

PARTNER'S REPORT

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Is the Golden Age of Accounting Over?

CPA firms are coming off of a relatively strong tax season this year, according to Allan Koltin, CEO of PDI Global, a leading advisory firm to the accounting profession. It is revenues for the rest of the year that are a question mark. Here's why: There is a major price war going on among CPA firms that shows no sign of abating.

Because so many firms are looking for ways to generate non-tax-season revenue, they are much more willing to reduce their rates in order to keep staff busy, even if it means accepting fees that are well below their standard rates. "This price war is unlike anything I have seen in my 30 years in public accounting," says Koltin. "Clients have the upper hand and everything is negotiable. I am worried that . . . this price war will continue for some time."

Even after recession-driven layoffs, some firms may still opt to lay off some staff if their scheduling charts for the rest of the year are not as robust as expected. "These firms face gut-wrenching people issues where they have average to below-average high level talent that is either cruising or is marginally performing," says Koltin. "Now, they have to decide whether to get rid of these people."

At the same time, firms are starting to face stiff competition for the staff they do want to keep. With employers in industry and at competing firms hiring once again, many firms are looking for ways to retain strong performers. But it won't be easy. "Two years into the recession, the natives are getting restless," says Koltin. Just what firms are able and willing to do to quell that restlessness remains to be seen. Some firms are likely to face hard choices when it comes to finding the monetary means to retain strong performers before their own fees and revenues have fully recovered.

In early May, PricewaterhouseCoopers fired the first shot when it comes to talent retention by announcing that it would resume salary increases two months ahead of schedule. (See *PwC raises salaries*, p. 3.) Not surprisingly, many small and midsize CPA firms are following suit with plans to unfreeze salaries this summer and fall and potentially offer modest raises.

"Firms are realizing that they need to free up some dollars to retain talent," says Koltin. "We're still not seeing the massive recruiting and hiring of new talent that firms have historically undertaken but clearly

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Addressing your firm's recruiting and retention issues is easier said than done. To help, *Partner's Report* is sharing best practices from across the profession, from compensation strategies (see pg. 3), to addressing employee well-being (see pg. 4), to social networking strategies (see pg. 5).

Golden Age

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there is a focus on retaining people.”

Holding partners accountable When firms made cost cutting a major focus during the recession, partners shared the pain. Firms were willing to make tough calls in getting rid of not only junior staff with less experience but also senior managers and partners who were not performing up to expectations.

Now that firms are moving toward a focus on growth, even more changes are afoot at the partner level. “Firms are all about dollars and sales and marketing,” says Koltin. “They are looking at what they have done in the past [in terms of business development] and saying that they have to double or triple that.”

To achieve these new levels of business development, many firms have raised the bar for partner performance and are changing their partner compensation programs to increase accountability. Even with a price war going on, there is good business out in the marketplace but “it is a little bit like [looking for] a needle in a haystack,” says Koltin. “If firms are going to find those clients that aren’t going to be so price-sensitive and looking for the lowest price, they are going to have to search harder and faster than they have ever done before.”

That means changing habits and behaviors by having partners commit to individual goals and to being accountable for achieving those goals. Koltin notes that the better-run firms are getting partners’ attention by moving a greater

part of compensation into a bonus pool. At the end of the year, partners who bring in the most business are going to be the ones who get the most money. “In these cases, the firm is managing the partners, the partners are not managing the firm,” he says.

For their part, Koltin notes that many partners are accepting the new reality for CPA firms. “Partners are doing a lot of soul-searching and recognizing the need to take some personal risks of having less billable time and, instead, knocking on doors and developing new business,” he says. They recognize that the golden age for CPA firms is over—at least for the time being.

A recession is a terrible thing to waste.

Despite the challenges that still lay ahead, the hard work and difficult choices and decisions CPA firms have made over the past two years are unlikely to have been in vain. In fact, those changes can set the stage for a firm’s next stage of growth.

“Over the last two years, firms have attacked the sacred cows that have always been considered untouchable,” says Koltin. “They have put their survival instincts into practice and they have made difficult decisions on talent, partners, spending, and accountability that in good times they never ever would have dared to go after. And when this is over, you’re going to see some really profitable firms poised for greater growth.” □