7-1984

Practicing CPA, vol. 8 no. 7, July 1984

American Institute of Certified Public Accountants (AICPA)

The Practicing CPA

JULY 1984

An AICPA publication for the local firm

THE MANAGING PARTNER

Any substantial corporate client of a CPA firm always has a chief executive and there is no reason why the CPA firm should not do likewise. In an accounting practice, the chief executive is the managing partner—the individual designated by the partners to manage the day-to-day operations of the firm in a prudent and businesslike manner for the benefit of all. Sometimes, the managing partner will delegate some responsibilities—recruiting and practice development, for example—to other partners. If he farms out too many duties, he then becomes more of an administrative partner.

Very often, the managing partner is one of the founding partners of the firm. Other times, it is the person with the strongest personality who assumes the position. Occasionally, the managing partner is the individual who is most interested in practice management or who prefers to be an executive rather than work with clients on a day-to-day technical basis. Sometimes, the existing managing partner is the best individual for the job; often he is not.

Problems can start early in a firm, in fact, they can start when a sole practitioner hires the first professional staff person. The usual procedure in a small firm is the blending of the management and administrative functions with group problem solving and decision making. But as the firm grows, the decision-making process becomes bogged down and the first efforts to have organized and centralized control are made. These efforts typically result in the adoption of the administrative partner concept—one of sharing responsibilities and authority with centralized control.

When the firm reaches a total of about $500,000 in revenues, it then becomes confronted with the problems of overlapping authority and responsibilities. This can result in wasted efforts and "reinventing the wheel" or in no efforts and the "I thought you were doing that" phenomenon. When this occurs, the firm has reached the point of needing a full-time managing partner.

The role of managing partner can be an uncomfortable one and very often people will at first assume the new functions without giving up any old jobs. This usually results in their putting in too many hours. Sometimes the reason for not relinquishing old responsibilities is ego—the new managing partners just can't believe that the clients can do without them. However, often the reason is that the motivation to become managing partner is not as strong as the interest that motivated someone to become a CPA in the first place. There is also a natural reluctance to deal with people problems because the typical new managing partner has not been trained in management and administrative techniques, and, the definition and responsibilities of the job are often vague.

The right time to change from administrative partner to the managing partner concept usually depends upon the number of partners, the total number of people on the staff and the administrative hours needed. There is no exact right time, although the change should usually be made as soon as possible.

(Continued on page 4)

What's Inside . . .

Tax Season . . . "We Love It!"

We at Serotta, Maddocks and Devanny are tired of hearing CPAs forever complain about the forthcoming tax season. We look forward to tax season for the following reasons:

- ☐ It is our single greatest revenue producer.
- ☐ It is the best climate in which to obtain new clients.
- ☐ Our earning potential is more per hour than for any other service.
- ☐ Our firm is able to demonstrate its skills.
- ☐ Our staff increases its skills and proves its value to the firm at a greater than normal speed.
- ☐ We make it fun!

Tax season is the time we put all our management skills to work. Good management starts with good planning. All forms, both government and printed aids, are ready by January 1 of each year. Staff training is intensified beginning December 1, with the emphasis on interview, preparation and technique. Secretarial training is also very important and includes proper appointment scheduling, and the processing and delivering of tax returns to those who just drop by to pick up the completed work.

We use a firm budget for both dollar and number amounts for our anticipated tax season. This is broken down by month with heavy emphasis on beating the early months' figures. Why? Well, if you produce 10 percent more returns from January 1 through March 15, then you have 10 percent fewer returns to do from March 16 through April 15.

Each staff person has a production "guideline." However, this is not a punishment/reward budget because the firm is the key element. We have a friendly competition each month as we play a game to exceed our pre-set guidelines. Our staff works overtime but at variable hours. Some people work early in the mornings, some work late in the evenings, some work on Saturdays and some work on Sundays. All tax work that can be completed must be completed within one week. This allows the more efficient preparers to have more leisure time if they so wish.

The most important aspect is client training. We mentioned interview techniques before, but enough emphasis cannot be placed on client training. The use of tax organizers and the preparation of data in an easy-to-read format are essential. If 90 percent of the clients are organized, the remaining 10 percent can be easily managed. Clients must be trained to come in early for tax preparation. Sometimes you must challenge them, harass them or tease them, but always try to get them in early! Because partnerships and fiduciaries hold up other tax returns, we try to complete these as early as possible.

Toward the middle of March we encourage clients with incomplete work (usually waiting for a K-1) to still come in. Even at that time we will begin their work, which is usually missing only one item. Therefore, a last minute crunch is eliminated.

Over 1,100 individual, partnership, fiduciary and corporate tax returns were done this year in our office. Disappointingly, we have 24 extensions, which to us seems very high. We did two returns on April 16 and four reruns were processed that day because of uncontrollable events such as IRA changes. Yet, we still managed to close our doors at 2:45 P.M. when the last return was picked up. Our budgets, which already reflected a planned level of firm growth, were exceeded by almost 10 percent in both number and dollar amounts.

Yes, we are thankful for tax season because now that it is over, the dull, tedious work we did not like before seems like fun. ☑

–by Abram J. Serotta, CPA
Augusta, Georgia

Career Success in Public Accounting

The latest program in the CPA Video Journal series is no. 34, *Career Success in Public Accounting.* In this program, the three participants look at the current job market in public accounting and discuss how to judge a job offer and the importance of specialty areas and interpersonal skills.

For further information, contact Teresa Zimmerer at the AICPA (212) 575-5573.

The Practicing CPA, July 1984, Volume 8, Number 7. Publication and editorial office: 1211 Avenue of the Americas, New York, N.Y.

The Professional Firm Administrator

In the article, "The Managing Partner," the comment is made on page four that the administration of the firm is in the managing partner's domain...etc., etc. But, while the managing partner has the ultimate responsibility to see that administrative functions are carried out, nowhere does the article imply that the managing partner—or any other partner for that matter—should be involved in every detail of operating a local practice.

A number of local firms now recognize that at a certain stage, administrative functions become dispersed and partners spend considerable time on the routine tasks associated with billing and collection, personnel administration and scheduling, etc. This leads to efforts to coordinate and centralize these activities under the direction of someone specifically responsible for them. Lately, more firms are deciding that, ultimately, they will realize considerable benefits if this individual is a professional administrator rather than a partner.

Some of the reasons for this are that partners tend to give administrative duties a lower priority than serving clients, whereas a professional administrator has no conflicting interests and can give the work full attention. Also, partners, released from administrative duties, will then have more time to engage in revenue-producing activities.

To make the concept work, partners have to be willing to relinquish the administrative portions of their jobs, which are typically the domain of an administrator. Managing partners, particularly, should not try to do the work an administrator should be doing. The managing partner should be concerned with firm-wide policy setting, problem solving and decision making. The administrator should be responsible for the implementation of decisions, policies and solutions to problems.

The concept of a firm administrator is still relatively new and there is often a gap between what the administrator and the managing partner perceive as the job. The problem is that the work changes constantly and the administrator needs a charter—a position description that illustrates the job, responsibilities and authority needed to fulfill it.

In an effort to inform CPAs about the usefulness of an administrator in their practices, and to enhance the professionalism of firm administrators, the Association of Accounting Administrators was started at the beginning of this year. The association has several goals. One aim is to provide resources such as seminars and lectures. Another is to promote the exchange of information, reference material and data banks to help administrators perform their work in the most effective way.

The association's members hold a variety of job titles. Some are firm administrators, others are office managers and a few are administrative partners of firms that have not yet decided whether or not to utilize the services of a full-time administrator. But no matter what the title, members have at least one thing in common—the need to meet and exchange ideas and information with others who have similar responsibilities.

With this in mind, the association held its first national conference on accounting firm administration in Philadelphia last month. The topics discussed included the various roles, relationships and responsibilities in firm administration. The managing partner of one firm gave his perspective—an illustration of how the firm increased its efficiency and profitability once an administrator was made responsible for day-to-day operational details. Other discussions were on current and future trends in CPA firm administration, on ways to manage time and on ways to manage the transition as the administrator assumes more responsibilities.

There were also sessions on the impact an administrator can have on accounts receivable, some tips on how to evaluate administrative personnel and a discussion about the modernization of accounting offices. Another session was about the association itself and its plans for the future.

One of the association's first tasks is to generate more activity through the formation of several committees. These committees will be responsible for educational programs, information management in firms, membership promotion, finding out how members deal with various aspects of personnel administration and developing publications and surveys.

The association has started a placement service to match people with corresponding jobs and is working on a guide book about the role of an administrator. When the membership has grown sufficiently, there are plans to develop a network of chapters to localize many programs and facilitate the exchange of ideas and information.

Current and future activities include a certification program, a regionalized and specialized educational process, group purchasing and insurance plans, consulting services, a data bank and a membership directory. This last item will appeal to the many members who think one of the great benefits is being able to contact other members for advice or discussion of problems.

For further information, contact Clifford M. Brownstein, executive director, Association of Accounting Administrators, 7315 Wisconsin Avenue, Suite 650 West, Bethesda, Maryland 20814. Telephone (301) 986-1995. ☑

The Managing Partner
Continued from page 1

Benchmarks for change include:

Desirable	3 partners
No later than	4 partners; or
Desirable	9 total staff
No later than	20 total staff; or
Desirable	$500,000 gross fees
No later than	$750,000 gross fees; or
Desirable	15,000 total chargeable hours
No later than	24,000 total chargeable hours; or
Desirable	1 office
No later than	2 offices

What is the job of managing partner?

Broadly speaking, the managing partner's responsibilities involve relationships: with the partnership group; with an executive committee or management group; with other firm committees; with partners in charge of other offices; with department heads; and with staff and clients.

The functional areas of responsibility include the provisions of the partnership agreement (the buy/sell agreement), the partners' and staff's manuals, the firm's quality control program and practice development (new business and departmentalization/specialization).

The administration of the firm is in the managing partner's domain as are all aspects of financial management, mergers and acquisitions, long-range goals and firm philosophy. Other responsibilities include staff relations—recruiting, training, supervision, evaluation, compensation and career paths.

Who should be managing partner?

The ideal candidate for managing partner is the person who really wants the job and who is dedicated to making the concept work. This person must be willing to make a role adjustment, i.e., to reduce chargeable time and client control, and increase the time spent on administration, on CPE directed at practice management, and on public and client relations.

To be effective and to be able to make whatever changes are necessary in the firm, the managing partner should be self-assured and have the confidence and respect of the other partners. The ideal person, then, should have strong leadership abilities and be aggressive, yet patient—willing to wait until next year, if necessary, to get some ideas accepted. The individual should have a clear perception of his own objectives and the firm's goals and be a catalyst for change. It is essential to be persuasive, forceful and committed to the survival and continued growth of the practice.

Now, what about age? Should the managing partner come from the senior ranks or be a younger partner? A point to remember is that a younger partner frequently assumes the role at great disadvantage. Such a person may not, through lack of experience, have acquired the respect and confidence of his colleagues. It may be simply a matter of not having sufficient clout within the firm. The managing partner should also probably be a generalist rather than a technician. Technicians are often of greater value to partnerships if their technical skills are fully utilized rather than their devoting time to developing the necessary management skills. Managing partners must be willing to train over a period of several years and be able to handle stress.

The managing partner must be able to respond to the changing character and demands of a growing practice and as it matures, there are pitfalls that must be avoided. Perhaps the managing partner will be unable to handle the larger, structured practice. Boredom may set in and he may feel that he has new fields to conquer, and be out of the office a lot on the "chicken salad" circuit. Practices become built on the strengths of an individual personality and will, and there is a tendency toward a myopic view of one's own creation. Often the managing partner thinks that nobody can do it better.

To make the function work, the position must be flexible so as not to be restrictive. (See exhibit

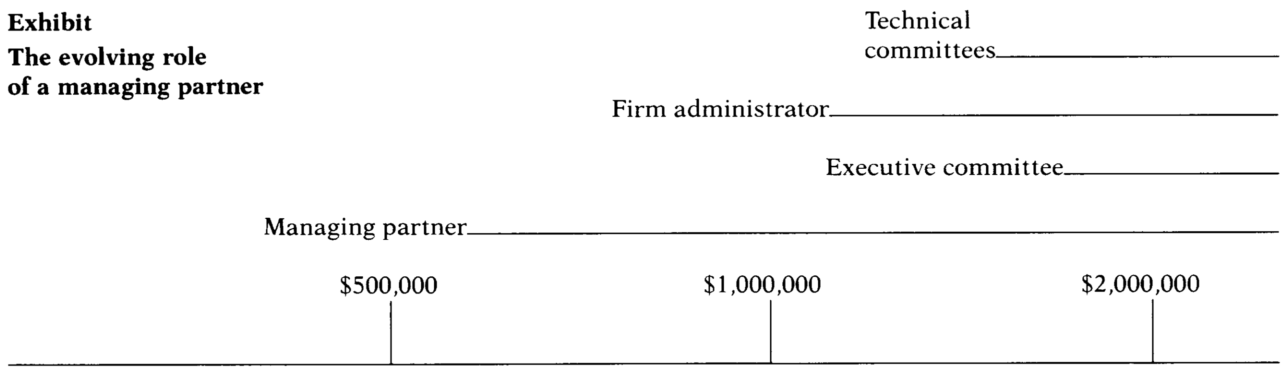
Exceptions to the rule

While it is not always necessary to have a managing partner, in general, the following conditions should be present to operate a growing practice without one:

- ☐ Totally compatible partner group.
- ☐ Universal ability to trust one another and to yield to others' ideas, opinions and decisions.
- ☐ Mutual interest in sharing administrative load.
- ☐ No extreme personalities such as classic extroverts or introverts.
- ☐ Each partner competent to handle assigned practice management functions.
- ☐ Frequent productive and effective partner meetings.
- ☐ Total intra-partnership communications.
- ☐ Thoroughly developed and clearly understood lines of authority and responsibility.
- ☐ Clearly defined management duties and functions for each partner.

Keep in mind that each practice is different and that there are probably exceptions to these rules as well.

Exhibit
The evolving role of a managing partner



Management: problem solving, decision making, policy setting

Administration: solution/policy implementation, modification and maintenance

Define needs
Design/develop systems
Implement systems
Modify systems
Maintain systems

Personal production (Chargeable hours)	1500	1200	700	400	300
Practice management Management Administration	400	900	1200	1100	1000
Personal development Expertise building CPE	150	200	200	200	200
Practice development Public relations Client relations	300	300	400	600	700
Total	2350	2600	2500	2300	2200

Note: These hours are offered as a guide only. They are based on nationally available statistics and experiences. They do not necessarily represent reported (time sheet) hours, but may represent a "sense" of unrecorded time as well.

above). Schedule the establishment of the managing partner position to help ease the transition of authority and responsibilities. Consider limiting the term of office and set up procedures for evaluating performance, goals and the handling of special projects.

Special problems of the 1980s and how to deal with them

Quality control, changing ethics, "new products," new services and new trends in practice development are likely to remain important issues to local firms during the remainder of the decade. The managing partner has an important role in all three areas and must make sure that all partners are involved in coping with the changes and with developing the appropriate firm philosophy.

In addition to the other characteristics, previously mentioned, the managing partner of the 1980s must be adaptive and willing to consider new ideas. He or she must be able to recognize and react to the "future shock" of the profession and be innovative in both developing new approaches and in willingness to let go of tradition when it is appropriate to do so. The new managing partner must be mentally young but emotionally mature, less protective of personal ideas and less rigid about past decisions. He or she must be willing to share and acknowledge the needs of younger partners, and, importantly, be able to view the profession and the role of individual CPAs in broad terms. ☑

—by Eugene M. Cohen
E.M. Cohen Associates, Inc.
P.O. Box 31759
Seattle, Washington 98103

Becoming Prepared to Serve the Minority Client

CPAs are traditionally one of the primary sources of advice to business owners. Indeed, a recent survey sponsored by a national accounting firm indicated that external accountants were the most frequently consulted advisors in a number of different areas.

One type of business that usually needs the help of a competent and understanding business and financial advisor is the small business enterprise. Although the number of these businesses is increasing, there has not been a concomitant growth in either their size or their profitability when compared to the total minority population.

They are a largely untapped source of clients for CPAs; in effect, a new practice development area which encompasses traditional services as well as new ones.

Minority business enterprises are, in many respects, no different from other small businesses. They have the same problems other small businesses have always had.

They almost always could improve their cash flow situations. They constantly need help in securing financing. They need advice on the best ways to organize their companies so as to take maximum advantage of changes in the tax laws. They also need assistance in establishing cost accounting systems. The list could be considerably extended.

This means that the traditional techniques CPAs have used to help small business owners solve problems will, to a great extent, be helpful in dealing with minority business clients.

Nevertheless, there are characteristics more likely to be found in minority business enterprises than in other businesses. These often include the following:

- ☐ They are more likely to be undercapitalized, making the need for financing (and the risk of doing business) more acute;
- ☐ Their owners are less likely to have a tradition of business knowledge or financial management expertise;
- ☐ They are more likely to fail;
- ☐ A substantial amount of their business is from the public rather than the private sector.

Obviously, the first three of these characteristics interact with each other to a great degree. A business is more likely to fail if it is undercapitalized, has difficulty obtaining financing and its owner doesn't understand or follow sound management principles.

However, it is that fourth characteristic, the fact that their sources of business are predominantly from the public (or governmental) rather than from the private sector, that casts an entirely different light on how the CPA approaches a minority business engagement.

CPAs first need to be aware of and understand the kinds of federal government programs available to minority businesses. They especially need to know about government set-aside programs and how a minority business may qualify for such programs; also, what kind of federal government assistance programs are available to business owners who have such contracts.

Second, it is important for CPAs to be aware of federal government programs on establishing a business. Knowledge of programs for both new and existing businesses will help CPAs coordinate their assistance with that available from the federal government.

Here are some of the government assistance programs.

The Minority Business Development Agency (MBDA) of the Department of Commerce has set up almost 100 <u>*Business Development Centers*</u> (BDCs) throughout the country. These centers hold educational seminars for minority business owners and help individual business owners with services such as:

- ☐ General business information, referrals and counseling.
- ☐ Specialized assistance in construction contracting.
- ☐ Help in obtaining bank loans, bonding and lines of credit.
- ☐ Help in identifying and securing franchises.
- ☐ Help in obtaining contracts by identifying the procurement needs of various governmental agencies and major corporations.
- ☐ Help in obtaining specialized consultant services. When assistance to a minority enterprise goes beyond the expertise and resources of the BDC, the BDC can hire persons or firms to provide such assistance on a task order basis. (CPAs should be aware of the special role they can play in providing such services.)

All minority persons and minority-owned organizations are eligible for business information, referrals and counseling services. The BDC's services are initially provided free of charge and subsequently on a fee-for-service basis with ability to pay taken into consideration.

The Small Business Administration offers a variety of financing plans to small businesses which have trouble getting financing from conventional sources. It can provide up to half a million dollars in guaranteed loans to a qualified business and can provide local and state development company loans, small general contractor loans and others. In combination with private industry, banks, local communities and other federal agencies, the SBA can offer special assistance to minority business people who wish to start small businesses or expand existing companies.

Another SBA program deserves special emphasis. Under section 8(a) of the Small Business Act, the SBA can serve as the prime contractor for the purchase of goods or services by other government agencies. The SBA then subcontracts the work to small firms owned by socially or economically disadvantaged people. This program has probably provided more work for minority businesses than any other federal assistance program.

The SBA also maintains various management assistance programs for small business owners.

☐ *SCORE* (Service Corps of Retired Executives) and *ACE* (Active Corps of Executives) programs offer all small businesses management assistance in solving operating problems through one-on-one counseling.

☐ *Small Business Institutes* have been organized on 500 university and college campuses. Senior undergraduate and graduate business students and faculty members provided on-site management counseling to small business owners.

☐ *Small Business Development Centers* offer private consulting and referrals to financing resources, seminars and workshops. Unlike the Small Business Institute Program, the Small Business Development Centers' consulting services are carried out by university faculty members and professional consultants.

☐ *Strategic Business Development Program.* This educational program provides a series of management seminars to minority business owners. The program is divided into three segments: financial planning, venture capital and marketing to the federal government; federal contracting; and early growth of the business.

Minority Enterprise Small Business Investment Corporations (MESBICs) are private corporations whose charters dictate that the corporations make loans to minority-owned businesses. They finance minority firms through loans or equity-type investments which give MESBICs actual or potential ownership of a portion of the small business equity securities.

MESBICs also provide management assistance to the companies they finance.

If a CPA has a client who is interested in selling a business, a buyer may be obtained by going to a MESBIC company. MESBICs can sometimes locate an operator and provide financing that is necessary to acquire the enterprise and provide initial working capital.

Knowledge of these programs can help a CPA understand when a particular program can best help a specific client's unique situation. This can often be the difference between success and failure for a minority business enterprise.

The obvious goal of any small business, minority or otherwise is to be independent of any kind of assistance program; to make it on one's own.

Therefore, the CPA should direct his assistance in such a way as to encourage the minority client to make the transition from the predominantly public sector to the private sector as the primary source of business. At the very least, the minority business owner should be encouraged to build an appropriate mix of business from both sectors.

As the minority business emerges from dependence on federal assistance programs, set-asides or MESBICs, there will arise a definite need to address the subject of marketing. Private customers are going to have to replace those supplied by the government, and the minority business owner may have little experience in this area. The CPA will probably have to develop at least some knowledge of marketing. Many have already done so through marketing their own practices to meet the rigors of an increasingly competitive marketplace.

At the AICPA, the minority business development committee is charged with fulfilling two broad objectives: to increase minority business development nationwide through direct assistance and educational programs; and to encourage state CPA societies to develop minority business development committees.

The committee can only achieve these worthwhile objectives if CPAs, who are the keys to the process, accomplish four things:

☐ Learn to mix traditional areas of expertise with the needs peculiar to the owners of minority business enterprises.

☐ Learn the sources of assistance to minority entrepreneurs and, more importantly, when and how to use those sources in the best interests of specific minority clients.

☐ Pass the word to fellow CPAs that participation in the activities of the AICPA's minority business development committee and state societies is beneficial to CPAs as well as to minority owners.

☐ Develop the expertise to motivate minority clients to become independent of assistance programs and to develop sources of business in the private sector.

These are ambitious goals, yet they are eminently worthwhile. Readers who would like to obtain more information about the objectives and activities of the minority business development committee should contact Mary Feinstein at the AICPA. ☑

MAP Conference Reminder

The articles, "The Managing Partner" (this issue), "Improving Staff Productivity through Motivation" (May issue) and "Women CPAs—One Firm's Experience" (April issue) all share a common thread. They are all based on presentations at an AICPA small firm or practice management conference. In fact, rarely does an issue of the *Practicing CPA* not contain one or more such articles.

While there is much practical information in these items, they are basically a summary of the presenters' remarks to the participants and responses to their questions. Conference participants, quite obviously, are in a rather ideal situation. They can question the presenter personally on how a certain technique worked or on, say, how management overcame staff resistance to the LOPES (the local office professional education seminars described in the article "Profitable Client Development Attitudes" in the January issue.) Readers cannot do this as easily.

Of course, there are more benefits to be derived from attending conferences than just being able to ask the presenter questions. In his opening remarks as moderator of the 1982 series of AICPA MAP conferences, Robert A. Peyroux, a New Orleans practitioner and veteran of about a dozen such meetings, suggested several ways for participants to get the most out of the conferences. Participation is the key, particularly in the group discussions, and Mr. Peyroux also recommended going to dinner with the people at your table and forming friendships.

The participation and friendships can result in the exchange of forms, manuals, agreements, etc., in learning from others' experiences and in avoiding the mistakes that have been made in the past. Very often, attendees will leave the conferences with guidance on the better management of personnel and time and ideas for increasing productivity, billings, client services and profits.

The 1984 series of conferences are as follows:

- ☐ Practice growth and development on July 19-20 at the Westin, O'Hare Airport, Chicago.
- ☐ Firm management and administration on September 20-21 at the Hyatt Regency, Cambridge, Mass.
- ☐ Practice management on October 31-November 2 at the Las Vegas Hilton.
- ☐ The small firm conference at the Westin-St. Francis Hotel, San Francisco, on August 2-3, and at the J.W. Marriott Hotel in Washington, D.C. on November 8-9.

For further information, contact AICPA meetings department (212) 575-6451. ☑

American Institute of Certified Public Accountants, Inc.
1211 Avenue of the Americas
New York, N.Y. 10036—8775

Non-Profit Organization
U.S. POSTAGE
PAID
American Institute of
Certified Public Accountants