M E M O R A N D U M

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“The 25 best practices of wildly successful CPA firms”

Practice Management by Marc Rosenberg TAX PRACTICE – May 15-June 4, 2006

I always tell people I’m one firm better than the last firm I worked with – and it’s true. Throughout nearly 20 years of consulting to over 500 CPA firms, I’ve learned what the best practices are from dozens of world-class firms I’ve been privileged to work with.

The 25 best, in no special order, are:

1. Proactive business-getting efforts; lost of team selling. The best accounting firms are active in practice development. Partners actively build their networks and nurture their referral sources. One managing partner told me that at his firm, “If a partner meets with a prospect alone, he gets shot.” Team selling, rather than individual selling, is the norm at the best firms.

2. Exploit potential with existing clients. The better firms understand that their best source for new business is existing clients. They work hard to provide value-added services to their best clients, creating multiple “touch points” (key personnel from other service areas of the firm) with them. They never allow mass quantities of marginal clients to prevent them from focusing on their “A” clients.

3. Niche marketing and developing specialized expertise. Niches and specialties enable firms to press the accelerator. People prefer to hire experts in their field rather then generalists-and they are willing to pay a much higher price for that expertise. Exceptional firms focus their training and marketing on their specialties, rather than using the scattergun approach.

4. World-class service. Providing world-class service is the ante to get into the poker game. Without a high level of service quality, clients may not stay with you, and they certainly will not refer others to your firm.

Most small and midsized firms fall into the trap of providing services to such a high volume of clients that they can’t possibly provide world-class service to the better ones. The elite firms have a tenacious commitment to client service. It’s a prerequisite to advancement at these firms, and it’s one of the most highly compensated performance traits.

5. Be a high-price/low-volume shop, rather than a low-price/high-volume shop. Firms routinely undervalue their services, but not the better ones. Smart professionals do outstanding work for a smaller group of their best clients, and charge higher rate for it. The scarce supply of labor in the CPA industry maker it suicidal to try to emulate mass discounters.

6. Strong management structure and leadership. This separated the elite accounting firms from all the others. The better firms truly unite behind a common vision and a set of core values. Behavior outside of this structure is simply not tolerated.

7. Franchised procedures. At McDonald’s restaurants, the hamburgers and French fries are made the same and taste the same, regardless of the location or the style of the manager. Better firms standardize of “franchise” their work procedures.

8. Institutionalized clients. Many firms often say that clients are the firm’s clients, not the partner’s clients – but they don’t walk the talk. At upper-crust firms, several people in the firm have important relationships with key clients. Partners at these firms know that servicing clients alone will get them shot.

9. Partners mess with clients and staff, staying out of administration. Line partners were created to service clients and nurture staff. That’s it. Why on earth assign administrative duties to partners? That’s why firm administrators were invented!

10. Survey clients and staff to find out what they think of you. Firms may think they can gauge the quality of their clients’ and staff’s satisfaction, but they cannot. It’s only important what the clients and staff think. The truly excellent firms regularly survey them.

11. Maximize staff-to-partner leverage. The quickest path to high levels of profitability is via high rates and leverage. The better firms pay virtually no attention to partner billable hours. Partners make more money for their firms with their non-billable hours than their billable hours.

12. Clear vision and strategic plan. Yogi Berra said it best: "If you don't know where you're going, you'll never get there." Management's main focus is implementing the vision. Partners are evaluated and compensated based on the extent to which they help the firm achieve its vision. These firms live and breathe the firm's vision and core values every day. But at the vast majority of accounting firms, there is a huge disconnect between strategic planning, evaluation and compensation.

13. Getting the right people on the bus and the wrong people off the bus. This legendary quote from Jim Collins's Good to Great underscores the Importance of getting each partner's commitment to the firm's culture and core values. Many firms permit partners to remain with their firm despite egregious conduct. The finest firms never tolerate this.

14. Diversity of services. Perhaps all that remains from the consolidator era of the late 1990s is the term "one-stop shop." It refers to a firm's ability to meet its clients' needs in many ways not just traditional accounting and tax. This is kindergarten play at world-class accounting firms.

15. Tenacious commitment to making your firm a great place to work. As a shortage of labor continues to bedevil firms, the better firms are wildly fanatical about all staff issues, giving their staff the same exalted status as clients. There isn't much that firms can do to change the supply of staff, but there is a lot they can do with the people they have and to recruit newcomers and develop them. All firms today say that they do this; only cream-of-the-crop firms actually do it.

16. Partners are good bosses. Research show that the No. 1 reason why people leave a job-any job-is their relationship with the boss. This has tow dimensions. The obvious one is the boss's treatment of staff in a pleasant manner-never dealing with them abusively. But today's staff wants more than just merely being treated nicely.

The more subtle but important dimension is that they want their boss to help them advance and grow. Premium firms evaluate their partners' performance on the extent to which staff under their tutelage excel and advance to manager and partner positions.

17. Proactive leadership development. There aren't enough younger people to take the place of the avalanche of Baby Boomer partners expected to retire in the next five to eight years. Most of the partners at these firms don't do much to prepare their younger people for leadership because, in their words, "No one helped me when I was their age." The truly outstanding firms feel that there is no greater duty of a partner than to develop staff and young partners into leaders. Their compensation systems back this up.

18. World-class training. When I ask staff what they think of their firm's training, too often, the response is, "What training?" The crème de la crème have established a whole new paradigm for training. In fact, it's not even called training anymore. Instead, these firms are taking a university-type approach, creating curriculum based programs geared to the individual that meet the need of the firm as well as the staff, and are headed by experienced training directors.

19. Client transition. The vast majority of firms think of client transition almost exclusively from the standpoint of retiring partners. The best firms take the following perspective, for young and retiring partners alike. "What can I do to make sure the clients stay if I leave?

20. Good partner relations. Partners hate conflict is ignore, it will magically go away. Partner conflicts are like open wounds: Sooner or later, they fester and the infection grows. Well-managed firms feel that sweeping dirt under the carpet only created lumps. They address conflicts head-on and get them resolved-pronto.

21. Partner accountability. Most of us have heard: "I'm all for partner accountability … as long as it doesn't affect me." There is a great deal of truth in this. Partners at most firms feel that they are entitled to decide themselves just how much accountability they are willing to accept. At top-drawer firms, accountability goes with the territory. As one managing partner told me: "If you act like a jerk you're out."

22. Goal-setting for key personnel. Goals are the bloodline between a firm's vision and those who make the vision a reality. The great firms understand this. These firms also understand that individual goals should be developed not only based on what the firm's need are, but that the talent and skill set of these people are, as will. In other words, in a well-managed firm, every person will have a different set of goals. No cloning allowed.

23. Performance-based partner compensation. Highly successful firms pay their partners based on how well they fulfill their role in the firm and achieve their goals. These firms have very little, is any, provision for pay based on ownership, seniority or equality. The Three Musketeers' credo was, "One for all, all for one." Thomas Jefferson said, "There is nothing more unequal than the equal treatment of unequal people." Jefferson would have made a great managing partner.

24. Put technology to work for you. Leading-edge technology attracts staff enables CPA's to provide world-class service to clients, and gives firms the productivity boos that they need to get the most out of their scarcest resource – their people. Prominent firms have this computed.

25. Benchmarking. Ordinary firms don't do much serious benchmarking. They like taking pass-fail courses. Leading firms seek to be graded, so that they can aim for and get an A. Measuring what's important causes firms to analyze why they hit or missed their targets. The answers get translated to prescriptions for change, thereby continually making their firm better and better. Leading firms monitor tow kinds of benchmarks: financial/production metrics, which primarily look at the past, and client service performance metrics, which are better for measuring the present.