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EFFECTIVE MANAGEMENT IN A SMALL FIRM

Do you ever stop to think about your firm and where you are going? For example, do you look at your firm's strengths and weaknesses and ask yourself why clients should stay with you or whether you should go out and get new clients? Are you doing what you want to do? Do you know where you want to be five years from now? How you practice and for whom you practice reflect on how people view your firm. To build a quality practice, you must have goals and objectives, and more than anything else, you need effective management.

About ten years ago, I wrote a Practitioners Forum article on practice development. The gist of the article was that the key to developing and upgrading our practices was, and still is, the "forgotten client."

We all have clients who are owner/managers of businesses for whom we perform write-ups, financial statements and tax work, etc.—services oriented to third parties such as the government or banks. However, we neglect the real needs of this type of client. What we should do is learn about the clients' businesses and how to identify what they need to know to run their businesses better. We should also learn how to communicate with these clients using their terms.

In the article, I pointed out that many CPA firms are where they are today not because of their direction and leadership but because someone called with a request for a particular service. If we are not to continue drifting this way and that at the behest of our clients, we must have some firm objectives regarding the nature of the practices we want to develop. We must employ some effective management techniques that will help make these objectives realizable.

There is no doubt that the environment in which we operate our practices will continue to change over the next 5 to 10 years. These environmental changes will exacerbate the organizational changes that firms undergo as they grow. (See "Evolution and Revolution as Accounting Firms Grow" in the October 1973 Practitioners Forum and "The Prerequisites for Practice Growth" in the December 1977 issue of the *CPA Practitioner.*)

To cope with these various changes, firms must be structured in ways that not only provide solutions to current problems but are also suited for the next growth phase. This requires an awareness of where the firm is in its growth pattern and of the type of management structure needed for the next stage; it also requires skills in the areas of communication, motivation, supervision, evaluation and marketing.

If you are to build the type of practice you want, you must be able to attract, train and retain competent personnel who have or can develop the necessary expertise. You must be able to harmonize their needs, goals and desires with the firm's objectives. As always, it is essential to keep people informed of your plans and to let them know what is expected of them.

In our firm, we set personnel policies around a concept we developed called "Career Path." In order to competently perform the work required in a quality practice, staff must be able to master the required technical skills. Basically, in our firm, staff accountants are evaluated as to their knowledge of the following areas:

- ☐ Workpaper preparation/review.
- ☐ Accounting theory/practice.
- ☐ Auditing theory/procedures.
- ☐ Federal and state taxes.
- ☐ Accounting systems.

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What's Inside . . .

Improving Productivity

What is productivity in a practice and why is it important? It certainly does not mean running a sweatshop. Staff people don't want to work an exorbitant number of chargeable hours in order to make partner. They are demotivated by that prospect. Rather, a productive practice is one that is both efficient and effective.

Achieving a high level of productivity through efficiency and effectiveness is a worthwhile endeavor because of the important benefits that result. In most cases however, responsibility for firm and individual productivity needs to be defined—somebody must be made responsible for it.

Productivity improvement at the firm level can be a motivator because people take pride in being part of an efficient, effective group. Potentially, big productivity gains are possible here. In many firms, work that should be done by lower-level staff members is done by supervisors, managers—even partners. Work should always be done by the lowest-level staff person who can satisfactorily perform it. Don't have a $50 per hour person working on a $25 per hour job.

Analyze firm-level productivity by service area and client groups to see which are the most productive. Compare your offices, too, if yours is a multi-office operation. The immediate effect of a new office on productivity is nearly always negative. Based on statistics at one recent MAP conference, the average per partner profitability of two-office firms is about $14,000 less than for one-office firms, and there can be a $34,000 difference when you get to four-office firms. In all areas of the firm, you will have to find a balance between needed investment (for the future) and making a profit.

Now, what about productivity improvement at the individual level? To achieve this, you must have the right sort of people on the staff to begin with. You have to be able to see more than just a graduate when hiring someone. You need staff members who have drive, high energy levels and an interest in advancement and growth. People will make the effort if they see it will lead to something they want.

An environment that provides for staff's expectations is essential. Good things should happen when staff perform well. Partners must set good examples and staff members must receive feedback. They want to hear about the negatives as well as the positives because they know they are not perfect.

The firm should provide opportunities and incentives for achievement. Monetary rewards are an obvious incentive but other forms of recognition are important too. A few words of acknowledgement or approval can be a tremendous morale booster as can holding up outstanding performers or performances as examples. You can't give too much recognition.

Providing interesting work can also aid productivity. This can be done through specialization which often has the double advantage of being both a motivating factor for staff members and providing additional profits for the firm. The work must be at the right level, though, and it is important to staff people that they see advancement and are given increased responsibility year by year. In many cases, people can handle more than they are given.

Obviously, any improvements in productivity will necessitate the supervision and training of staff and the removal of productivity barriers. People's productivity declines if conflicting demands are made of them or if work is badly distributed so that some are not busy while others are overworked.

Inefficient work spaces are another handicap. Individuals need sufficient work and filing space if their work areas are not to look messy and they are not to spend a lot of time searching for something on their desks. Visual distractions, such as a busy hallway just outside an office, should be avoided and noise levels should be kept as low as possible. Shared offices are a bad idea in this respect, as are low cubicle walls and loud staff radios. A few rules about long, loud conversations and the use of individual radios might be a good idea, and you might find that office landscaping can muffle much of the sound.

Don't forget the office layout when thinking about improving productivity in your firm. Office machines, supplies, reference materials and other

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needed equipment should be readily accessible; and walking distances can be reduced if partners' offices are scattered, rather than all in one place. If 20 people, whose average billing rate is $40 an hour, save five minutes a day, the result can be an extra $16,000 net at year's end.

Above all, the right atmosphere must be created by the partners. A mood of grim determination, with everyone out for themselves, is not what is needed. And getting staff people to make an extra effort and then not telling them why their work was not used is detrimental. Anything that causes guilt, anger or worry is an emotional productivity drain.

You can conduct a productivity audit of your firm in the following way:

- ☐ Pick 5 to 10 areas from the article that you believe offer the greatest payoff from improvements.
- ☐ Gather enough data to tell you which specific improvements would work. Include staff input. Let staff members know what you are doing. You will get lots of good ideas from them.
- ☐ Evaluate improvements for cost and benefits. Put them in order of priority.
- ☐ Implement improvements one (or just a few) at a time. Keep everyone informed on what you plan to do, why and when. Solicit suggestions.
- ☐ Measure and evaluate results. Again, keep people informed.

Productivity improvements can result in time savings of as much as one half hour per day. Of course, people always think they are working to the ultimate degree and that they couldn't possibly be any more productive. But go ahead, conduct the productivity audit and make some changes. Having a practice that is both efficient and effective is well worth the effort.

–by Robert B. Martin
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Practicing CPA Distribution

For just over one year, the *Practicing CPA* has been sent automatically to each practice unit and to those members who have specifically requested it. If you would like to receive your own copy, please send your name, firm name and address to the membership records department at the AICPA.

1983 Small Firm Conference

A few years ago, the AICPA management of an accounting practice committee decided to sponsor a new program—an annual conference for the smaller CPA firms.

The first of these conferences was held in Chicago in 1981; and last year, in order to reduce travel time and expense for practitioners, it was held with the same speakers on two different dates in two different locations, Denver and Atlanta.

The program for these conferences is developed by the smaller-firm members of the MAP committee—CPAs who understand the special needs and problems of operating with limited staff. The topics focus on the concerns and problems common to all small firms and aim to provide them with techniques and procedures that will lead to greater operating efficiency and more successful practices. The format seems to be on target; 411 people attended last year and rated the conference 4.38 (average) on a 1-to-5 scale.

This year, the conference will again be held on two dates in two different locations with the same speakers: August 18 and 19 at the Boston Marriott Hotel at Long Wharf and October 20 and 21 at the Las Vegas Hilton Hotel. The major topics to be covered include:

- ☐ *Planning for tax season*—avoiding poor client relations as a result of compliance with the Tax Equity and Fiscal Responsibility Act, involving all staff and preparing a timetable for earlier and better tax planning.
- ☐ *How to expand your services to clients*—determining types of additional services needed, developing the requisite personal skills and attitudes, managing time properly, applying appropriate sales techniques and controlling the engagement.
- ☐ *Improving staff productivity through motivation*—instilling a sense of responsibility and improving attitudes toward work, developing a sense of involvement with the firm, providing recognition and opportunity for achievement and advancement and successfully delegating activities.
- ☐ *The evolution of a partnership*—deciding when and whether to admit partners, who should manage the firm, drafting an agreement, determining capital contributions and compensation.

In addition, concurrent, evening sessions will again be held. For further information, contact the AICPA meetings department (212) 575-6451.

Effective Small Firm Management

Management Skills

☐ *Management*

1. The accomplishment of an objective through human effort.

☐ *Setting of objectives*

1. Must be measurable—How will I know when I get there?
2. Must have an established time frame—When is it to be accomplished?

☐ *Planning*

1. Development of the game plan.
2. How are we going to reach the objective?

☐ *Organizing*

1. Determine the necessary activities.
2. Establish the necessary authority, responsibility, and accountability.
3. Allocate the available resources—money, manpower, time, and facilities.

☐ *Motivating and communicating*

1. Communicate the objective and the necessary information for effective action.
2. Communicate upwards, downwards, and laterally so all efforts can be coordinated and integrated.
3. Develop a team.
4. Get individuals to subordinate personal desires for the good of the group.

☐ *Controlling and measuring*

1. Establish yardsticks.
2. Establish early warning systems of potential failures.
3. Analyze and evaluate performance:
   a. How effective was the team?
   b. How efficiently did we use the resources?
4. Follow-up is the key to effective control.
5. Communication is the key to effective measurement.

Putting It All Together

The firm's plan of action.

Conclusion

A major factor in the excellence of professional work and the adherence to the ethics and standards of our profession is high quality, firm management and administration.

Effective Management in a Small Firm
(continued from page 1)

They are also evaluated on their abilities to apply this knowledge to client problems and to recognize client needs, i.e., their practice development skills.

Public accounting is a people business—we sell our people's services. This necessitates that considerable time and effort be put into training, supervising and evaluating staff. Account administrators must also have the personnel skills to

☐ Supervise the work of others;
☐ Communicate with superiors, subordinates and clients;
☐ Train and develop subordinates;

and they must have proficiency in practice development to solve client problems.

Once you start having people work for you, you are in a management situation. In any firm, somebody has to manage. If the skills aren't there, they must be acquired at CPE courses, etc. Management tasks include the following:

☐ Planning.
☐ Organizing.
☐ Motivating.
☐ Controlling.

Also at this level, practice growth requirements include the capability to acquire, develop and retain clients.

Specialization in some form or another (probably in an industry rather than in, say, tax or audit) seems to offer the best chance for the survival of small CPA firms. To specialize effectively, you should

☐ Take on new clients only if they desire or are potentially suited for the type of service you want to provide.
☐ Begin to cull out present clients who are not compatible with your objectives as new, suitable clients are developed.
☐ Emphasize your capacity to help present or prospective clients use financial information for more profitable, efficient operations.

If you are thinking of participating in a group practice, or even if you are already involved with one, ask yourself why it is better than practicing on your own. If you can't think of any good reasons, perhaps your firm is not a single entity. Many small firms are like that. They are not really firms at all—the partners merely share offices and staff. His firm/my firm operations are very difficult to manage, and they find it hard to attract and keep good staff and clients.

A firm operating as a single entity functions as a team does. It is not only manageable but can be managed well. Areas of responsibility and accountability are clearly defined and work can be adequately reviewed. Partners have at least one specific area of firm-wide responsibility and are accountable to the firm for it. Firms must have this type of responsibility and accountability. They also need someone with authority—a managing partner with the power to make decisions. The source of this authority should be the firm's partnership agreement.

When a firm operates as a single entity—with overall policies, etc.—it is easier for staff people to integrate their goals with the firm's objectives; and it then becomes easier for the firm to attract the type of people it wants. The net result of this type of management is that it allows you to develop a practice you know will survive and grow in the years ahead—one that can offer its clients effective, high-quality and efficient service.

—by Robert K. Whipple, CPA
Indianapolis, Indiana

Letters to the Editor

The October *Practicing CPA* contained a letter from a local practitioner commenting on an article that had appeared in a previous issue. This is just the sort of response we would like to encourage in the *Journal of Accountancy*—readers offering additional information on a previously discussed topic.

Letters to the *Journal* give members an opportunity to express their views on professional issues—thus implementing a recommendation of the *Report of the Special Committee on Small and Medium-Sized Firms.* Members can also seek advice in some technical areas this way. The letters could be published with replies from Institute representatives or committee chairmen.

Differences of opinion are welcome but the writer should try to be constructive and informative—promote a productive exchange of information. Repetitious quotes from previous articles don't go over well. Neither do charts and graphs. We find that the best letters are short, to the point and focus on a specific issue.

If you could let your readers know about the *Journal of Accountancy's* "Letters to the Editor" department, we would be very grateful.

Hilary Silverman
Journal of Accountancy
New York

Questions for the Speaker

The usual procedure at AICPA management of an accounting practice conferences is to have each presentation last just under one hour, followed by an informal roundtable discussion period of 75 to 90 minutes. There are generally seven to eight participants from similar size firms at each table and every effort is made to avoid seating people from the same locality together. This promotes free discussion of the established topic and allows the participants to relate it to problems and situations in their own firms. The groups are then encouraged to submit at least one question each for response by the speaker and other members of the panel.

All questions are usually answered before a conference ends. However, this was not possible at the conference on practice growth in Washington D.C. last October. In coming months we will publish these and other questions raised at conferences, together with some responses by the panelists, AICPA MAP committee members and editorial advisers to the *Practicing CPA*. Here is one question and a response by Ronald L. Frandsen of Brigham City, Utah, a speaker at the practice growth conference.

Question: How do you engage someone in conversation that will introduce a practice development opportunity?

Frandsen: I think the easiest way is to simply ask questions. Begin with a broad open-ended question that elicits information. You can usually get a feel for prospects' attitudes by the responses you receive.

For example, you might ask, "How did the new tax act affect your business?" Or you might say, "My profession is accountancy and I am very interested in accounting systems. How do you handle your payroll, receivables or whatever?"

When you are able to generate a discussion on accounting or tax, people will reciprocate by asking questions because they are interested in hearing the viewpoints of someone they regard as an expert on these matters.

As you show understanding of their problems, they will tell more about their operations. This gives you an opening to show your capabilities; and because the purchase of professional services is usually based on confidence and mutual respect between the parties, you are in a good position to obtain a new client.

Just ask open-ended questions, have empathy and demonstrate your competence. It's really a very natural process.

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