

Accounting and Audit - CPA Practice Management Forum - CPA Practice Management Forum - CPA PRACTICE MANAGEMENT FORUM, Vol. 5, No. 2, February 2009 - CCH-JOURNAL, CPA Practice Management Forum, February 2009, Why Successful CPA Firms Value Management
Why Successful CPA Firms Value Management

© 2009 CCH. All Rights Reserved.

By Timothy I. Michel

In speaking with CPA firm owners about their practices and the issues they are facing, I find that many firms fail to value the strategic management of their business, choosing instead to focus on more detailed objectives, such as dealing with day-to-day client service issues. Consequently, they find themselves significantly behind well-managed firms in solving the myriad of practice management issues facing CPA firms today. Having grown up in a firm that put much emphasis on management, this has been both a surprising and very interesting revelation for me. I can't help but wonder how CPAs that counsel their clients on managing their businesses can put so little value on, and effort into, managing their own companies. Why is this?

Six reasons firms don't understand the importance of sound governance

There may be several reasons that many firms have not come around to understanding the importance of a sound governance structure and good management within their firms.

1. Often, firms have been formed by CPAs who wanted to be able to practice their trade and sought out others who were interested in sharing office space and a support staff. Their passion is in providing services in the technical areas of tax, auditing or accounting. They draw much satisfaction in providing client service, solving client problems and helping them be successful. Much like the clients they serve, they didn't get into business to have to deal with personnel issues, culture, technology and other operational issues. In fact, many of them find these issues a distraction from serving their clients and a source of major frustration.

2. The book-of-business mentality many of today's firm leaders grew up with works against them. That is, these CPAs have spent their entire careers obtaining clients and building a book of business that provides for their source of personal wealth. It becomes their security blanket and, in a lot of firms, determines their power ranking and, perhaps most importantly, to them, it determines their compensation ranking in the firm. Time spent dealing with management issues is time not available to grow the book of business.

3. Management is pretty much an intangible. It is often difficult to measure the impact of good management when looking at the profitability of a CPA firm. CPA firm owners look at productivity as the source of profits. Therefore, they are not willing to compensate owners for responsibilities that are not related to production. Without the recognition and financial incentive, management becomes less attractive as a role in the firm.

4. CPA firm owners often let the practice run them rather than the reverse. Day-to-day client demands, never ending deadlines and employee issues often receive the immediate attention, distracting management from performing the tasks that provide for long-term growth and profitability.

5. Too often in CPA firms, the management of the practice is confused with administration of the practice. There is, however, a significant difference between these two functions. Generally speaking, the management piece is a strategic function that focuses on determining the best ways for the firm to grow, thrive and be able to quickly adjust to changes in the business environment (the current economic situation is a case in point); the administrative function centers on the operational aspects of running a firm, the systems and processes that keep things moving smoothly. Administrative matters can be delegated to the firm's chief operating officer, office manager or other administrative person. Management issues always have been, and always will be, the responsibility of the firm's leaders.

6. Let's face it, most CPA firm owners have a good-size ego. It is part of what makes them successful in serving clients and dealing with complex or difficult business transactions. It is also what makes them want to have an equal say in how the firm is managed. And they do not embrace the concept of accountability. The resulting "one-partner=one-vote" model is the basis of the democratic management structure most firms follow. Because so many CPA owners find the loss of control and being accountable to others very

threatening, it is difficult to get the traction needed to restructure the firm to centralize management in a partner or group of partners who hold the other partners accountable for their actions and results. As with most things, though, frequent, clear communication can go a long way toward resolving partner reluctance.

Rapid changes require rapid responses

The case for effective management and a strong governing structure has never been more important for CPA firms. The accounting profession has changed so rapidly in the last ten to fifteen years that it is barely recognizable. Firms are facing extremely difficult economic times, staff shortages, retention issues, quickly changing technological advances and a barrage of new regulations. At the same time, most compliance services have become commodities, thereby limiting growth and profitability. Clients are looking for areas where they can reduce costs, and CPA firms are feeling pressure to lower fees or at least hold them steady. The ability to react quickly to the constant changes affecting CPA firms will impact how well any particular firm weathers the storm.

Succession issues

For the first time, firms have to deal with impending succession issues as Baby Boomers continue to move closer to retirement. Many firms have not invested properly in their people by providing for the coaching, mentoring and leadership development they so badly need to be successful leaders. Owners have been so busy serving their clients, they have failed to consider what is going to happen to their practice when they want to reduce hours or retire completely. Because they have operated somewhat independently within their firm, they now feel trapped as a solution to their succession problem is not at hand. Often they can't find another firm interested in acquiring them, as they have done nothing over the years to cause their firm to have any unique or valued attributes.

Governing by committee is ineffective

CPA firms that want to grow and be profitable are recognizing the need for a governance structure that is similar to that of corporate America. They are finding that governing by a committee of partners is not only inefficient, but can often stymie progress. I have spoken with CPA owners who tell me that

once a month the partners gather around the conference table and collectively decide everything from partner compensation to the look of the letterhead to the color of the new carpet. There is no distinction between decisions concerning the strategic initiatives that are essential to a firm's growth and survival and those involving the operational matters that keep a firm running smoothly and efficiently.

The need to "keep peace" in the partnership group, and desire to reach consensus on every issue, can often bring the decision-making process to the point of absurdity. I recently heard it put best by another CPA who stated that partnerships are very effective for tax purposes, but they are extraordinarily ineffective as business management models.

One size does not fit all

Firms that value management are on top of practice management issues. They recognize the value of good management. They have structured themselves with a strong, competent leader who serves as managing partner or CEO. The CEO serves as the captain of the ship, guiding it carefully through often troubled waters. Depending on the size of the firm, the CEO will have varying degrees of client responsibility. The larger the firm, the less client responsibility the CEO should have, as his or her number-one client becomes the firm.

The size of the firm also has some bearing on the balance of the governing structure. Smaller practices of no more than six owners may find that meeting as a group to discuss strategic issues is still efficient and effective. But even firms of this size should delegate decisions about which copier to purchase to the firm administrator.

Somewhere around seven to ten partners, a firm needs to consider moving to a management committee that is entrusted to do what is right for the firm. The management committee not only serves as a sounding board to the CEO, but also shares the responsibility to identify, discuss and resolve various practice management issues. The management committee sets the strategic vision for the firm and makes sure that the plan is executed. Meanwhile, other partners are taking on the roles of service or industry niche leaders. Still others are responsible for risk management and quality control.

Management requires the careful thought and skilled hand of the leaders of the firm. To be effective, the leaders need to carve out time to keep up to date on current practice management issues through selective readings, attendance at conferences and interaction with other CPA firm leaders. They need to have quiet time to just think about the firm, what its current state is and where it is headed. What are the opportunities? What are the things needed to be done today in order for the firm to have the desired results in the future?

CPA firms are businesses

CPA firms need to recognize that they are a business, not a group of practitioners sharing space and support staff. Successful firms:

1. Put into place an effective and efficient governance structure.
2. Value management that looks forward by creating a vision and planning for future growth.
3. Pay attention to financial and operational key performance indicators.
4. Create a strong culture that defines what the firm stands for and lives by.
5. Understand the need to position the firm as a place where both current staff and future recruits can fulfill their career objectives. This involves formulating a competitive compensation and benefits plan as well as a performance evaluation system that encourages staff to grow and become future leaders.
6. Create long-term value for the firm by creating new services that positions the firm as a provider of choice to the business community.
7. Design a succession plan to provide for the inevitable retirement of key people.
8. Have strong owner agreements dealing with employment, admission as an owner and retirement from the firm.

9. Encourage owners to focus their efforts in activities that bring value to the firm by utilizing personal development plans that provide a means of accountability by tying achievements to compensation.

10. Deal with risk-management concerns and put into place policies to protect the goose that lays the golden eggs.

Clearly, the firms that are going to continue to grow profitably in the future are those who manage their companies well. For some firms, who have maintained the status quo of traditional management models, this may not come easy. Leaders of the firm can overcome resistance by communicating often with the rest of the owner group. Most often, owners just want the opportunity to be involved, be heard and know what is going on. When they see the results of good management, they quickly learn to embrace and value it.

About the author: Timothy I. Michel, CPA is a consultant to CPA firms and a former managing partner of a Top 100 CPA firm. He helps CPA firm owners create value in their practice by drawing on his own experiences to assist them in identifying and overcoming obstacles and focusing on opportunities to increase growth and profitability. For more information visit www.michelconsultinggroup.com.