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Compensation Rising, 'Coddling' Ending

It's time to add compensation pressure to the mountain of other profitability challenges facing CPA firms. The extent of the pressure at small to mid-sized CPA firms is modest, varying from 2% or less at many firms to as high as 10% for top performers at others.

However, at a time of intense profitability pressure, any uptick in compensation is daunting, so say more than 100 firm leaders of small to mid-sized CPA firms in a recent IOMA survey and in more detailed interviews with more than 10 partners. The insight gained from these two efforts can be found in the following special edition, which provides candid peer-to-peer insight about firms are tackling this challenge.

The increasingly higher salaries are being driven by several factors:

- Firm leaders are sensing that across-the-board salary freezes are only tenable for staff for so long. At a certain point, it can lead to employee resentment and the loss of your best employees.
- Other industries are hiring again, putting stress on CPA firm leaders to re-recruit their staff. Recent surveys have indicated CPA staff willingness to leave the profession in search of better opportunities. Compensation has often ranked as a high priority for those looking to defect.
- Firms did a "poor" job meeting compensation expectations in 2009 and 2010, according to a recent survey by IOMA. Failing to meet expectations for a third year could be damning to attri-

tion rates — especially when other employment opportunities are emerging.

- After purging all underperforming staff during the beginning of the downturn, firms are left with just their top people. Losing a significant portion of your A-level talent now could undercut the ability to maximize revenues and profits during Busy Season and foretell peril for the rest of the year. Fearing of losing people over salary is adding pressure to raise compensation.

What's particularly noteworthy is that partners' tone has changed since we last conducted similar interviews a year ago. They aren't just anxious anymore. There's a building sense of frustration, anger and resentment. You can almost hear the veins popping, the blood pressure rising, and the ulcers expanding in the comments like this one, from a partner at a small west cost CPA firm:

"We'll be increasing salaries for high performers and [offering them] larger bonuses. I don't think the economy is loosening up, but we can only hold salaries for a period of time before getting some pushback. We have to look at the long-term intent to keep the top-performers, the people we don't want to lose... Each December we award outstanding performers bonuses to everyone deserving, from admin to top-line people. No one gets a bonus for simply doing his or her job. The message that is sent to the managers, if you hear someone complaining about salary, that means whoever is not complaining, you took it from them. It's terrible, but it's the reality. It can be a motivational factor for the right person, not necessarily

for the wrong person. The coddling of people over the last few years has ended."

Coddling? Really? Staff might choose a different word to describe the last few years of high workloads (averaging at least 50 hour per week for all staff levels), poor morale (fear of the next round of layoffs), and salary freezes.

Comments like these illustrate the disconnect between firm owners and their staff. Firm owners are seeing the value of their firm diminish daily and resent their staff for expecting raises. Meanwhile, staff, whom have largely been kept in the dark about how bad their CPA firm is faring, understandably don't understand why they haven't so much as seen a cost of living adjustment in the last few years.

Now, as the economy begins to improve, staff expectations have grown into demands. The bulk of the

feedback we get from rank-and-file accounting and tax professionals tends to sound like this: "I read that other industries are raising their salaries; investment bankers are getting big bonuses again. If my salary is still stuck at 2008-levels it must mean that my firm is in peril and can't afford to pay us more, or the partners are cheap and don't want to share their profits with us, or they simply don't appreciate the value I bring to the firm." Any one of those reasons increases the odds that resumes are being updated in haste.

Partners are left scratching their head. The consensus thinking tends to run along these lines: "What do they want from me? All of the partners have already cut our own salaries — though I won't share that because I don't want to scare my staff. It's my job to worry about how we're keeping the lights on this month. Don't they know that pricing pressure is so intense that we're earning less, despite working more. And

Rating of Importance of Compensation by Top Level Positions

	Owner/President		Partner/Managing Partner		CEO/CFO/VP	
	Average	Median	Average	Median	Average	Median
Whether to stay at your current firm?	2.33	2.00	2.78	3.00	3.17	3.00
Whether to join another CPA firm?	2.05	2.00	2.63	3.00	2.67	2.50
Whether to join another company, outside of the profession?	2.05	2.00	2.63	3.00	2.67	2.50

Rating scale: 1=very low, 2=low, 3=high, 4=very high

Source: IOMA's Accounting Firm Compensation Benchmark Survey 2010

Rating of Compensation Expectation by Top Level Positions

	Owner/President		Partner/Managing Partner		CEO/CFO/VP	
	Average	Median	Average	Median	Average	Median
How well do you feel your firm met your compensation expectations in 2009?	2.81	3.00	2.93	3.00	2.67	3.00
How do you feel your firm met your compensation expectations in 2010?	2.71	3.00	2.90	3.00	2.83	3.00

Rating scale: 1=very low, 2=low, 3=high, 4=very high

Source: IOMA's Accounting Firm Compensation Benchmark Survey 2010

now they want raises?"

The problem is, as both sides continue these inner monologues — too worried to have the hard conversations with each other — a much scarier reality is emerging.

Other industries are hiring accounting talent to fill internal finance roles. And accounting firm staff are increasingly interested in pursuing those opportunities. Even if all of the other CPA firms are challenged by the same headwinds you're facing, it doesn't matter.

Other industries, in faster-growing markets with less commodity pressure, are your number one competitor for talent.

And while there are a number of personal factors that can cause someone to seek a new job, or, at the very least, be willing to passively job search, compensation is a top motivator at most staff levels. IOMA's survey asked senior level executives at accounting firms to indicate the importance they place on compensation in their decision to stay at their current firm, to join

Rating of Importance of Compensation by Junior/Support Positions

	Director/Sr. Manager		Firm Administrator/ Office Manager		HR Manager/Director		Paraprofessional/ Support Staff	
	Average	Median	Average	Median	Average	Median	Average	Median
Whether to stay at your current firm?	3.00	3.00	2.76	3.00	2.71	3.00	3.50	3.50
Whether to join another CPA firm?	3.43	4.00	2.81	3.00	2.86	3.00	3.50	3.50
Whether to join another company, outside of the profession?	3.29	4.00	3.00	3.00	3.29	3.00	3.50	3.50

Rating scale: 1=very low, 2=low, 3=high, 4=very high

Source: IOMA's Accounting Firm Compensation Benchmark Survey 2010

Rating of Compensation Expectation by Top Level Positions

	Director/Sr. Manager		Firm Administrator/ Office Manager		HR Manager/Director		Paraprofessional/ Support Staff	
	Average	Median	Average	Median	Average	Median	Average	Median
How well do you feel your firm met your compensation expectations in 2009?	2.71	3.00	3.40	3.00	2.29	2.00	2.00	2.00
How do you feel your firm met your compensation expectations in 2010?	2.71	3.00	3.33	3.00	2.29	2.00	2.00	2.00

Rating scale: 1=very low, 2=low, 3=high, 4=very high

Source: IOMA's Accounting Firm Compensation Benchmark Survey 2010

another CPA firm or to join another company outside of the profession.

Owner/presidents and partner/managing partners say compensation holds relatively low importance, in part, we suspect because they have absolute transparency and decision-making authority over how much they choose to pay themselves in a given year. Moreover, as owners of the firm, their equity interests are likely far more valuable than their annual compensation. In other words, driving the overall profitability of the firm — or, at least, keeping it afloat another year — means far more financially than a five percent raise.

As you move down the pyramid, the relative importance of compensation rises. And not so coincidentally, we also see a drop in firms' ability to meet compensation expectations.

Even within senior roles one rung down from the owner, such as CFO and VP, compensation becomes a higher priority and is the most likely reason they are prone to leave the firm either to join another accounting firm or a company outside the profession.

While cash compensation is important, there is no shortage of non-cash benefits that would discourage defections. Our survey findings and interviews suggest that those at this level may be more likely to remain with their current firm if, in addition to some additional cash compensation, they also receive recognition, appreciation, respect, bonus based on firm profitability and KPI's agreed to at the beginning of the year.

Further down the pyramid, employees' desire to stay at their current firm correlates very closely to their perception of whether or not their compensation adequately reflects the value they think they provide. This isn't to say that compensation is the *only* thing keeping someone at a firm — or the *only* motivator that would lead one to leave and work elsewhere, but it is a key motivator. Especially when employees are frustrated about other aspects of their job (difficulty maintaining a work/life balance, reduction in training and professional development, lack of confidence in leadership, etc.), compensation becomes the easy catchall for frustrations.

In other surveys conducted by IOMA's sister-company Kennedy Information, we found that when rank-and-file

employees are happy with their job (when they are deeply engaged in their client work, feel valued by their peers and supervisors, and perceive their firm is investing in their career development, etc.), compensation satisfaction is high even if their paychecks are lower than they might be elsewhere. In other words, employees' compensation expectations are easier to meet when overall job satisfaction is high; expectations will rarely be met when employees lose faith in their firm.

The IOMA CPA compensation survey also found that among junior-level employees, compensation expectations were woefully unmet. The high importance they put on compensation combined with the compensation gap between expectations and reality makes them particularly vulnerable to leave their current firm.

Directors and senior managers place the highest importance on compensation — rating a median score of 4 out of possible score of 4 — when it comes to decide whether to join another accounting firm or a firm outside of the profession. However, their compensation expectations were better met when compared to more junior employees.

Paraprofessionals and other support staff on the other end of continuum are highly unsatisfied with their compensation expectations — an average and median rating score of 2 for both 2009 and 2010. Explaining how compensation is decided at his firm, a support staffer working at a large firm in the North central region says, "When my compensation is decided, the firm is in a scared mode — not meeting goals. At the year-end, expenses are revised and the firm is determined to have had a great year. All partners and salaried partners are then compensated. If the firm knew final result of the year when they plan for raises, the lowest level employees should do better in pay raises."

His frustration builds when asked what other non-cash benefits the firm could offer that would make him more like to stay: "Return the firm's Summer outing. Return the formal after tax-season party. This year we got two movie passes plus a small bucket of popcorn. I still haven't used mine. None of the employees I've talked to used theirs yet". He says clear communication and equal treatment of administrative staff and professional

staff would go a long way to rebuilding morale.

Office/firm administrators also expressed concerns of being taken for granted. Many shared that their firm puts a lot of time and energy into setting accounting position salaries, but not a lot — if any — for office manager positions.

HR managers and directors also complain about how poorly compensation expectations were unmet. An HR manager working at a firm more than \$10 million revenue shares: “As a piece of overhead cost in a down economy, there is little value placed in these roles, including [HR] directors, due to the perceived drain on the bottom line and the exclusion of directors as leaders in the firm. With an understaffed department and directors working in excess of 2200 hours on an annual basis, it is conveyed that our work is not valuable nor are our roles valued.”

Amid these highly unmet compensation expectation for large number of employees, what could companies offer to make employees more likely to stay at the current firm? Though the choice of benefits varies from person to person, the option of “better retirement plans” were requested by many.

A request for retirement plans should be seen as a plea for help, albeit an ironic one coming from those that are the most frustrated and perhaps the most likely to leave. They want to have a reason to spend a career at their firm, but the firm is providing no such justification. Employees are going through tough times and want to feel secure about their future.

For those at more senior levels, the results are more

mixed. They too, for the most part, felt like their compensation expectations were unmet in 2009 and 2010. The difference is that they are less angry about it.

The change in attitude, compared to those below them, has a lot to do with the full transparency they have as firm owners. A partner in a Northeast CPA firm summarized the compensation challenges bluntly: “The downturn in the economy has been the principal factor in weaker compensation levels in our firm.” Other partners were able to articulate the components of their compensation — each of which is comprised of things they have control over. Compensation “takes into consideration personal production, business under management, new business brought in and maintained as well as time spent in firm administration.”

Even within public firms, where senior executives have less direct influence over compensation — because market demand for the company’s stock is key in determining the compensation — top leaders don’t sound resentful. According to one senior-level executive: “We are owned by a public company and the CFO determined it was more important that shareholders maintain or increase their EPS and therefore decreased compensation of partners/directors”.

Even if firm owners and partners are frustrated by the size of this year’s bonus check, they tend to have a big picture perspective. As one partner put it: “Being an owner, we get what’s left so to speak, but it’s a great position to be in.”

Unfortunately, many of their staff fail to share the same feelings about their positions. □