

## **Is Your Firm on a Growth Path or Moving Toward the Edge of a Cliff?**

Have you thought about how long your firm can continue on its current track? Have you considered the practicality of your firm's succession plan – that is, if you have one? Does your partner compensation model make sense in light of your performance measurement system? Does your firm effectively leverage technology? Do your employees walk around with dazed expressions?

As your firm's leader, these are just a few of the questions you should be asking yourself on a daily basis. If these are not on your radar screen, then what are the issues that enter your stream of consciousness? And in the scheme of things, do they relate to your firm's sustainability and viability? You need a way to collect anecdotal data to make the right decisions and take the appropriate actions. How to do this will be addressed later, but first: what are the impediments?

## **Seeing the Forest for the Trees**

Why don't more CPA firms employ a greater level of introspection as part of their daily operations? This is because they are too often focused on the short-term results: meeting quarterly projections; being under budget on engagements; maintaining pre-determined realization rates; keeping utilization rates constant; and minimizing employee turnover. This is especially relevant for firms with revenues between \$3 million and \$20 million. Firms within this range must also face external challenges such as merger or acquisition overtures.

Profitability is never a short-term goal; rather, it is a complex endeavor that requires consistent analyses and a close focus on firm *policies* and *politics*. And don't forget that one additional incontrovertible challenge: *culture*.

The current partnership model presents the biggest challenge. Consider those firms that are top-heavy in their structure. This puts a crimp in profitability because partners, senior managers and managers generate charge hours at higher rates but are saddled with lower-level work. This situation precludes the

delegation of work to junior staff – and with it reduced costs of production. If partners and managers are immersed in less value-added work, then there are limitations on efforts to engage in activities associated with marketing and business development.

Last, with an increase in lower-value work done by senior people, there is the greater likelihood of an exodus of quality staff or “superstars.” Firms will be forced to keep their mediocre employees just to show they have higher retention rates.

The foundation of profitability and sustainability is built with the “tone from the top.” The senior leaders have to juggle several hats because of a rapidly changing marketplace, shifting demands of the existing client base, and the relationships between the partners and all levels of staff.

Forward-looking firms will study the elements of profitability, such as investment in technology; staff training for client-facing professionals, as well as education for those having administrative responsibilities; creation of performance-based compensation models; training in marketing and business development; and processes that ensure an efficient and effective approach toward practice management.

These firms understand that nothing can be accomplished without the creation and maintenance of a comprehensive strategic plan that aligns the goals of the partners with the goals and metrics of staff performance. Statistics and the models that generate them cannot be used in a vacuum. Instead, they need to be incorporated into financial, operational and business development approaches. Developing a strategic plan is not a one-shot deal or a tab-filled binder that gathers dust on a bookshelf. It is the underpinning of how a firm operates on a daily basis.

## **Walking the Talk**

Consider the mantra of many firms: “Our employees are our most important asset.” But how is this reconciled with the mentality of “bill, bill and bill some more”? It is this mindset that moves a CPA practice from a professional service environment to that of a widget manufacturer whose sole concern is the number of units produced per hour – or in the case of a CPA firm, the number of

chargeable hours. As a result, the “human” assets are only unit producers and not value-added service providers.

Let’s take a closer look at sustainability and viability. The term *sustainability* is frequently associated with organizations’ focus on corporate, social, and environmental concerns. KPMG defines sustainability as “adopting business strategies that meet the needs of the enterprise and its stakeholders today while sustaining the resources, both human and natural, that will be needed in the future.” On this basis alone, sustainability can be applied to a CPA firm. It can be used to consider how a firm undertakes succession planning, employs lateral partner recruitment efforts, creates organic growth instead of going the firm acquisition route, and successfully recruits and retains top talent.

The term *viability* of a firm is measured by its long-term survival and ability to sustain profits over an extended period of time. There are many moving parts that can impact a firm’s survival: competition, increased regulation, ageing of firm leaders, complexity in the market, technology advancements, mobile workforce, and rising compensation and healthcare costs.

### **Taking the First Step**

Like a toddler that needs to crawl before it begins to walk, a firm must realize that change is necessary before it starts to take the all-important first step.

One of the best tools as a first step is an anonymous survey. This will ensure that the responses are truthful and comprehensive. When surveying staff you should consider their areas of concerns, opinions and attitudes about such matters as partner communication and involvement, clients gained and retained, workload, career advancement and work/life balance. When aggregating the data, it is important to compare and contrast the responses, look for inconsistencies and discover trends. Then go ahead and address the low-hanging fruit first.

There are easy fixes and there are fixes that will be more challenging. If you find that not all your staff members are “in the know” then consider an approach that will keep the employees informed; seek their input on growth plans. This way you will have created an intellectual investment for them.

Then there are the more challenging fixes, such as balancing the influx of new client attainment with the existing resources. If you don't have sufficient staff to serve the clients, then you will create two equally unhappy groups: clients and staff.

## **Understanding Your Firm's Sustainability and Viability**

Any business or professional services firm needs to examine its operations to determine if it is optimally positioned for growth and profitability. Like steering a ship without a compass, a firm that does not know what direction to take is subject to the philosophy expressed in Alice in Wonderland: "If you don't know where you want to go, then it doesn't matter which path you take."

When was the last time you assessed your firm's operations, even by just walking around or conducting a formal survey, if at all? If you answered "never" then don't be surprised by any surprises. It is critical for your firm's leadership to understand where the potential risks are.

Conducting interviews at all levels is a first place to start. The objective is to elicit feedback from the partners and staff to uncover the "iceberg of ignorance" that almost always exists within those firms that are not experiencing sustainable growth.

There are key areas to examine when conducting a survey:

- Alignment of individual partner goals with overall firm goals
- Development of a partner track
- Business development skills of partners, principals and directors
- Review of process improvement systems
- Human capital effectiveness, including candidate identification, interviewing and hiring practices
- Budgeting and cost analyses
- Identifying and leveraging niche skills
- Cross-selling practices and capabilities
- Effectiveness of partner meetings
- Campus visitation programs
- Internal and external marketing
- Timeliness, relevance and functionality of firm's website
- Realization and utilization rates

Finally, if your focus is on building sustainability and viability, you need to ensure continued competency through education, coaching/mentoring, and providing instruction in business development – all with the intention of offering value-added services, improved productivity, reduced turnover, and the ultimate goal: *growing the bottom line*. As has been often stated, it is more important to work *on* your business rather than merely work *in* it.

The next group to survey will be the partner group on a one-to-one basis where the findings of the staff are shared, and should include examples of specific employee feedback. This effort should culminate with a report that includes a summary of where the “unknowns” exist and recommendations for improvement in the areas of sustainability and viability.

A survey of the partner group should cover issues ranging from billing rates to workflow; from business development to staff training; and from grading existing clients to leveraging technology.

There are so many moving parts in a CPA practice that not knowing what you don't know will nudge you ever so closer to the edge of the cliff.

**A word to the wise:** You have a choice of either being a giraffe or an ostrich; seeing the big picture or hiding from reality. If your firm is not committed to embracing the recommendations for *real* change, then the survey will collect dust right next to the binder containing your firm's strategic plan.



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