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Top Issues Facing MPs at Midsize Firms

What is a 'typical' CPA firm managing partner? What does he or she do? What are the main challenges facing MPs today? The answers may be as diverse as the individuals who hold the title.

Two panel discussions at the AICPA Accounting Firm Leadership Forum addressed top challenges facing MPs at midsize and large CPA firms. The presentations also highlighted the strengths and skills that individual MPs are bringing to their firms and the different approaches they are applying.

In this issue of AOMAR, we look at midsize firms' managing partners and how they and their firms are meeting the challenges particular to their firms. Next month, we'll report on leadership issues facing large-firm managing partners.

The managing partner with a good sense of balance. Maintaining a sense of balance among the many and often conflicting demands of being managing partner seems to be the secret to the success of Michael Epstein, managing partner at Fuller Landau LLP in Toronto, Ontario. The \$20 million firm has two offices, 20 partners, and 150 professionals.

People issues are a leading challenge for his firm, as they are for most CPA firms these days. Fuller cited recruitment, retention, recognition, compensation, development, and the shortage of quality talent as some of the issues that confront his firm.

Other challenges common to all CPA firms include dealing with clients and changing market

conditions, technology, regulatory changes, increased competitive forces, more client needs and higher expectations, and shifts in loyalty.

With a decade of experience as Fuller Landau's managing partner under his belt, Epstein is well-positioned to cope. He is MP for both the Toronto and Montreal offices, and in his 10 years as MP, the firm has merged in small firms and partners, admitted partners who grew up with in the firm, retired partners early, and "counseled out" partners from other mergers. Leading two offices in very different markets with varied business cultures is a "subchallenge" for Epstein.

The three R's. Epstein's goals include a focus on what he calls the "three Rs: revenues, retention, and recruitment." For the Toronto office, this means growth in terms of staff, retention, and client recruitment and retention. There is no midmarket leader yet in Toronto; this seems to be a position that Fuller Landau is aspiring to fill. Growth is crucial to getting and keeping the best people, Epstein explained.

His greatest leadership challenge as a managing partner is balancing the many demands on his time, including people, other partners, leadership

'It makes a huge difference when partners are doing the recruiting and developing their own resources.'

management, growth, and his personal life. Epstein ruefully noted that this last area is the smallest piece of the pie in terms of how he divides his time, "probably similar to other MPs!"

Epstein's people responsibilities include directing the mentoring program, as well as mentoring four to five mentees himself and coaching partners in mentoring. He hosts "Fridays with Michael," a catered monthly luncheon with all staff in the Toronto office, where he discusses business and personal activities and staff are free to raise questions. In addition, Epstein shoulders the burden for the firm's "tone at the top" on such issues as goals and culture.

Epstein also works his referral network for potential hires and encourages everyone in the firm to do the same: "Every day is a recruiting day." He meets with and interviews key senior-level candidates. "It makes a huge difference when partners are doing the recruiting and developing their own resources."

His responsibilities also encompass driving revenues and growth, so he serves as advisory partner on large client engagements and in the mergers and acquisitions and corporate finance areas, although he no longer has a book of business as other partners have. Epstein does have a hand in maintaining key client relationships, pitching new, large clients, exploring merger opportunities and strategic alliances, and developing the marketing game plan including the firm's brand. Managing his fellow partners is also a central area of people management for Epstein.

As MP, Epstein is responsible for the executive plan and seeing that the firm's vision is realized or keeping the firm moving to the next step. This includes risk management in the form of hiring and acquiring new clients and new products and services. It also means overseeing team work with the goals of quality plus cohesive management. He must monitor profitability, conflicts, marketing, and the all-important people issues.

The "people-oriented" managing partner. You could say that all MPs must be people-oriented in today's environment, and that is true to a certain extent. Irwin Steinberg, managing partner of

Steinberg Advisors Ltd. (Northbrook, IL), however, has made an especially aggressive commitment not only to people but to making sure he is directing his own skills and developments toward creating an environment in which staff are likely to come and to stay. The single-office firm has \$6.5 million in revenues, seven partners, and 32 staff.

Steinberg cut his teeth as a managing partner in a firm that eventually was sold. He spent time as an entrepreneur and then returned to the CPA firm world to build a midmarket firm in the Chicago-area market, which lacked a strong midmarket focus. Since 2001, he has acquired small firms and staff along with them.

To further his commitment to a people-oriented firm, Steinberg has hired a coach to help him learn to address people issues and handle his varied workload with better time management. Top issues facing his firm include recruiting, training, leadership, succession, and retirement. He copes with the workload by sharing some responsibilities with other leaders.

"We need to be flexible in how we deal with our people," Steinberg noted. Communications is a related issue, especially with the firm's younger staff. "Millennials are not afraid to tell you things." They are also interested in everything to do with the firm. "The more open we are in communicating with our staff and partners, the better off we are," he said.

Going beyond traditional methods to recruit. To get those scarce, valuable people, Steinberg is spearheading new and varied ways to recruit. The traditional methods of want ads and online search firms haven't brought desired results. "We didn't get a lot of good people," Steinberg said. "The average tenure of someone head-hunted was about six months. We decided to grow our own: We hire at entry level and train them our way."

To pursue this approach, more college recruiting is being undertaken with programs at two universities. The firm offered internships for the first time last year.

The firm also sends letters to business referral sources such as bankers and lawyers, asking not for

work referrals but for people referrals. Ironically, a few business leads have come from this initiative but no staff yet, said Steinberg.

Fairly hefty bonuses are offered to staff who refer new hires, ranging from \$5,000 to \$15,000 if the new hire stays for six months. Half the bonus is paid upfront to the existing employee.

The firm is trying full-page ads in trade journals as another way to attract interest. Though this hasn't brought in any hires yet, Steinberg feels it will eventually. He adds the tip that it is best to ask for an exclusive if you choose to run an ad in a niche publication.

Asking around to other CPA firms in your area can be a good recruiting step; Steinberg has already made one hire in this way.

The firm is also making recruiting strategic by forming a four-person "SWAT team" that meets each month to build a database and develop ideas on how to approach potential hires. Direct marketing letters are also used as a recruiting tool.

Other steps he and his firm are taking include developing customized career paths, identifying and nurturing high-potential people including those in HR, administration, marketing, and IT—all key areas for firm growth.

Steinberg is also deeply committed to providing training to partners and staff. He said spending on training at his firm is "unlimited," and yes, he means it. "It is an investment, not a line item in our budget."

What the firm will not do, despite the difficulty in getting talent, is settle for less than the best. "We need quality people—we got rid of those who can't keep up. We'd rather get rid of some clients than not do quality work."

As for Steinberg, he is continuing to work on his "people focus" and encourages other MPs to do the same. "Think about where you are spending your time, and is enough of it with people? Are you proactive? Are you creating energy? That's an MP's job."

The new managing partner. Consider life as a new managing partner, when your firm is one you started with three friends who "grew up" together working at a Big Four firm before striking out on your own. Then consider that your firm has never had an MP until you took that role. Throw in the fact that it is a firm with growth issues and you have William Tapp, managing shareholder, Kirkland Russ Murphy & Tapp. The Tampa Bay, Florida-area firm does about \$11.5 million in annual business, has one office, nine partners, and 70 people (80 during busy season).

The firm was launched in 1991 by the four partners, equal shareholders in a primarily local-based practice. All four original shareholders are still there and have equal compensation and rights—except that Tapp agreed to give up most of his book of business to become the managing shareholder for the firm in 2005. Before that, the four original owners ran the firm as a committee. The decision to have one of the partners become the managing shareholder was a step taken to handle growth.

Tapp still provides some client service to clients with whom he has longtime relationships. This consists of attending some meetings and being available for calls, but he no longer handles day-to-day client service.

Tapp received no security for ceding clients, but says "our situation was that we've known each other a long time, and there is a lot of faith there."

Growth for Kirkland Russ has always been organic or internal—there have been no mergers or outside hires. The second generation of partners who are 10 to 15 years younger than the original four owners began to assume those roles between 2004 and 2006. This second tier of ownership has brought the issue of income ownership versus equity ownership to the fore. For now, new owners receive equity with minority interests with a cash buy-in on discounted market value.

Growth brings challenges. The firm shares many of the usual challenges of a firm transitioning

from small to midsize, including working to improve realization, sharpening internal communication, making the management group more cohesive, and striving to keep a small-firm feel in a growing firm. The top challenges: People, strategic and succession issues, and firm culture, Tapp said.

On the people side, Kirkland Russ is doing well with on-campus recruiting at the University of South Florida where it is involved in advisory and accounting activities. The firm is starting to add recruiting at other colleges. It has prerecruiting events, social activities, and dinners and encourages the active involvement of alumni and younger staff. The firm also has a strong internship program.

Challenges in recruiting relate to lack of name recognition, limited staff to do the recruiting, the amount of scholarship and sponsorship dollars, and the requisite time commitment.

The firm is looking for experienced professionals from outside. Though it has had success with search firms, Tapp wants to spend more time calling recruits himself to broaden the recruiting reach. The firm offers incentives and hiring bonuses to staff: \$10,000 for a manager or senior and \$2,500 per staff person hired from a referral by staff.

As the firm grows, it is spending more time on strategic and succession planning to meet with the future goals the owners are establishing. Kirkland Russ plans to double in size in five years and will monitor and evaluate the steps they take to achieve that goal.

The firm is assessing various future equity opportunities as well as the remaining years for the founding owners. "We've known each other for years and still find it hard to talk about this," Tapp said.

Keeping the culture "that got us started in the first place" is the other key challenge facing Tapp and his fellow partners. He hopes to maintain strong interpersonal relationships, a less formalized structure, less emphasis on metrics, budgets, etc, and keep everyone involved in "the thrill of the hunt."

The realities of growth, however, make it hard to avoid more structure and metrics to achieve the revenue and profit increases they seek. "It does mean you'll be different. Paying attention to it to try to bring back as much of the feeling" is important, Tapp believes.

More social activities and more spontaneous events are some ways the firm is trying to keep the smaller-firm feeling alive. Other ways include better communications and recognition such as unscheduled days off, unexpected financial rewards, summer parties with spouses and families, and a firm day for team building.

"Metrics are inevitable as you grow," Tapp said. "Try to understand their impact and importance. Let people know 'why.'"

Coming next month: Being the managing partner at a large CPA firms is not necessarily easier than at a midsize firm. Read the profiles of three large-firm managing partners in the April issue of AOMAR. □

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