

Overcoming the Perfect Storm

By Joseph A. Tarasco

In late October of 1991, a storm stronger than any in recorded history hit the New England coast off of Gloucester, Massachusetts. This was referred to as the “Perfect Storm”—so called because it was three storms combined into one. Three separate weather events travelled on a “perfectly” aligned collision course to produce one of the rarest meteorological events of the century. Many fishing boat captains and local residents did not heed the storm warnings because it was very late in the hurricane season and not typical for that time of year. The storm took lives and created millions of dollars in damage.

The accounting profession’s perfect storm

Similarly, the accounting profession is increasingly feeling the effects of its own Perfect Storm, as there are three storms brewing around the accounting profession, combining into one large problem:

- *The first storm* facing the profession has been brewing for years. The majority of firms in the country have no partner retirement programs or formalized succession plans for the tens of thousands of Baby Boomer partners that are either retiring now or over the next 10 years.
- *The second storm* is categorized by the significant merger activity at the local, regional, and national level that is progressing at a rapid pace and is quickly reshaping the landscape of the accounting firm environment.
- *The third storm* is the recent economic recession, resulting in a sluggish economy, slow recovery, and more competition for quality clients, combined with a lack of next-generation accounting partner rainmakers.

As in the 1991 storm, this is a rare event. Never in the history of accounting has the profession been faced with three significant problems so perfectly aligned on a collision course all at once. The warning signs have been communicated for years by consultants, state societies of CPAs, and the American Institute of Certified Public Accountants. Just as the residents and fishermen of New England ignored the warnings, so have many firms stood still in the path of the storm and in denial of the events yet to come.

Developing a business strategy

Developing and implementing a business strategy to overcome the profession’s Perfect Storm may be the only way to survive the treacherous times that lie ahead.

Many firms are struggling to find the proper balance between running their organizations as a practice versus a business. During the boom years, when firms were growing organically at more than 10 percent per year, they had the luxury of making poor business decisions without significant consequences to partner earnings. However, times have changed, and unfortunately firms no longer have that luxury. Making smart and sometimes difficult business decisions over the next five years will determine a firm’s survival.

Now is the time to develop and implement a business plan that focuses on succession planning, growing the firm, and increasing partner earnings. The plan should be revisited at each monthly partner meeting for stages of completion and to determine if the plan and related strategies need to be modified. One partner should be assigned to the task of managing the firm’s business and succession planning and should be held accountable for assigning tasks and monitoring successful implementation of the plan’s action items. Implementing a “winning” game plan that is consistently executed by all partner team members will take your firm to the next level of success and create a more secure future for all your partners. The true value of planning the firm’s future is not predicting the future precisely; it is evaluating, revising, and managing the future to make it a reality.

Partner compensation and accountability

Implement a performance-based partner compensation system that holds partners accountable for achieving predetermined performance criteria, goals, and contributions to executing the firm’s strategic plan, such as:

- Documenting and communicating the method by which partners will be evaluated prior to each new fiscal year
- Establishing the statistics and performance criteria that firm management will be reviewing and analyzing in the compensation decision-making process
- Establishing and documenting goals and objectives

for each partner prior to the beginning of the year. The partner's personal goals and objectives should be directly related to assisting the firm in achieving its overall strategic plan. It is helpful to have a mid-year review of the status of such goals and objectives rather than waiting for year-end

- Having each partner complete an annual performance self-evaluation—this will increase the chances of a productive counseling session and increased communications
- Most importantly, ensuring the partner or partners responsible for determining partner compensation are fair, take the time to review all available information, and are trusted by the partner group

Partner compensation systems need to be customized to meet the needs and challenges of each particular firm. This is not a “one-size-fits-all” type of model. To be truly successful, a compensation system must communicate the guidelines for rewarding the achievement of agreed-upon partner goals and objectives that are clearly aligned to the firm's core values and strategic plan.

Develop partners and staff

Accounting firm partners must meet the challenges of the Perfect Storm by retaining and developing the most talented accountants available. Firms may not be capable of achieving their short- and long-term strategic goals and future succession plans if these programs are not implemented successfully. Therefore, developing the next generation of partners and firm leaders will determine a firm's future and the ability to remain independent.

The goals and objectives of a career development program differ in firms of various sizes, cultural environments, and strategies. However, there are many common characteristics:

- retaining the best performers and key personnel;
- developing future managers, partners, and leaders who will play an integral part of the firm's succession planning;
- attracting talented accounting professionals in a very competitive market for quality people;
- cultivating a highly desirable work environment that will increase morale;
- increasing staff productivity and creating a high-achievement culture;
- holding partners accountable in implementing a successful career development program; and
- increasing client satisfaction and the profitability of the firm.

Partner ranks should not be overloaded with permanent nonequity and underperforming partners. This is a short-term solution to a long-term succession planning problem. Be selective in admitting new partners, and take into account their ability to bring in new business and retain your best clients.

Go beyond marketing

Constantly upgrade the client base with better-quality, higher-profitable clients. All partners should be held accountable to increase realizations on existing clients and to replace low-profitability clients with more profitable ones. Often, poor growth and profitability is not the problem of the marketing program, but rather a failure of the process as to when marketing ends and sales begins. Selling is a contact sport that requires numerous communications with prospects. Marketing supports selling; it does not close the sale.

Provide professional sales training to your partners and managers on the entire sales cycle. Most accountants have never received formal sales training and thus do not practice proper selling techniques. Professional sales training will also motivate your partners and staff to leave the office and spend more time with prospects and referral sources. Each partner and manager should have to be accountable for sales goals and objectives that are realistic and measurable. Lack of “rainmakers” in the profession is a significant succession planning problem. However, if you have enough partners who can make it “drizzle,” then it may be possible to grow successfully without key rainmakers.

Use mergers and acquisitions as part of a marketing and growth strategy

Using mergers and acquisitions as a growth strategy may no longer be an option, but rather an essential strategy for growing at a rate to maintain a competitive edge in the marketplace. Growing at a pace to constantly increase profitability at aggressive and sustainable rates is extremely difficult due to the sluggish economy and lack of new start-up businesses. For the past several years, the accounting profession has been dealing with depressed markets and hunkered-down clients. The rebound in growth emerging from this recession is much leaner than in previous economic recoveries.

A merger and acquisition strategy should be used to:

- obtain niche and service specialties that the CPA firm-client marketplace demands;
- acquire more talented partners and professionals to expand service offerings and to add more value to the firm's services;

- expand the firm's geographic service area;
- keep pace with growth in the marketplace as other firms in the geographic area merge and create larger entities;
- expand on the firm's referral network; and
- obtain rainmaker partners and quality staff to overcome succession planning issues.

Leadership

It is important to have strong leadership that has the ability to make tough decisions and is held accountable for ensuring that partners are a united, synchronized group that achieves the goals and objectives of the firm.

One overwhelming reason why some accounting firms flourish into large and very profitable organizations is strong leadership. Successful leaders adapt to change in the accounting firm marketplace regarding clients and staff and are proactive to anticipated market changes. They invest in their firms and motivate their people to be innovators to gain an edge on their competitors.

Accounting firms that are willing to redefine themselves and how they operate in order to achieve higher levels of success understand the need for good leadership. Good leaders play to win, and that is often the difference between success and mediocrity. In the world of accounting, it can mean the difference between merging up and remaining an independent firm.

The storm warnings have been posted, the winds are at gale force—it is time that accounting firms heed the warnings to take the proper action to steer clear of the storm. Those that do will reap the benefits once the skies clear.

About the author: Joseph A. Tarasco is the founder of Accountants Advisory Group, LLC, (www.accountantsadvisory.com), a consulting firm that incorporates state-of-the-art practice management, marketing, and human-capital strategies to assist CPA firms in achieving long-term success and profitability. Voted “Top 10 Most Recommended Consultants” by INSIDE PUBLIC ACCOUNTING, Joe can be contacted at Joe@AccountantsAdvisory.com or 845-265-9046. †

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