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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
In his new series, Bill Reeb, CPA, explores the job of the managing partner. The first column lists the various responsibilities of a managing partner. Take a look at the following article where Reeb begins the discussion on what should be considered as you start to identify the role.
Read Reeb's Commentary

Marketing Tip: Get Your Firm's Social Media Activities Under Control
Social media marketing has become standard among organizations that want to stay competitive and influential in their clients' and prospects' eyes. Brianna Marth and Tamera Loerzel from *ConvergenceCoaching LLC* offer insight in this article as they share a number of suggestions that can help to get your firm's social media presence up and running.
Learn More

In Baseball, If the Team Does Poorly
In this article, author Rita Keller offers sound advice for CPA firm partners and managers. As the role of the firm manager becomes more important, Keller encourages partners and managers to manage beyond the work, and become mentors inspiring and nurturing their employees.
Take a look

Engagement Letters for the Individual Tax Practitioner
Engagement letters are one of the first lines of defense in a CPA's professional liability lawsuit. If drafted properly, they are immeasurably valuable in heading off claims and resolving client distractions.
Read the Article
http://www.journalofaccountancy.com/Issues/2014/Jan/20137591.htm

Admitting New Partners: Succession Best Practices
As we work through the succession and retirement of senior partners in our firms, a lot of us are also reviewing and updating our internal documents and agreements. A key part of the update should be focused around how we bring new partners into the firm to replace the "old guys." There have been changes in valuations and process that we really need to be aware of. Gary Adamson, CPA, shares best practices in the following article.
Read the Article

Top 10 Tax Resources for 2014 Tax Season
AICPA's Insights blog has collected 10 valuable resources for your reference during tax season. Consider bookmarking this page to help you prepare returns, manage your office, advise and communicate with clients, and even keep a sense of humor.
http://blog.aicpa.org/2014/01/top-10-tax-resources-for-the-2014-tax-season.html#sthash.Oud9XtmS.02kKeZBr.dpbs

Alternative Deal Structures for Succession

For CPAs in public practice, the path to retirement usually follows one of two roads—an internal succession or a sale to an external buyer, with the external route offering additional options. This *Journal of Accountancy* article looks at other options for an external succession plan.
Learn More
http://www.journalofaccountancy.com/Issues/2014/Jan/20138234.htm

Eight Ways to Track Social Media Performance
As many firms are looking to increase their social media presence, it helps to know what works and what doesn't. Take a look at the following article that discusses eight tools that can help you measure and improve your social media endeavors.
Learn More
http://financialsocialmedia.com/track-social-media-performance/?utm_content=buffer7078b&utm_source=buffer&utm_medium=twitter&utm_campaign=Buffer

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Admitting New Partners – Succession Best Practices

By Gary Adamson, CPA

As we work through the succession and retirement of senior partners in our firms, a lot of us are also reviewing and updating our internal documents and agreements. A key part of the update should be focused around how we bring new partners into the firm to replace the "old guys". There have been changes in valuations and process that we really need to be aware of. Following are some of the best practices.

How Many do you Really Need?

More often than not firms are supporting too many partners based on the firm's revenue. That also usually means that the partners are doing a lot of work that could be done by staff. Take a look at the Rosenberg or IPA surveys for average revenue per partner and you will see that the trend is to push more leverage of the work and to get more done with fewer partners.

On top of that, the demographics in our firms today tell us that fewer people than ever want to be an equity partner based on the traditional definition. Although our initial reaction to that reality is "we just don't have enough of the right people to replace us", maybe it's not such a bad thing. With the retirement of some of our senior people, we have an opportunity to look for ways to improve the leverage. Said a little differently, we should be challenging the pyramids in our firms by asking "is there a different way to serve our clients and get the work done" and "do we really need all of these partners"? Too often we're on auto pilot worrying only about how to fill the holes the way that we have always done it. Now is the time to step back and challenge it.

Do you have a PIT program?

Many firms have developed a partner - in - training (PIT) process that they use to evaluate and develop their new partner candidates. It generally runs for a year or two. The candidate is invited to attend partner meetings and other partner interactions, is given goals specific to the program, is exposed to firm financial and other partner level information, is provided leadership and other education and is mentored through the process by a partner. The purpose is to give both sides the opportunity to observe the other and to make sure that there is a good fit.

Non Equity or Low Equity Partners

One of the ways that some firms are addressing the “how many” question is by using the Non Equity or Low Equity partner position. It is a spot on the organizational chart that carries with it significant client responsibility and recognition inside and outside the firm as a partner. It stops short of the commitment and compensation of a full equity partner. Some firms will use the position as a stepping stone to the full equity spot. Others will allow an individual to stay in the role indefinitely. There are probably people in your firm right now that fit that spot and would actually be more comfortable there. It opens up other choices and possibilities on the decisions you have to make on equity partners.

Buying In

Not too many years ago it wasn’t unusual for new partners to buy in at valuations that included a large goodwill factor on top of a capital account amount. The large numbers really weren’t affordable and firms figured out creative ways to internally finance them (borrow from Peter to pay Paul). Another common practice was purchases of partnership interests outside the firm between partners which produced a lot of wheeling and dealing and inconsistencies. The good news is that both of these practices are almost gone.

The normal today is that capital transactions for both new and exiting partners are with the firm and controlled by the firm’s partner agreements. Values for buying in are usually based on the firm’s accrual basis balance sheet and the new partner starts out buying only a piece of that. The goodwill value is earned over time by the incoming partner through a vesting process that is often based on years of service and the firm’s normal retirement date.

How Much Capital?

“It depends“ is not a good answer but there is really not a rule of thumb for the percentage of equity that the firm sells to the new partner. It depends on the firm and how it approaches a number of things including partner compensation and retirement. We can however give you a few numbers and thoughts. First, the average buy-in for a new partner based on 331 firms in the 2012 Rosenberg survey was $137,000.

Second, the trend in the profession is that ownership percentages are having less and less to do with what a partner's compensation and retirement payouts will be. It is more about your performance and relative contribution among your partners.

Capital is becoming more about voting rights and supporting a potion of the firm's balance sheet. The author is seeing the profession move to capital accounts that are similar for all partners except for new partners where they may start out at some smaller level and move up to "full equity" status over time.

Financing the Buy - In

Recognizing that most of our younger associates are not able to write the check above for $137,000, firms must figure out a way to assist with financing it for the new partner. The normal route is that the firm will withhold the amount over some period of time from future profit distributions to the new partner.

There is another approach used by some firms that I happen to like a lot. It is using outside financing rather than inside. Basically the firm guarantees a loan for the new partner at a bank. Normally the firm can help the new partner receive attractive terms. The new partner borrows the $137,000 and contributes it to the firm in exchange for the partnership interest. The firm will make sure that the new partner receives a compensation increase that is at least enough to cover the new debt service.

Here is why I like it. The firm gets the new capital dollars which most firms can certainly use. Yes it comes with a guarantee but it is off - balance sheet debt. More important, there is something very personal about the new partner borrowing that $137,000 from a bank. It is pretty sobering and it brings a certain level of seriousness to the transaction that you won't get otherwise.

On a personal note, I will never forget when I borrowed the money to make my first capital contribution as a new partner. It was a huge deal to me. Some of you may remember when the prime rate was 22% back in the 1980's, which made it even more interesting!

Regardless of whether you change anything or not, the Baby Boomer succession wave presents an opportunity to review and challenge how we bring new partners into our firms.

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In Baseball If the Team Does Poorly

A few years ago I was doing a presentation that was often requested. It was titled, "CPA Firm Managers In Crisis." For 2014, I believe I need to refresh that older presentation and maybe title it, *"CPA Firm Managers Play A Vital Role In Talent Retention."* The role of a CPA firm manager becomes more important with each passing day!

I continue to write and speak about the lack of leadership and actual people management skills of managers in public accounting. I believe the title "manager" does not mean much in public accounting. Why? Most of the people, with the title manager, do not effectively manage.

Sure, they manage THE WORK, the client engagement… the technical aspects of the job and they know the firm processes and procedures. They are highly skilled technicians. But, do they inspire others? Most of them do not.

Before I go any further I want to clarify. The title MANAGER inside a CPA firm applies to partners, too. In public accounting, partners manage people and in many firms they also do the work that a manager should be doing. This commentary definitely applies to both partners and managers. I will refer to all of you as M&Ps (managers and partners).

You have been reading about and hearing about the talent shortage via the AICPA, state CPA societies and perhaps from your CPA firm association. The talent wars have returned and there are not enough qualified accountants to meet the needs of growing CPA firms. Retaining Top Talent is one of the Top Five management concerns from last years AICPA PCPS CPA Firm Top Issues Survey.

Skilled M&Ps (direct supervisors) inside CPA firms are critical to the successful retention of top talent working at the firm. If you are an M&P, think back over your career and I bet that you have noticed how the immediate supervisor/manager/boss has played a determining role regarding employee retention.

Research now validates that observation. Marcus Buckingham and Curt Coffman provided insight about employee performance and retention in their book, First Break All the Rules. The research says that people do not leave jobs they leave managers. If employees don't get along with their direct supervisor, don't like them or respect them, they will leave the firm despite a high salary and great benefits.

I do not blame the M&Ps. Most of them have received extensive CPE over the years focused on technical topics relating to tax, audit and accounting. Firm leaders have not provided training on how to be a great manager. They have not made inspiring, nurturing and mentoring people a performance standard for M&Ps.

There is a great blog post on the Harvard Business Review blog site titled, *If You're Not Helping People Develop, You're Not Management Material*. Here are a couple of excerpts:

Good managers attract candidates, drive performance, engagement and retention and play a key role in maximizing employees' contributions to the firm. Poor managers, by contrast, are a drag on all of the above. They cost your firm a ton of money in turnover costs and missed opportunities for employee contribution, and they do more damage than you realize.

The best managers ask, "How can we harness employee strengths, interests and passions to create greater value for the firm?"

As we continue down the path of attempting to retain the best performers, consider investing in the success of your M&Ps. Assign them books to read and self-study to perform. Send them to management conferences and workshops. Bring resources into your firm to help them become skilled at nurturing, mentoring, supervising and inspiring the talent inside your firm.

Think about a baseball team. If the team does poorly, who get fired? Team owners do not fire the team; they fire THE MANAGER.

"There are 3 types of baseball players: Those who make it happen, those who watch it happen and those who wonder what happens." - - Tommy Lasorda

About the author: Rita Keller an award winning and respected voice to CPA firm management. Through her advisory services, presentations, articles, newsletter and daily blog she interacts with thousands of accountants annually. Repeatedly named one of the Top 100 Most Influential People in Accounting, she acts as an advisor and management resource to CPA firm leaders across the country. Keller is President of Keller Advisors, LLC and Co-Founder of SurveyCPA. She can be reached at *rkeller@ritakeller.com*.

THE JOB OF THE MANAGING PARTNER – PART 1

BY BILL REEB, CPA, CITP, CGMA

Managing Partner Considerations

The purpose of this column series is to review some best practices as to how the managing partner is elected, what is expected, for what term, and how he/she is protected if removed from that role. The job differs whether it is being filled under the Eat What You Kill (EWYK) or Building a Village (BAV) models. For example, under the EWYK model, the managing partner is likely the largest equity partner, or if not, then the default would be that the role of the managing partner would be that of administrative partner. Because the EWYK model is usually a silo model built around superstars, the managing partner's role is to handle all of the matters that the other partners don't want to do. It is not uncommon in these scenarios that the managing partner earns a stipend to fill that position, and that the stipend is not very much (maybe $25,000 to $75,000 a year). Certainly there are examples of a managing partner in an EWYK model having a higher stipend, but the stipend typically would fall into this range, Why? Because in this model it is about book of business and partners doing their own thing, with all of the partners trying to live within a loose set of rules or policies designed mostly to mitigate risks regarding work quality while following minimum compliance expectations. It is also common for the managing partner (MP) in these situations to have the largest or second largest book while simultaneously being expected to do this job. With this in mind, it is perfectly logical that the firm would be treated by an MP in this position as just one client among many, and in many cases because the firm is not a paying client, it would have even less priority than the average client. Part of the reason for the firm's low priority status is because the other partners see the MP role as an administrative position to handle nuisance administrative matters that pop-up in the normal course of running a firm. It is not uncommon for these organizations to ask questions regarding the MP position such as:

- Should we just rotate the MP job every year or two so that everyone has to take their turn doing it?
- If the MP has client work to do or billable work to do, isn't that where he/she should focus their time first rather than on this non-chargeable work?
- Isn't the managing partner just the person who manages the administrative functions of the firm?
- If we paid the managing partner to really run the firm, wouldn't that just reduce the amount of money the rest of us will make since we are losing that person's billable hours?
- Wouldn't this kind of change put more pressure on the line-partners since they will have to do more client work to make up for the MP no longer pulling his/her weight in this area?
- Explain to us (the partners) how we can afford to pay someone to manage the firm and why we would want to do this in the first place since we certainly don't need to be managed?
- Can't we just hire someone outside the firm to come in and fill the managing partner position? That way, we don't lose a client service partner.

In other words, in the EWYK philosophy, there is virtually no appreciation of the benefits obtainable through better management and accountability. And the perception really is that everyone needs to just focus on production and everything will work out fine.

Under the BAV model, the managing partner needs to be in a position to respond to the firm as if it is his /her largest and most important client. This usually requires a reduction in managed book size so the firm can become the managing partner's key priority. Under the BAV philosophy, the better that people (all people, especially partners) are managed, the greater the profitability and the better run the organization. As you know from the previous paragraph on the EWYK version of this position, they couldn't be further apart as to expectations and importance regarding this position. So, since there isn't much to the role of managing partner in the EWYK variation, we are going to spend most of the rest of this column series on best practices to consider for the managing partner in the BAV model.

Here is a quick definition of the role of managing partner

An elevator description (a description short enough to be shared in the length of time it takes to ride up a couple of floors while in an elevator) of the managing partner's role would be:

> The Managing Partner is the firm's chief executive officer who is responsible for managing the day-to-day operations of the Firm.

To clarify this in a little more detail, the Managing Partner is:

- Responsible for implementing the strategic plan and firm-wide goals as approved by the board of partners (or board of directors, which we refer to throughout our books interchangeably). He/she will accomplish this by directing the firm's people and resources within the powers, limitations and responsibilities set forth by the partner group through directives, policies, processes and budgets approved by the partners.
- Accountable only to the full partner group (the board of partners), not individual partners. Therefore, the relationship between the Managing Partner and any individual partner when a partner represents him/herself as being a member of the board of partners is collegial, not hierarchical. However, as individual line partners, each will report directly to the managing partner (or in a large enough firm with many partners to a department head who reports to the MP). Know that one of the most essential roles of the MP is to manage the partners.
- Keeps partners informed of the firm's progress, statistics and focus areas.

Roles and Responsibilities of the Board of Partners versus that of the Managing Partner

We wanted to take a couple of pages and introduce at a generic level some common differences between the Roles and Responsibilities of a Board of Partners (or Board of Directors) and that of the Managing Partner. The main reason to introduce the Board into this discussion is because the most common violation we see in governance is the Board usurping the role of managing partner or the managing partner seizing powers reserved for the Board. Just know that balance of power between these two is important for accountability, profitability and sustainability so allowing either group to venture into the territory of the other starts to undermine your firm's future success.

We know from working with firms and coaching them through this process that the line between these two key governance roles can be vague at times. But with a little practice dealing with various issues that arise, seeing the line will become clearer and maintaining will become easier with each situation you address. With this in mind, let's review some generic roles and responsibilities for these two positions:

<u>Generic Partner Group Roles and Responsibilities (or Partner Board)</u>

Ultimately, the Partner Group, acting as a Board of Directors, is responsible for the Firm's vision, setting its direction and creating the framework (e.g., budget, policies, procedures, powers, and limitations) to carry out that direction.

To summarize, the Partner Group, acting as a Board:

- Coordinates Firm-wide operations by establishing objectives, formulating policy, and approving goals and programs.
- Advises management of the policies it has adopted to ensure their effective implementation.
- Protects the Partners through the proper management of the Firm's assets. This involves the continual evaluation of all financial affairs and management practices.
- Provides for proper communications among the people involved.
- Creates Partner Group (Board) committees to assist with definitions and

objectives of strategic issues.

Matters Requiring Board Approval

(1) The sale, merger, dissolution, or matters of insolvency or bankruptcy of the Firm (in addition to partner approval)
(2) The filing or settlement of lawsuits
(3) Insurance coverage limits
(4) Admission or dismissal of Partners (refer to voting methods)
(5) The strategic plan and amendments to it
(6) Appointment of Chairman of the Partner Group, officers and committees
(7) The Firm-wide operating and capital budgets
(8) Per transaction expenditures in excess of $50,000 per occurrence that are outside the currently revised budget
(9) Leases of Office Space
(10) Firm-wide policies and procedures
(11) Firm-wide marketing plan

<u>Generic Managing Partner Roles and Responsibilities</u>

The Managing Partner of the Firm shall be a Partner of the Firm, is the Firm's chief executive officer, and shall have all of the powers and duties set forth in the Firm's partnership agreement.

The Managing Partner is responsible for managing the day-to-day operations of the Firm and directing its people, within the limitations set forth by the Partner group (Partners), in a way that the Firm can achieve the directives, policies and strategies of the Partners.

To summarize, the Managing Partner:

- Is to be held accountable for the Firm meeting specific expectations as set forth by the Partners. The Managing Partner is ultimately responsible for the achievement of Firm-wide goals.
- Is accountable only to the full Partner group, not individual Partners. Therefore, the relationship between the Managing Partner and any individual Partner is collegial, not hierarchical when in the Partner Group role.
- The Managing Partner is the direct supervisor of the individual partners and is to hold them accountable for their role in achieving the strategy plan and objectives of the firm.
- Implements the strategic plan as approved by the Partners. This includes developing the Strategy Implementation Plan.
- Keeps the Partners informed of the Firm's financial results, status of new business development, effectiveness of the compensation system and the status of competitors in our target markets.
- Continually reviews the services and activities of the Firm to ensure the Firm is maintaining a competitive edge.
- Presents recommendations to the Partners on matters requiring approval by the Partners.
- Meets regularly with administrative and support staff (e.g., Chief Financial Officer, HR Director, Marketing Director, IT Director and Administrative Services Manager, or

whatever positions the Firm uses in this area) to provide direction regarding priorities and lead strategic efforts.

- Reviews Firm financial statements and reports to the Partners on important matters (e.g., items appearing unusual or out of the ordinary).
- Facilitates and monitors Firm-wide internal communications.
- Ensures that the needs of major clients are being satisfied.
- Resolves serious client complaints.
- Develops and monitors key performance metrics for the Firm.
- Reviews and monitors the Firm's continuing professional education program.
- Works closely with the members of the Board on the Firm's strategic plan development and revisions to that plan.
- Periodically reviews the HR Plan, if any, for new hires, terminations and transfers.
- Participates in professional and community associations, attends association meetings, and stays abreast of changes in the profession.
- Develops and maintains relationships with managing partners of competing and alliance firms.
- Monitors Firm-wide scheduling and ensures the efficient utilization of staffing resources.
- Plans and oversees a minimum of one Partner retreat per annum.
- Drafts policies, procedures, and processes for Partner or Board approval. This includes Standard Operating Procedures and Partner Policies and Procedures.
- Reports to the Partners or Board on recommendations or other matters requiring approval.
- Works with the compensation committee regarding the partner compensation methodology or formula and related monthly draw distribution schedule (to be approved by the Partners).
- Develops individual Partner goals (e.g., documented in Partner goal memorandum) and monitors progress against those goals.
- Reduces a Partner's monthly distribution when appropriate due to insufficient capitalization

While the Board CAN override the MP at any time, the Board should work hard not to. While the Board CAN deal with operational issues daily, the Board should avoid this temptation and keep its fingers out of that level of micromanagement. As issues arise, and they often do in order to address specific operational events, the key is for the Board to talk about those specific operational issues in context of creating, improving, changing, clarifying policies and processes rather than making specific operational decisions. Once the policies and processes have been formulated and improved, it is up to the MP to carry them out.

This is a good point to stop our discussion regarding the managing partner job. We will pick it up next time with why the MP should be the one charged with implementation and accountability and continue to build from there. Here’s wishing you a profitable and less stressful tax season than last year!