	10%	12%
Partner was offered this amount in lieu of termination	10%	9%
Client base was only of marginal interest to the firm	3%	15%
Partner serviced a unique specialty niche	3%	NA

Just look at these policy issues. If a partner doesn't:

- adequately transition client relationships,
- work long enough to meet vesting requirements,
- perform at an expected level,

- provide adequate notice before leaving,
- behave ethically, or
- serve as an Ambassador of the firm, but rather competes with the firm,

then all of these conditions should be part of your operating policies and your agreement and should have a negative impact on the retirement benefit amount and payout for the retiring partner. And all of them are occurring statistically in at least 1 out of 10 situations. However, based on our experience, the only reason these numbers are not significantly higher is because many firms have only retired one or two partners, while others are just starting to go through this process for the first time. So don't let the low statistics lull you into complacency regarding addressing each of these issues.








On the other side, when consider responses like:

- Client base was only of marginal interest to the firm, and
- Partner serviced a unique specialty niche.

While it is logical that these situations should have a negative impact on the retirement benefit, there is a bigger question that should be addressed. That question is, "Why would a partner be allowed to build a client base that was of marginal interest to the firm or build a specialty niche that no one else had an interest in or the capability to continue?" In these cases, this is as much of reflection of the firm dropping the ball as it is the partner doing his/her own thing. In other words, the firm should have addressed this early on by either redirecting the partner's efforts (there goes that accountability issue again) or requiring that niche to operate within a business plan built around sustainability and continuation.

Our point for covering this survey question is that the responses clearly represent a bunch of **don'ts** when it comes to retiring partners – and don't just hope things will work out and everyone will want to do the right thing for the firm. Establish policies early on and enforce them.

So now we've seen that other firms frequently have seen negative situations occur when they don't address them up front in their firm policies or agreements. This next question addresses whether firms are proactively preparing for these occurrences. The question we asked was "Which of the following occurrences will force a change in the payment duration, monthly payment amount, and/or total payout amount of standard calculated retirement pay?"

Answer		2012%	2008%	2004%
Competing with the firm after retirement		74%	53%	56%
Taking staff		43%	NA	NA
Early retirement		42%	36%	31%
Egregious misconduct in the community		26%	21%	13%
Uncollectible Accounts Receivables or Work in Process		21%	17%	17%
Sale of the business		14%	19%	14%
Merger		10%	13%	9%

Loss of retiring owner's clients at any time during the payout period		13%	10%	} 24%
Loss of retiring owner's clients only within the first two years		9%	12%	
Loss of retiring owner's clients only within the first year		7%	12%	
Liabilities incurred after retirement based on retiring owner's clients		9%	7%	6%
Sale of a line or business		1%	4%	2%

In a positive trend, 74% of participating firms indicate that competing with the firm after retirement will result in a change in the retirement benefits, compared to just over 50% in past surveys. But only 43% of the firms said that a retired partner's benefit will be affected by his or her taking staff when they leave. Given the importance of finding and retaining quality staff to every firm, why would any firm put their top people at risk without at least some financial consideration should a past owner woo them away, especially while the firm is paying them a retirement benefit for the value they are leaving behind? By the way, for the record, when owners leave and take clients and/or staff, they normally take the best of each.

Just as bad, only 42% of the firms indicated that early retirement would result in an adjustment to a retiring partner's benefits. We not only believe that an effective policy in this area should have a tiered vesting schedule that reduces the retirement benefit for leaving early, but that the early vesting privileges should only be accessible with a minimum of two years' advance notice. Remember that one of the central reasons for bringing in younger partners is so they can buy out the senior partners when it is time for them to leave. In many cases, we find poor policy design in this area which actually will allow the younger partners to leave before the older ones, thereby turning the succession plan upside down. The good news is that there is an easy fix to this as long as you put it in place years before a partner is ready to retire. When you consider some of the major issues introduced here, such as:

- Competing with the firm after retirement.
- Taking staff.
- Early retirement.
- Egregious misconduct in the community.
- Uncollectible accounts receivable or work in process,
- Loss of retiring owner's clients if improperly transitioned or if purchased on a retention policy

our question is simply "Why aren't all of these responses close to 100%?" rather than the group of them currently averaging about 30%.

Regarding involvement of retired owners in the firm, we asked this question: "Which of the following best describes the involvement of retired owners in the firm?" Here were the results of the responses to this question:

Answer		2012%	2008%	2004%
Retired owners have no involvement and no influence in firm operations.		42%	36%	NA
Retired owners are still active in the community and have a formal role of being an ambassador for our firm.		20%	16%	NA
Retired owners continue to manage client relationships.		19%	16%	26%
Retired owners do what they have always done, but just work less hours.		17%	17%	NA
Retired owners still work on some of their old clients, but as a manager because another partner handles the relationship.		17%	23%	NA
Retired owners are on an annual contract with the firm that has to be renewed each year with specific allowable activities they can perform.		17%	NA	NA
The firm, as a sign of respect, allows retired owners to continue working even to the point of their skills diminishing, but we closely monitor their work.		8%	4%	NA
Retired owners do not operate under a special agreement and are allowed to continue working for the firm until they are asked to leave.		6%	10%	NA
Retired owners are invited to board/management meetings, but don't have a vote.		6%	7%	9%
Retired owners are invited to board/management meetings and while they don't have a vote, they are still very influential.		5%	3%	
Retired owners are commonly invited to board/management meetings and still vote.		1%	2%	
Retired owners still do pretty much what they did before they retired.		4%	4%	NA
Other, please specify:		23%	34%	NA










In our opinion, the right answers to this question are:

- Retired owners should have no involvement or influence in firm operations; they should not be members of leadership groups, nor should they be attending board/management meetings.
- Retired owners should be active in the community and acting as an ambassador for our firm as long as they are being paid a retirement benefit.
- Retired owners should not manage client relationships (except it is not uncommon for firms to allow a nominal amount of revenue to continue to be managed by the retired owner, made up of clients which are 1) specifically identified, 2) very small clients (no large clients), 3) long-term friends or family of the retiring owner and 4) not deemed important to the firm.
- Retired owners can still work on some of their old clients, but only as a manager because another partner handles the relationship.
- Retired owners are on an annual contract with the firm, with specific allowable activities they can perform and that has to be renewed each year.

Now if you compare the right answers to the answers that we captured in the survey, as you can see, there are a number of policies that need to be put in place right away to protect the firm and position the retiring partner to continue to provide value in retirement.

The larger the firm, the more likely it will be that some retired owners continue to work with the firm under annual contracts, performing specific, delineated duties. This is a good practice. The smaller the firm, the more likely the retired owners can continue to do what they've always done, but simply work less hours, and the more likely they will be involved in or influencing firm operations. These are bad practices. So all firms should take a lesson from the playbook of the larger firms who, while they will find a specific role for talented owners to continue to work, simply don't allow retired owners to be part of or influence leadership.

When it comes to compensation of retired owners, the statement the respondents completed was, "Our firm's compensation system:"

Answer		2012%	2008%	2004%
has been/is made available to retired partners only if both the retired partner still wants to work and the firm wishes to retain them in some capacity.		41%	NA	NA
will pay retired owners a salary to continue working for the firm.		35%	24%	26%
will pay retired owners a percentage of their billings or collections for client work.		32%	23%	28%
will pay retired owners to bring in new business.		30%	14%	20%
has been/is made available to every retired partner if they wish to continue working in some capacity within the firm.		14%	21%	NA
will pay retired owners to remain active in the community as ambassadors for the firm; serve on boards of directors; be involved in charity events, etc.		12%	5%	6%
will pay retired owners for the book of business they continue to manage after retirement.		10%	4%	NA
is the same for retired partners as it is for active partners.		5%	2%	NA
pays retired owners for other, please specify:		9%	15%	11%

By this time in the process, the retiring owner should:

- have properly transitioned his/her clients,
- no longer be managing clients (all clients who were assigned to them prior to retirement, except for the possibility of a few very small, nominal clients, should now be managed by the partners who were designated by the firm to take over the various client accounts)
- not be involved in the leadership of the firm or attending, unless invited to a specific meeting, any leadership meetings
- not be competing with the firm by setting up shop somewhere else
- be under an annual contract with specific terms and duties described. The contract should automatically expire each year. Without a renewal, the retired owner will know that their tenure working for the firm is over. Common acceptable terms of this contract are:
 - Percentage of billings (working in the role of a technical manager). This percentages usually ranges from 25%-40%. Paying the retiring owner in excess of 40%, which is often found in smaller firms, is excessive and provides the retiring owner not only a partner-level cut of the fees billed, but all of the profit from the work they are doing.

- To be very clear, when a retired owner is paid a percentage of personal billings, it is only on the work they are individually doing, not on the project or client's billings.
- Percentage of first year's business for new clients, or in rare circumstances, new services. This number should be in the 10% to 20% range. Some firms will pay 10% for two years, some will pay 10% - 15% for one year, but we believe that 20% in one year is too high. On the other hand, 10% for one year is normal and reasonable (adjusted for actual collections).
- Hourly agreed-to pay for specific performance. In other words, specifically identified activities (networking, internal training, working specific referral contacts identified by the firm, involvement in charitable events/boards, etc.) can be paid on an hourly basis or set up as duties to be performed within a small stipend or salary each year. This would not be paid at the owner's billing rate, but at a much lower internal rate.
- Other perks should be considered, such as paying for identified continued CPE, licensing fees, office (however, a manager-level office rather than a partner's office), expenses, etc.

As you can see, between the survey questions and the commentary in this article, there are a great deal of policies that need to be put in place, significantly updated, and/or implemented with greater accountability to better position the firm for both the seamless retirement and management of the relationship after the retirement of an owner. No matter how painful these discussions might be today, they are not nearly as painful and economically damaging as they will be if you wait until someone is ready to retire. When the discussions are early, or at least four or five years away from someone retiring, although the arguments and emotions can run high, the conversation is more about what is fair and reasonable from a business perspective. Once you get a year or so away from an owner retiring, the dialogue begins to feel like the discussion is more about what the person retiring deserves rather than what is fair and sustainable for the firm. So, have these conversations now and work them out!!!

In my next column, I will start putting all of this together into what your succession plan should look like. Until then ... have a great remainder of your summer!

Building a Successful Niche Practice

Industry and service specialization is hotter than ever. Deep industry or service expertise enables firms to differentiate themselves from the competition and establish a reputation of thought leadership in their chosen niches. In addition, firms with well-developed niche practices focus their investments in training, service delivery, marketing, and selling in those areas and develop efficiencies that increase engagement success and profitability. Ultimately, niche firms with a strong market presence and excellent client service build a reputation that brings niche opportunities directly to them.

While the benefits of niche practice development are many, too many firms fail to make the investments needed to achieve real niche success. In this article, we'll explore practice management strategies that facilitate niche practice success.

1. **Go deep, not wide.** Firms frequently boast a long list of the industries they serve and services they offer. These lists are often aspirational and do not reflect areas where the firm has developed deep expertise or a true concentration of clients. To reap the benefits of a niche strategy, carefully choose a very small number of industries and/or specialty services in which to “go deep” in your practice development efforts. A good rule of thumb is that depth, bench strength, and practice continuity can be developed when a firm has two or more partner-level resources per niche. In a five partner firm, you would then expect to find traditional core services of audit, tax, and accounting and the ability to develop up to two deep niche specialties.

2. **Choose firm niches strategically.** When a firm commits to developing specialized niches, selecting which niche specialties to invest in can cause disputes among the leadership group, especially when partners have “pet” industries or services and resist giving up their niche in favor of another. When this is the case, partners should agree to focus niche practice development resources first on industry or service niches that have at least three of the following attributes:
 - (1) Industries that are thriving or expecting growth in your locale
 - (2) Service specialties that your firm’s clients have asked for or seem to need
 - (3) Industries or service areas where your firm’s primary competitors do not have strength
 - (4) Industries or services where you have capable leaders who are interested in and willing to own development of the niche
 - (5) Industries or service areas where your firm has some experience to leverage and perhaps even client references
 - (6) Industries or services that have the potential to drive additional opportunities to other industry or service areas of your firm

3. **Dedicate one owner to each niche.** One person should be responsible for the management and success of each niche, although this person may not be dedicated full time to the niche, especially in smaller firms. Even so, the niche practice leader should allocate non-billable time to plan for and grow the niche, and the firm must budget for this time. If you want your chosen niches to succeed, ensure that your compensation model allows for this administration time and does not penalize the niche owner for time away from client work. Niche practice leader responsibilities should include:
 - (1) Producing a true niche business plan annually (more on this in our next article) and ensuring that the business goals for the niche are being met
 - (2) Being accountable for the financial performance of the niche
 - (3) Communicating status and needs internally and garnering support for the niche
 - (4) Managing niche resources and coordinating with other service line leaders to share resources as needed
 - (5) Developing and implementing the niche’s marketing and business development strategies

(6) Ensuring that compensation is tied to specific performance benchmarks and milestones called for in the niche plan

4. **Do not under-commit.** Firms often under-estimate the time, money, and resources needed to gain niche practice momentum and under-commit resources. This frequently results in disappointment with the success and traction of the niche. To alleviate this, niche plans should call for specific commitments of non-billable time, people, and dollars needed to ensure niche success. The niche owner should review these commitments with all partners so they are all aware of the investments required of themselves and the firm. If the niche practice leader finds that they need more partner time or more support, such as partners referring clients to the niche, they must spell out exactly what they are requesting and get commitments from each partner for those specific actions. Firm leaders must avoid stalling on their commitments or under-committing resources and support or they risk killing the niche altogether.

As mentioned above, the assigned leader for each niche will create a business plan each year and assign enough resources and marketing effort to truly develop the reputation you desire in your chosen specialties. We'll discuss the specifics of a niche plan and some other niche practice development tips in our next article. Until then, evaluate your firm's current list of niche industries and services and work to narrow or change them as needed based on the criteria above. Then your niche owners and support resources can focus their efforts on building truly successful niche practices for your firm!

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The Case of the Costly Intern

Offering an internship to undergraduate students majoring in accounting is a long standing tradition in the accounting industry. It is a way for accounting firms to contribute to the profession, improve community and institutional relations, and recruit well qualified and initiated staff, particularly during the current talent drought. Interestingly enough, a recent [Intern Bridge report](#) indicated that the accounting industry is the leader in converting college internships into jobs.

Most college or university students are delighted by an intern opportunity, often working for relatively low wages because they believe it gives them a competitive edge in the job market, or may even land them a job where they interned. A recent [National Association of Colleges and Employers survey](#) revealed that nearly half of all internships are unpaid. Unfortunately, unpaid

interns do not find employment (37%) upon graduation as frequently as paid interns do (63%). The lack of employment opportunities for unpaid interns, as well as starting salary discrepancies - \$57,000 for paid interns versus \$36,000 for unpaid interns – have contributed to a flurry of lawsuits for back wages brought by unpaid interns against their internship sponsors. The recent decision in [*Glatt v. Fox Searchlight Pictures Inc.*, \(S.D.N.Y. June 11, 2013\)](#) may sound the death knell for unpaid and underpaid internships.

The facts in the Glatt case are fairly simple. Eric Glatt worked in the financial service industries for a number of years before becoming interested in a career in film making. Glatt went to “work” for Fox Searchlight Pictures as an unpaid intern on the set of the film *Black Swan*. Glatt performed fairly menial tasks, although he apparently was “good with numbers” and did some of the day-to-day production accounting. Glatt quickly concluded that he was not learning much about the film industry, or anything new for that matter, and was performing routine tasks that others were getting paid for. Glatt filed suit against Fox claiming that he actually was an employee and entitled to wages under the Fair Labor Standards Act (“FLSA”) and the New York equivalent. The federal judge in the case agreed with Glatt; and in doing so, adopted the stringent [guidance advocated by the Department of Labor](#) (“DOL”) in determining whether or not an intern can legally go unpaid or underpaid.

The easiest solution for eliminating the potential liability for the payment of wages to unpaid or underpaid interns is, of course, to pay them at least minimum wage. Most firms are paying in excess of minimum wage for interns; for those firms that are not, it is time to make some changes. Based on the Glatt case and similar rulings, accounting firms can structure their programs for interns in a way that minimizes exposure for wages and optimizes the interns’ experience by following a relatively simple set of guidelines.

- **Teach new skills to interns.** The purpose of the internship is to provide participants with an opportunity to learn new professional skills; particularly ones that cannot be obtained in a traditional classroom setting. The program should be designed to be largely educational in nature, and distinct from training that regular employees receive. Simply learning how an accounting firm functions by working inside its operations is not considered a new skill.
- **Avoid assigning routine work to interns.** Interns should not perform routine and menial tasks requiring no special skills or training, or displace the work of a regular, paid employee. Whether a regular employee could have performed the work better or more efficiently than the intern is irrelevant. In addition, earning academic credit does not reduce the requirement for a quality intern experience. Let your clerical staff perform the mundane clerical activities and give your interns the opportunity to learn professional skills.
- **Properly supervise interns.** Too frequently interns are left to fend for themselves. They end-up randomly doing whatever needs to be done or perform tasks assigned by non-supervisory employees with no responsibility for the internship program.
- **Focus on benefiting interns.** Under the DOL’s rules, a firm should not receive an immediate advantage or benefit from an intern's work. Interestingly enough, showing that the firm’s day-to-day operations were actually impeded by the training and supervising of interns is very helpful in combating a claim for wages by an intern.

- **Set clear expectations with interns.** There should be a written agreement between the intern and the firm. In addition to standard provisions related to confidentiality and compliance with policies, the agreement should address matters specific to the internship; and in particular an acknowledgement that the intern understands there is no entitlement to a job at the end of the internship.

The growing deficit in the supply of qualified accounting school graduates will likely result in both an increase in and improvement of accounting industry internship programs. Unpaid and underpaid internships can result in unexpected liability for back wages if not properly structured. However, whether interns are paid or unpaid, the best advice is the same – internships should offer a stronger educational benefit to the intern than it provides an economic or other benefit to the firm.

The Inverted Pyramid – Does This Look Like Your Firm?

Chances are it does. This article will give you some ideas on how to deal with it.

By Gary Adamson, CPA

There is no question that the most profitable firms (defined as high per partner income) in our profession have figured out that leverage and a well managed pyramid is one of the key ingredients. Why is it then that so many firms, and I would suggest the majority, are struggling with just the opposite – an upside down or inverted pyramid where there are lots of partners and managers but few staff.

We didn't get here overnight and I would suggest that few of us planned to be here. We wound up with our top heavy firms due to a number of factors. Here are some of the primary culprits:

- Generational issues including the Baby Boomer Bubble, Xers, Millenials, etc.
- Lack of a people plan with effective, consistent recruiting and staff development processes in our firms. We don't have a process to see enough new faces and we let people hang around too long.

- Promoting non-partner-track people or sometimes marginal folks to higher positions because “we’re preserving staff continuity” and “it’s best for the client” when perhaps it is just the path of least resistance and/or we have no one else.
- Partner compensation plans that focus on chargeable time. Partners stay busy first. Managers are doing staff work and no one has incentive to push the work down.
- “It’s just easier to do it myself and besides I’m a lot more efficient at it”.

If any of this sounds like you, here are some of the outcomes that are not desirable but pretty common. You have too few if any younger staff. You have a tough time keeping the ones you do have busy. Really talented staff, your “all stars”, leave because they don’t see any opportunity to advance in the firm. Managers and staff do the same work on the same clients year after year after year. You have a relatively expensive workforce and you have a difficult time getting paid at their billing rate for work that they have outgrown. Partners are full with compliance work and are not cultivating the high value consulting work. And, worst of all, you don’t have the talent at the right levels to succeed you as a partner in the firm.

Ouch! So, what do we do? First of all we need some time to work out of it. We didn’t get here overnight and we won’t fix it overnight either. Unfortunately, some firms are out of time and that is the reason the profession is seeing so much M&A activity. Hopefully that’s not you and you can start to make changes now, to work on the pyramid.

My advice is to begin the journey by prioritizing and tackling the following list in your firm:

- If you don’t have a staff recruiting and development plan for the firm, create one now. It should include the commitments that we are always hiring whether we need people or not, we have expectations for performance at each level in the firm and we expect our people to grow and advance. The national firms have done this so well for years. They see lots of new faces every year, they manage the turnover and the cream rises to the top.
- Tell your people the truth. You have managers who are never going to be a partner. Tell them. More than likely, they already know it.
- As important, if not more so, make sure that the rest of the team knows it too. We have staff looking up at the layer(s) of people above them thinking “there is no way that I can ever make it through or around all of them”. We can tell our “all stars” that they are special and that we will promote them, until we’re blue in the face. But talk is cheap and if they can’t see the path, they will leave.
- Treat them differently; pay them differently. If you have all stars in your firm please don’t get sucked into making everyone look the same at a particular level. They are not.
- Make the tough decisions sooner. We tend to hang onto people hoping they will change or grow into what we are looking for. They rarely do and we fill up the firm with them.
- Decide how many spots we are willing to have in the firm at each staff level for “career” people. A career person is someone who is stuck in that spot and not

moving up. A word of caution – this needs to be a small percentage of the staff and as we discussed above they need to be identified. Don't clog up your ladder with career people and watch the all stars leave!

I know you're thinking that this is just the old up or out policy. Not exactly, but I am suggesting a model that is a lot closer to up or out than where most firms have been. The difference is that you do make room for some career people. Take a look again at the inverted pyramid at the beginning of this article. We need to change our approach.

- Every once in awhile initiate a push down of work at each level in your firm. I promise that you have partners doing manager level work, managers doing senior work and so on. People cling to the familiar and comfortable. So, shake it up and ask everyone to push down 100 or 200 hours. You'll free up your high level people who are capable of creating new work, get more of the work done at the right level and give the younger staff some challenging work.
- If you have a partner compensation model that is heavily weighted toward billable time, change it.
- Promote a work environment that embraces non – traditional staff and partners. Technology and remote connectivity have created opportunities to find great people to help the pyramid but there is a hesitation to run with it because it's different. Get over it and innovate.
- Last but not least, grow! It will be very difficult to turn the pyramid without a solid growth strategy for the firm. We will not see the "easy" growth that we had in the prior decade for some time to come. So, we have to work harder to get it. Dynamic growing people want to be a part of a dynamic growing firm.

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Essential Advice for the New Managing Partner

A new generation takes over the corner office. What they need to know now: [Join the survey, get the results.](#)

by Rick Telberg

CPA Trendlines

The same generational shift that has the accounting profession fretting about succession, mergers and millennials is also wreaking havoc in another sector of the firm: the office of managing partner.

By one CPA Trendlines study of a fairly typical global association of firms, roughly 25% of the managing partners now serving have held the job for two years or less. In a business that measures job longevity in decades, two years represents rookie status.

Considering the advance of age and consolidation, we estimate that within another five years 80% of today's firms will be under new management.

This new generation of managing partner is bringing new energy and new ideas to the profession. But that hardly makes up for the lack of executive leadership training and experience of the new class of CEO. Mistakes are sure to follow: making big decisions too quickly, or too slowly; misunderstanding the business drivers or looking at the wrong ones entirely; failing to make the right relationships with the right people, or maintaining bad relationships for too long.

CPA Trendlines is canvassing practitioners across the nation and in firms of all sizes to sift out some of the best advice we can find for the rookie managing partner. [Join the survey, get the results.](#)

And so far, we're getting an earful.

First, one managing partner says candidly, "Are you sure you want to do this? You will be required to give your all, with little in return in the short-to-medium term."

Charles Postal at Santos Postal in Rockville, Md., would advise rookies to first create and embrace a clear vision and agenda. But don't make the mistake of assuming everyone in the firm will automatically jump on board. "Sell it to your partners one at a time in private," Postal says. "Get their buy-in first before presenting it to the partner group."

"Listen to everyone," says Chat Panday at EY Canada. "There is always something new that is being said." Kerri Dickman might agree. Dickman says, "You have two ears, one mouth. Use them in the same proportion."

"People are your most important asset. Treat them that way," says Steven Bankler.

Richard Lindsay says, "Treat your team like people, not underlings. And treat your clients like they pay your bills, not like they're interruptions."

"Always stay positive," says Wendy Lee at Wall Foss Financial in Lakeland, Fla.

"Communicate, communicate, communicate. Did I say communicate? Yes, very important with clients, peers and subordinates."

Job Description

On paper, the job of the managing partner seems simple. August Aquila, a CPA Trendlines analyst and consultant to the profession, summarizes the simple stuff in two paragraphs:

- General responsibilities: Report directly to the governing committee and the firm. Responsible for the firm's overall management and practice. Supervise overall marketing and business development effort. Manage the professional staff and provide guidance for the support staff.
- Specific responsibilities: Coordinate the firm's practices among the different offices and departments. Implement the partnership agreement. Appoint heads of various committees. Represent the firm in community and professional organizations. Supervise governing committee. Oversee standing and ad hoc committees. Provide guidance on financial policies and work with the governing committee to develop personal and administrative policies.

But that's the easy stuff. To identify and quantify the strategies and techniques that define success at the top, Aquila joined a research team interviewing 150 managing partners at medium- to large-sized firms in the United States and United Kingdom. In the new book, "[Leadership At Its Strongest: What Successful Managing Partners Do](#)," Aquila and his co-authors apply the findings from the interviews and their combined 50 years of experience to identify four essential traits shared by successful leaders:

1. They provide a compelling direction and strategy;
2. They engage partners in the effort and gain commitment;
3. They initiate and execute activities that drive and support the firm's strategy and operations; and
4. They set a personal example by demonstrating an unswerving commitment to being the best.

In the follow-up report, "[How to Engage Partners in the Firm's Future](#)," Aquila and a research colleague identify the formula high-achieving managing partners use to unite and mobilize the partner team. It's more than, as is often said, "herding cats."

"Partners are the culture in a professional services firm," the researchers say. "What they believe, what they reward, what they do and how they do it determines what and how things get done. And, 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."

Six Major Challenges

The researchers identify six major challenges that multi-partner, multi-office 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 these six challenges to be merely "touchy feely" aspects of running an accounting firm. "But unless you embrace these challenges," the authors say in their report, "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."

In another study, CPA Trendlines analyst and practice advisor Marc Rosenberg calculates how much managing partners give up in billable hours to take the CEO position. Most partners book about 1,100 billable hours a year, he figures. But managing partners at firms grossing over \$20 million a year charge only about 632 hours. At a firm of \$10 million to \$20 million in fees, the managing partner bills 736 hours. And at the smallest multi-partner firms, those grossing \$2 million to \$10 million, they bill 959 hours. So, depending on the size of the firm, they give up 15% to 40% of their personal books of business. That's a big hit that requires some considerable planning, negotiation and, candidly, finesse.

"Your job is to manage the firm, that's why you have the title," a senior manager at a mid-sized tells CPA Trendlines. "If you are the largest rainmaker, you probably aren't managing the firm."

The best managing partners delegate managing a large client base and doing billable work to other partners. Instead, Rosenberg makes clear in his report, "[CPA Firm Management & Governance](#)," they see four areas for their focus:

1. Manage the firm.
2. Bring in business.
3. Assist at a very high level in overseeing the firm's largest clients and participate in sales pitches for new, large clients.
4. Limit billable hours to sophisticated consulting projects with large clients.

These are, without doubt, all good and necessary functions. But are they really the ones managing partners should focus on? Aquila would go further. His studies show there are at least eight other areas that can make or break a managing partner and the firm.

Eight More Managing Partner Performance Metrics

1. Future Thinking. The managing partner needs to be the one who's looking three to five years into the future. He or she needs to be asking: "How is the market changing? How is the profession changing? Whom will it impact in my firm?"
2. Agent of Change. The managing partner needs to be the person who initiates change when change is necessary, which is constant these days. In connection with the implementation of change, he or she has to assure everyone that change is the right answer.
3. Coach and Motivator. The managing partner needs to be coach and motivator for the other partners. He or she has to give the other partners responsibility, but he or she has to hold them accountable too. Holding partners accountable is very important and differentiates a successful firm from a so-so firm.
4. Cheerleader. The managing partner needs to be the main cheerleader for the firm. He or she has to convince people that the firm is a good place to work and provides all staff with opportunities for development.
5. Business Developer. The managing partner is usually one of the top business developers in the firm. By means of his or her position, the managing partner has an opportunity to develop as much or more business as any other partner or staff.
6. Community. The managing partner must be involved in the community. He or she is the representative of the firm and the community needs to see him or her involved and participating. It is very important that his or her face is seen in the community.
7. Organized. In order to do the job of managing partner, he or she needs to be very organized because of the many roles he or she plays in the firm.
8. Finger on the Pulse. Even though the managing partner needs to be looking toward the future, he or she must have his or her finger on the pulse of the firm. By this, Aquila means he or she has to know the numbers, has to be aware of production on a weekly basis, the level of billings this month and year-to-date, and of cash receipts. The bottom line of the firm is the managing partner's responsibility.

Still, we think the best advice we've heard so far for a new managing partner comes from Julia Appleton in Porter, Texas, who recently left a large firm to launch her own bookkeeping practice.

She says: "See the last guy? Don't be him."

Good advice.

Rick Telberg is editor of [CPA Trendlines Research](#), a strategic advisory service published by Bay Street Group LLC, which also publishes the publications mentioned in this article, "[CPA Firm Management & Governance](#)," "[How to Engage Partners in the Firm's Future](#)," and "[Leadership At Its Strongest: What Successful Managing Partners Do](#)."