

PARTNER'S REPORT

THE MONTHLY UPDATE FOR CPA FIRM OWNERS

ISSUE 10-10

WWW.IOMA.COM/CPA

OCTOBER 2010

STAFF RETENTION

Survey: One in Five Junior Staff Is Looking to Leave This Year

After two challenging years, your firm's junior ranks have likely been thinned by about as much as they can be without wrecking havoc on the leverage model. The problem is that an upcoming spike in voluntary attrition among your junior staff threatens to push that model to its breaking point, if not beyond.

Almost 20 percent of CPA firms' junior staff, those with three years of experience or less, say they are looking to leave their current firm by the end of 2010. The average anticipated tenure for a junior employee is just under four years, a decline from a year ago. That's the startling takeaway from a survey of more than 2,000 employees of CPA firms, conducted as part of *Consulting* magazine's 2010 Best Firms to Work For survey.

And when your staff leave, the vast majority say their next career move won't be another accounting firm. Only one in four says they'd likely go to another CPA firm next, down from 35 percent in last year's survey.

This means that the spike in turnover isn't likely to lead to a redistribution of talent among accounting firms. Instead, we're seeing signs of a one-way stream away from the profession.

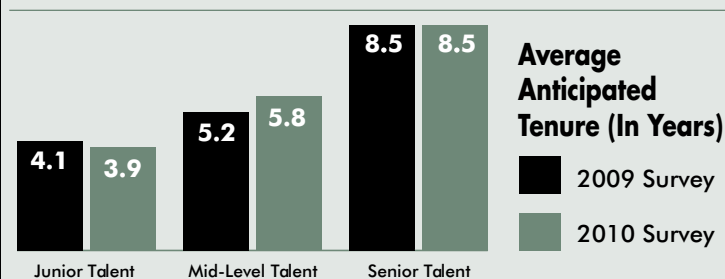
To stem the tide, accounting firms must first convince their staff of the merits of remaining within the profession, as well as staying at their current firm. Employees' career intentions are not written in stone. However, firms would be wise to realize they're going to be facing an uphill battle to retain their staff.

Moreover, as the War For Talent rekindles in the coming year, this trend will likely lower the supply of talent, thus exacerbating the hiring challenges.

This frustration from within the profession isn't limited to disenchanted junior staff. In fact, midlevel employees (those sandwiched between partners and junior staff) have the greatest intent in going into general industry. By more than a 2-1 margin, (61 percent vs. 29 percent) they say they are most interested in going to work for a company outside the profession.

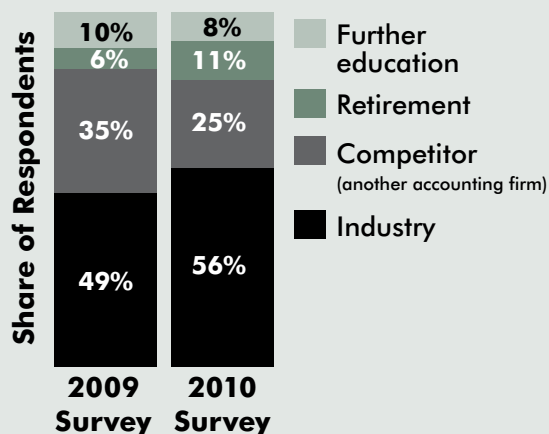
Higher salaries is the number one lure another CPA firm can offer to attract someone from a CPA firm, according to the survey's findings. Among junior staffers, more than half say they'd be willing to leave for no more than a 25 percent raise, including more than one-third who said that a 20 percent raise would be minimally sufficient.

Junior Staff Plan to Leave Their Current Firm in Less Than Four Years



Source: Consulting's 2010 Best Firms to Work For survey

Vast Majority Have No Intent of Remaining Within the Profession



Source: Consulting's 2010 Best Firms to Work For survey

In and of itself, the fact that money could lure away an employee is hardly news. Depending upon how much money was being offered, even the most loyal employee would likely consider a job change. However, what's startling is that those who say they are most interested in jobs outside the profession do not care as much about a bigger paycheck.

For those looking to leave the profession, greater work-life balance would be the biggest lure. The fact that more money is not the key motivator for those thinking of leaving the profession provides insight into employees' frustrations. It means, in part, that there's likely a large segment of your

employee base that thinks the only way they can achieve greater work-life balance is by leaving the profession.

Among junior staff looking to leave the profession, "more interesting assignments" is almost as big a factor as "more money." Given how hot utilization rates have run recently, most firms aren't taking much care in matching their junior staff with the kinds of projects or kinds of clients they're most interested in. Instead, the need to roll staff off of one project onto the next is bubbling up into a significant enough issue that it could cost you more than one in five junior staff.

Drilling down into areas of employee satisfaction, and areas of relative dissatisfaction, provides insight into what firms can do to retain staff and prevent the coming profession wide spike in voluntary attrition.

Employee satisfaction can generally be split into six broad areas:

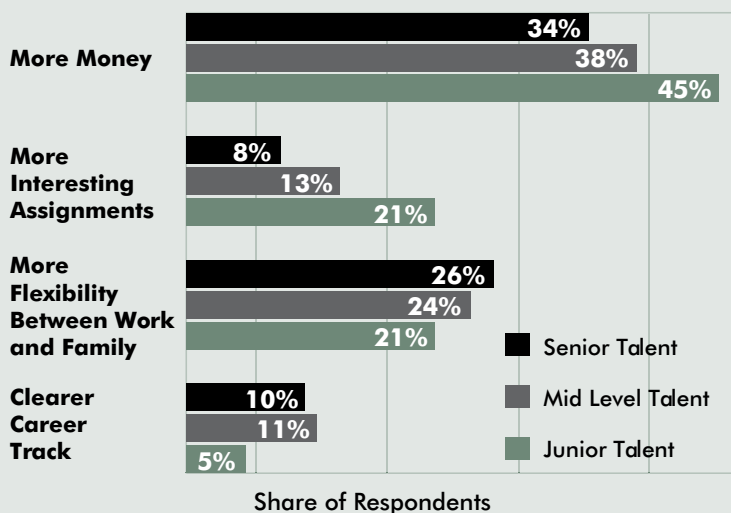
- Client Value
- Culture
- Career Development
- Leadership
- Work-Life Balance
- Compensation and Benefits Satisfaction

As one might expect, senior talent—those at the partner level—express relatively high satisfaction levels across the board. However, the same cannot be said for those below them.

Client Value

The frequency with which employees feel they are meeting clients' needs and, moreover, making a positive difference, can go a long way to giving employees pride in their job. The good news is that the relative satisfaction levels across all staff levels are high. Even if professionals are frustrated with their firm, or feel stuck in their position,

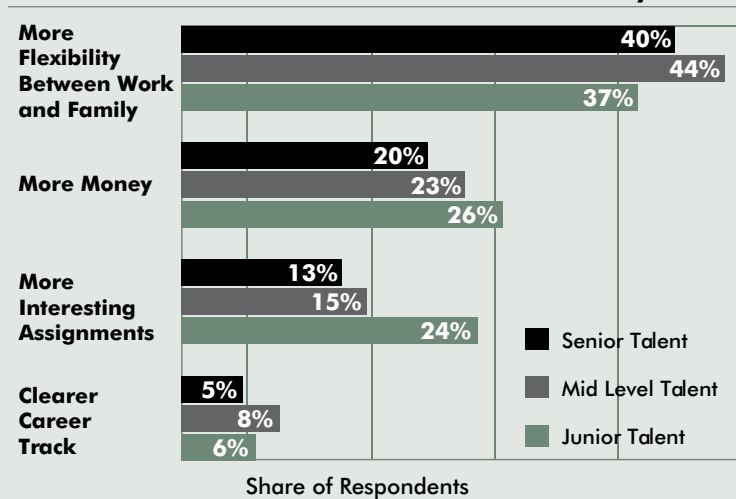
What Could a CPA Firm Offer to Lure You Away?



Note: Numbers do not add up to 100 percent because only top four choices are illustrated above.

Source: Consulting's 2010 Best Firms to Work For survey

What Could a Non-CPA Firm Offer to Lure You Away?



Note: Numbers do not add up to 100 percent because only top four choices are illustrated above.
Source: Consulting's 2010 Best Firms to Work For survey

findings suggest that, generally, employees remain frustrated with their firm, but do not believe that the firm's culture is fundamentally flawed. In other words, there are aspects of firms' values that still resonate. Poor leadership, lack of transparency, and significant expectations gaps can erode confidence in a firm's culture. But, for now, the firm's culture needs TLC not TNT.

Career Development

Based on the survey's findings, this is where frustrations begin to show more prominently.

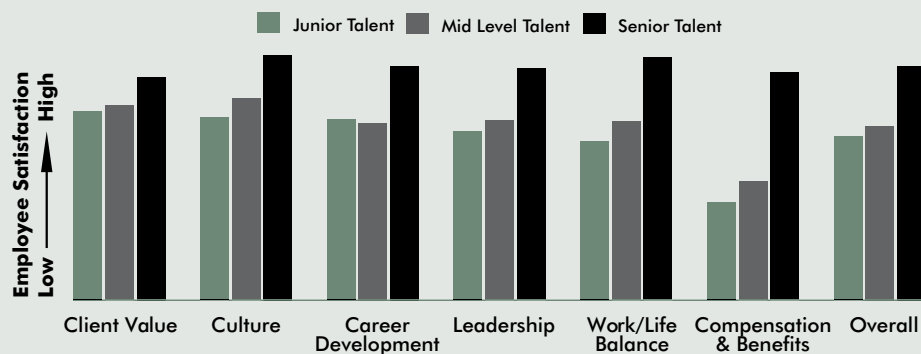
In a normal year, a firm's growth leads it to hire more junior staff, forcing promotions up through the ranks. And, in normal years, an uptick in clients and projects requires the firm elect more partners to manage and build the new relationships. However, 2009 and 2010 have not been normal years.

First, there's been very little hiring at any level. And most layoffs occurred at the bottom of the pyramid. As a

result, firms have been unable to promote those survivors at the bottom, thus eliminating the typical promotion domino effect. And, with the revenue pie shrinking, few partnerships are eager to divvy it up among more partners—thus lowering the value of their ownership stake. With fewer promotions at the top, we're hearing a lot of frustrations by those at the pre-partnership rank (manager or director) who feel they should have made partner by now. Delaying partnership by a year or so is forgivable in a time of economic uncertainty. But when delays in senior promotions drag on much longer than that, opportunities elsewhere begin to look more attractive.

More so than just career track, staff develop-

Compensation Satisfaction Provides Biggest Gap Between Junior/Senior Staff



Source: Consulting's 2010 Best Firms to Work For survey

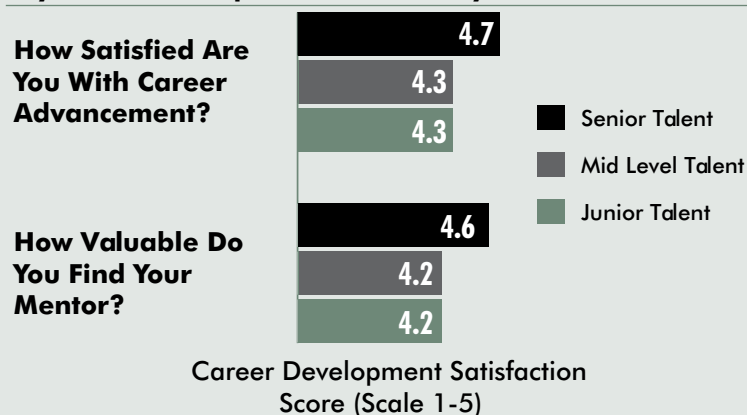
they still take pride in their work.

High scores in this area suggest a relatively strong sense of engagement with their clients. They still feel their firm is valuing their clients, even if they don't personally feel they are being valued. As a result, these scores indicate that firms still have time to turn around perceptions.

Culture

The other piece of good news is that employees at all staff levels report relatively high satisfaction with the firm's culture. On a scale of 1 to 5, morale is about a 4 at most firms (3.7 for junior talent, 3.8 for midlevel talent, and 4.2 for senior talent).

There's obviously room for improvement, but again all hope is not lost. The combination of survey

Key Career Development Indicators, by Staff Level

Source: Consulting's 2010 Best Firms to Work For survey

ment can also be quantified by a firm's investment in staff training. Most firms have cut paid training hours the last two years, as part of firmwide cuts in all expenses.

The problem is that training, especially within a CPA firm, shouldn't be seen as an expense. It's an investment. And one that staff will look for elsewhere if they can't find it at their current firm.

A pullback in training is shortsighted on many levels and reminds me of the old adage: The biggest worry about training your team shouldn't be if they leave—it's if they stay.

Leadership

Firm leaders, like baseball managers, often get too much credit and too much blame for their team's execution. Their job is to pull a combination of levers and call the right plays. Putting your team in position to be successful does not always equate

to success. The truth is that there are too many factors out of their control to say with total certainty that firm management—or the senior most leader—is responsible for the firm's current fate.

That being said, firm leaders are the personification of "the firm" in the mind of employees. The relatively low scores in this category do not necessarily suggest that most firm leaders are doing a poor job. What the survey findings do suggest is that many leaders do have their work cut out for them to regain the confidence of their junior and midlevel talent.

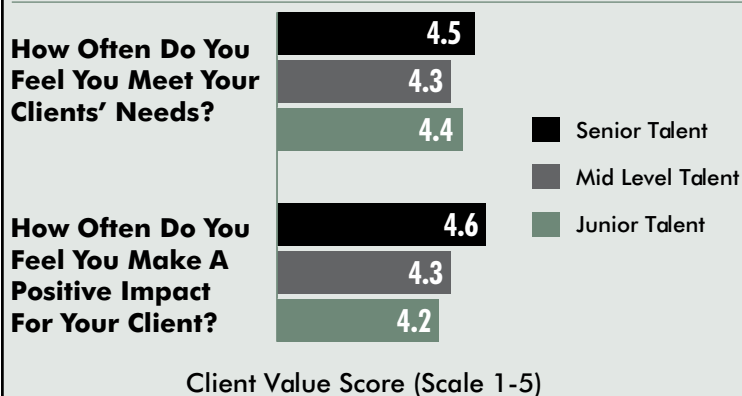
The better firm leaders tend to be the ones that allow for a high degree of input from staff and financial and strategic transparency. That doesn't mean that everyone in the firm needs to know every financial line item on a day-by-day basis. But it does mean that staff can't be caught off guard if the firm is having a bad year, or even a bad quarter.

For example, letting staff know how the partnership rank is feeling the pain (some firms are forgoing partner bonuses and taking salary cuts) in lieu of another round of layoffs. That insight, if communicated correctly, says that news shouldn't scare staff. Instead, it should offer a sense of pride that the firm's leadership is standing up for them, looking out for them.

Of course the opposite is also true. Firm leaders should not drive their new sports car to work or share pictures of their overseas vacation if salary freezes and layoffs are still in effect. Realize that what you do is often more important than what you say in the mind of your staff.

Work-Life Balance

As discussed earlier, the ability to balance work and a home-social life is a crucial career need. And it's an issue that many have given up looking for inside account-

Key Client Value Perception Indicators, by Staff Level

Source: Consulting's 2010 Best Firms to Work For survey

ing firms and think they have to go outside the profession to find it.

It's an understandably difficult balance to maintain in an economic downturn. But, because of that, it's all the more important to get it right. First, few firms are doing a good job with work-life balance. So, the bar is low and can give you a big leg up over competitors. Second, it doesn't cost much.

Most firm leaders have grown up with the expectation that you work at work. But that's not the case for those that have joined your profession in the last 10 years. If you're reticent, conduct an experiment. Ask for volunteers and track the progress they make from home once or twice a week versus what they accomplished in the office the other days. You might be surprised how much more efficient and effective people can be without the distractions of an office.

And as part of the math behind whether you can afford to let people work from home, consider whether you can afford not to. What would happen if you lost those that are demanding greater work-life flexibility? How much would it cost to replace them?

"Work-life balance is horrible. The expectation is that you work all the time, during the evenings, on the weekends. You should monitor your Blackberry while showering in the morning."
—Midlevel CPA firm employee

Key Work-Life Balance Indicators, Split by Staff Level



Source: Consulting's 2010 Best Firms to Work For survey

Compensation and Benefits Satisfaction

For a number of reasons, there is a sizable satisfaction gap between senior-level talent and everyone else when it comes to compensation and benefits. On one hand, it makes sense that partners are happy with their compensation. They set the rules. They make the most money. But even more importantly, they know why they make what they make.

They know that their compensation, to a large extent, is a reflection of the effort and value they deliver for the firm. Those beneath them can rarely say the same.

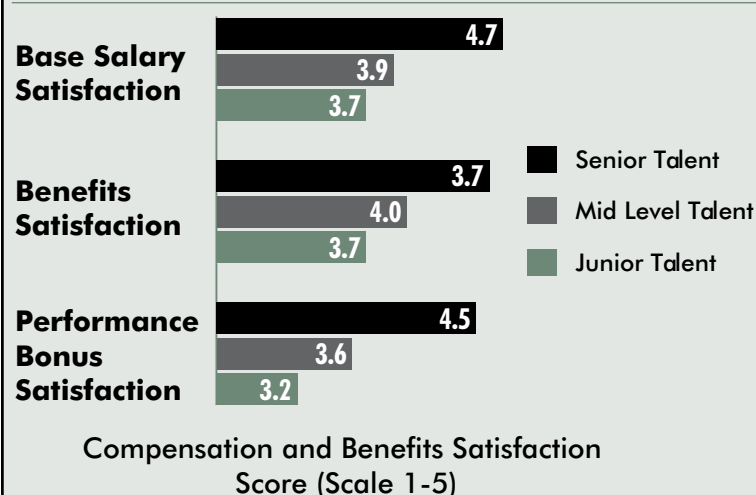
Sometimes, a firm has a transparent compensation policy that enables professionals to know what milestones they have to hit to earn at certain levels. But most do not. Annual raises—if they occur—and bonuses—if they're paid at all—are set by someone else and are determined by factors that may be out of their control.

For example, a number of firms put a lot of value in utilization rates. The more hours someone billed, the more money they generated for the firm, the higher their compensation should be, right? Not necessarily. How do you measure quality of work, client relationship management, informal mentoring? Not all hours are created equal. And, depending upon the compensation plan, staff could be discouraged from this behavior by the wrong financial incentives.

And more specifically in 2010, a lot of professionals at the junior and midlevel were caught flat-footed by the relatively paltry bonuses paid (reflecting 2009 performance). Talk of "turning the corner" and "the worst is behind us" led many to assume their compensation would reflect the same rosy outlook.

Staff was willing to give firm leaders the benefit of the doubt when it came to lower-than-expected salaries and bonuses in 2009. But in 2010, another expectations gap is causing frustrations to bubble over.

Key Compensation and Benefits Satisfaction Indicators, Split by Staff Level



Source: Consulting's 2010 Best Firms to Work For survey

The answer isn't to throw more money at the problem (nor is that possible for many firms already besieged by profitability challenges). The opportunity is to find ways to make staff feel more valued. As a result, they'll be more satisfied with their job and not resent the money they perceive they are not making by working at your firm.

Rehiring your staff, building trust, extending respect across your firm is hard work. But knowing the battle you face is half the challenge.

Who Took the Survey?

The survey was conducted in the summer of 2010 by *Consulting* magazine, which shares the same parent company as IOMA. More than 2,000 employees of CPA firms completed the survey. Most of the CPA respondents came from large firms, but the survey includes some data from small firms. Approximately 20 percent of the CPA sample is comprised of those at junior levels, 23 percent at senior levels, and the remaining 57 percent comprise midlevels. Almost all (96 percent) of the respondents are based in the United States, representing more than 20 different metropolitan regions (the largest samples came from New York City, Washington, D.C., Atlanta, and Chicago).



This article was originally published in IOMA's monthly newsletter, *Partner's Report*, and is republished here with the express written permission of BNA Subsidiaries, LLC. © 2010. It is a violation of federal copyright law to reproduce all or part of this publication or its contents by any means. The Copyright Act imposes liability of up to \$150,000 per issue for such infringement. Information concerning illicit duplication will be gratefully received. To ensure compliance with all copyright regulations or to acquire a license for multi-subscriber distribution within a company or for permission to republish, please contact **Jonathan Wentworth-Ping** at IOMA's corporate licensing department, 973-718-4703, or e-mail jping@ioma.com. For more information about IOMA or to subscribe to any IOMA publication, go to www.ioma.com.