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STAFF EVALUATION—A PRACTITIONER'S REPORT

There are some practitioners who, if it came to a choice between keeping either their staff or their clients, would take their staff. The reason for this is quite straightforward—a CPA firm's most important asset is its people, and if a firm is comprised of good people, it will develop good clients.

James W. Grimsley, of Grimsley, White & Company in La Junta, Colorado, would keep his people too. But as he says, unless trained and motivated properly, people can cause all sorts of problems for a firm—including lawsuits.

One reason for the problems is changing attitudes. Partners think, "They just don't make them like they used to." They may be right. Younger people are probably not like them and don't do things the same way. Mr. Grimsley thinks that individuals today march to a different drummer—happily. But while he concedes that this poses a challenge to management, he says there are a lot of good tools available and much can be accomplished. He also thinks that the present crop of entry-level accountants are further ahead (have their acts together better) than in his day.

A staff evaluation program is one of the tools available. Grimsley, White & Company started such a program when the firm had 7 people (now there are 17). They think it should have been started earlier. As a local firm, Grimsley, White & Company has taken advantage of the methods and experience of other practitioners (worth repeating) learned through attending conferences and seminars and by making use of the AICPA's *Management of an Accounting Practice Handbook*. They have also developed a few ideas of their own and constantly update their program. Here are some of their views on staff evaluation.

- ☐ The purpose of the program is to establish a common denominator between individuals' and the firm's goals. To do this you have to
  - (1) Establish two-way communication through structured discussions. (Takes overt action and strong commitment to be effective.)
  - (2) Make sure that both the firm and each individual know the other's goals and targets and where both sides fit into the picture right from the beginning.
  - (3) Set common objectives to get going in the same direction.
- ☐ The person chosen as evaluator need not necessarily be the managing partner or direct supervisor but should be someone who relates well, who can be candid and objective, who understands the firm and clearly has its support and speaks for it. To do the job well, the evaluator must
  - (1) Have good specific input on the person being evaluated including criticism, praise and job performance data.
  - (2) Make sure that specific actions are recorded in the employee's file as they occur so that input is accumulated.
  - (3) Take the time to prepare for the evaluation interview and make sure that it is uninterrupted.
  - (4) Be certain that the firm follows up on commitments made during the session.
- ☐ The evaluation process should be explained to everyone involved, how it works, what the firm is trying to do, and what's in it for the individual.

What's Inside . . .

- ☐ Schedule time for the interviews and make sure the appointments are kept. *(At Grimsley, White & Company, the annual interview takes from two to four hours and interim meetings, held every four months, take from 30 minutes to 1½ hours.)*

- ☐ Set goals and targets. Five-year targets can be helpful for firm planning.

Unique ideas

At Grimsley, White & Company, the staff person sets his own goals, and the firm offers input and reconciliation points. Among the matters considered are business development, personal and professional attainments and the desired qualities in the individual's life-style.

When staff people have been with the firm for three years, they choose technical areas in which they wish to specialize. At this time they set their own billing rates and salaries. The idea behind this is that the staff member is a potential partner and should begin to understand the economics and some of the problems of the firm. Setting one's own billing rate, in which salary is a factor, and monitoring collectibility, write-downs and client acceptance are definite moves toward understanding the firm.

Regarding their ideas, Mr. Grimsley says that their evaluation program has resulted in a better understanding between staff members and the firm and greater insight into the individual's plans. He believes the staff is better motivated; they lose fewer people whom they would like to keep and have a better mutual feeling for the turnover they cause.

A good personnel evaluation program takes time and money but Mr. Grimsley thinks the talent available is worth it.

Practitioners might like to refer to the articles on personnel evaluation in the August and September 1978 issues of what was then the CPA Practitioner *and to the article "Developing Leaders" in this issue of the* Practicing CPA *for other ideas on evaluating and counseling staff.*

Accounting Resource Center Manuals

The accounting profession has long participated in public service activities: Individual CPAs have served governments, community groups and charitable organizations as volunteers; and groups of CPAs have organized and sponsored programs to assist taxpayers, disadvantaged businesses and municipal, state and federal departments.

More recently, state society committees and the AICPA have provided assistance to developing and minority businesses; and, presently, committees offering accounting services and management advice to needy individuals and organizations exist in more than 20 states. In addition, accounting aid centers, which developed out of the need to offer continuous public service activities that could not be effectively rendered under a committee structure, have been established in six major cities.

In order to help CPAs who are interested in developing public service and volunteer assistance programs in their communities, the AICPA small business development committee has prepared an accounting resource center manual. The manual shows how to establish centers, the goals of which are to provide accounting and advisory services ranging from direct technical assistance to basic educational courses for nonprofit organizations, small businesses and individuals that need them but cannot purchase them or are unaware of them.

The objectives of the centers are to advise and educate potential beneficiaries—clients who, given the opportunities and needed help, demonstrate the ability to become self-reliant. Once established, it is understood that clients would develop the customary relationships with private practitioners.

The centers allow CPAs to provide volunteer accounting services to their communities in an organized and systematic manner, and the manual can be used to develop interest in such activities where none currently exists.

Persons interested in obtaining copies of the manual should contact Mario Salaam Ahmad, manager, small business development program, AICPA, (212) 575-6440.

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Developing Leaders in the Firm

There are many textbook definitions of leadership, but the consensus is that leadership is the capacity to influence people in their efforts toward goal achievement. One can equate leadership with initiative, getting things done, earning respect and independence. Deportment on the job is the first test of leadership—one can show emotion, but one shouldn't lose control.

Leadership can be found at every level and can affect the functions of everyone in the firm. It is not title and position that create a leader. For example, a senior accountant on an engagement may be a more effective leader than the partner-in-charge.

Leadership is important because it enables the firm to build a strong staff which, in turn, will have a positive impact through improved client relations—a strong staff person on the job making the partner and firm look good. Leadership will also create the right atmosphere to hold onto these good people in order to maintain high quality work and increase profitability.

How to build leadership in the firm

The first step, naturally, is to recruit the right people. Look for basic security in a person and evidence of self-discipline. These traits should come to the fore during interviews. Watch people carefully as they respond to your questions. They may say one thing, but their hands, feet and eyes may be telling quite a different story. And listen to people—don't do all the talking. Let them tell you what has happened to them in their lives—what crises they have handled, etc. You will find that insecure people won't want to talk about their crises.

The people you need should be intelligent and energetic but do not have to be super-bright or overly aggressive. You will probably find that the quiet, confident ones suit you best, although their leadership potential may not be so readily apparent.

Always try to mix new college graduates with experienced people when hiring staff. This way the younger people can learn how good the environment is and how well they are doing, etc., from a comparative outsider. This will impress them more than hearing the same things from someone they associate more closely with the firm.

You will have to determine if the partners really want to build leaders. Strong people usually value other strong people, and this will be a real test of whether or not your partners' goals are to have a growing firm.

Providing the right environment

First of all, the firm's value system must reward leadership. To do this, it must

- ☐ Be articulated.
- ☐ Be explicit.
- ☐ Encourage initiative, innovation and intellectual honesty.
- ☐ Be reflected in compensation.

No one can be motivated externally; it must come from within oneself. The environment should be one that allows motivated people to stay motivated and be successful. The right environment often is a growing firm where the partners are not adversaries, where people deal with one another fairly, where the office is pleasant, the product and pay are good and the atmosphere is one of a crisp, well-managed organization. It is too easy to demotivate people—much harder to create the proper climate. There is a tendency for demotivated people to dampen the enthusiasm of others, and the barriers to success that many managers place before motivated staff members must be removed. That is the role of the firm's leader.

Everyone in the firm is a role model for someone else and, obviously, the higher the position the greater the responsibility to set the right example. Remember that we all send out signals, so learn them and their impact on others. And as partners, we must be demanding of ourselves and our people. Don't take care of people's problems for them—help people solve them.

Identifying and creating leaders in managers and staff

The staff knows who the leaders are. Watch who staff accountants approach for assistance with technical, managerial or client problems. Don't forget that a leader in one area may not be a leader in another area (a good technical person may not be good at client relations). Pay particular attention to how people handle themselves in the field and watch how they act under stress (stress tests can reveal leadership ability). Give people room—a leader needs room to show that he is a leader.

Mentor relationships are a fast track to knowledge and experience. However, the mentor always faces difficulties in knowing when to give his protégé his wings. In addition, the mentor must be very careful to avoid favoritism. For this type of relationship to be a success, the mentor must

- ☐ Have a concern for people.
- ☐ Be willing to share the secrets of experience.
- ☐ Achieve a balance between ego and selflessness.

The Heavenly Hotshot Case Study

Harvey Hotshot is a young (26), aggressive, bright staff accountant who has been with the 50-year-old firm of Tread, Lightly and Co. for two years after spending two years with a major national firm in town. The firm has recently come under the control of two 45-year-old partners, Joe Solid and Gary Growth. The other two partners are approaching retirement age. Joe and Gary are determined to build this firm of 4 partners and 10 staff people into one of the major firms in their city of 500,000. The firm has a number of fine old-line clients and has a reputation for being a fair quality, modest-priced firm.

Lately, young Harvey Hotshot has been very critical of the slow growth, low fees, mediocre quality and apparent lethargy of the firm. He appears to be gaining the respect of the staff personnel for his confidence in dealing with partners, peers and clients and his apparent technical skills. Harvey is an ambitious young man who could be a real asset, but he is now viewed by partners Joe and Gary as a potential troublemaker. He is stirring up the troops at a time when Joe and Gary are quietly beginning to assume control of the firm from the older partners. These senior (in age) partners are closely tied to the firm's major clients.

A crisis developed when Harvey became angry over what he perceived to be an inadequate annual raise. Joe and Gary felt offended since the raise of 15 percent was the largest for any staff accountant and made Harvey the highest priced supervising senior accountant in the firm's history. Unfortunately, Harvey has threatened to quit, has told one staff accountant about it (without divulging all details of salary, etc.) and generally has created quite a flap. Joe and Gary are especially distressed because they view Harvey as the key to future expansion of the firm. A meeting is set for late this afternoon between Harvey and Joe and Gary.

*Questions**

1. If Harvey Hotshot is so difficult to handle, why is he considered to be the top prospect?
2. Why did the situation deteriorate so badly considering the opinion held of Harvey by Joe and Gary?
3. Evaluate Joe's and Gary's leadership of Harvey.
4. Evaluate Harvey's leadership of the staff.
5. How should Joe and Gary handle the meeting with Harvey?
6. Assuming Harvey leaves the firm, what action should Joe and Gary take with the staff?
7. Can the direction of Tread, Lightly & Co. be changed? If so, how?
8. Assuming Harvey can be salvaged, how should the partners handle him in the future?

*See page 7 for answers to questions.

- ☐ Avoid dominating the other individual. (This is critical.)
- ☐ Recognize his own strengths and weaknesses.
- ☐ Be intellectually honest.

Counseling is the most effective method of creating leaders. Formal counseling must be a ritual in which the staff person sits down with the counselor on a regular basis. (The counselor should be the person best suited for the job. He or she must have the respect of other people and be tough but nonthreatening.)

The session can last from one to two hours, and the discussion should encompass the individual's career objectives and how he feels about himself, etc. The dialogue should be open. There must be trust, and the staff person should leave the session knowing where he fits in and convinced that the counselor and the firm care about him. These formal counseling sessions (which should not combine a salary review) ought to be held at least once a year.

Counseling can also be informal if the sessions are impromptu, such as after an engagement. But either way, counseling should reward demonstrations of leadership through monetary arrangements and by supporting people—telling them how and where they demonstrated effective leadership. And counseling must be tied to a performance evaluation. Understanding people does not mean that you don't have to be demanding.

Naturally, there are retardants to developing leaders in the firm, and these should be recognized. Aside from any shortcomings in the steps just mentioned, the basic insecurities of partners who cut the legs off staff people are a fatal flaw and guarantee building weakness into the firm. We all have these insecurities—they are usually based on fear of competition (How can I be great if you are too good?).

Once again, this is the result of leadership failure at the top. You cannot build strong leaders if the leadership is too strong and overpowering and neither can you let strong subordinates go uncontrolled and untrained for fear of losing them. What is needed is strong enough leadership to control them and constructive criticism to build their characters (vital in leaders) or they will leave anyway.

The impact on the firm

People work toward the standards set for them. With strong leaders who demand more of their associates, and find out what they are willing to pay for success, competition within the firm is bound to increase and with it the quality of the work and the profitability of the practice. Weak people yield to client pressure, but we cannot afford to be afraid of losing clients or to let their pressures affect billings and collections. Having strong people guarantees that the basic integrity of the firm will be maintained.

If a client can intimidate our personnel, we are on the road to losing either the client or our independence and probably both. Clients look to their CPAs for leadership on management problems and want strong professionals to help them. And usually, the bigger the clients, the tougher they are.

Building leadership in the firm is essential if you want continuity. Future partners must be developed. Just think how many firms make the transition to the second generation. You can't without strong people.

So, set the goals of your firm, periodically evaluate them and don't become complacent. Remember, leaders who do not lead are not really leaders. And just think, one nice thing about all this is that strong people attract strong people—clients and staff—and with a firm full of leaders, everyone is a salesman.

—by Todd S. Lundy, CPA
Chicago

Capital Ideas

Do any of your clients fit the categories of emerging or medium-size corporations? Do they need to raise capital? Have you given any thought to public offerings or private placements? A farfetched idea? It may not be. Just read on.

According to Jay Cooke, managing director of the investment banking division of Laidlaw Adams & Peck, Inc., in New York, companies in these categories are finding, for the first time in nearly a decade, better access to capital markets within both the public and private sectors. He says this is due to a number of factors.

To begin with, investors in growth company and secondary stocks have done well during the past two years, and the decrease in capital gains taxes should spark further interest. Also, companies seeking public debt have offered high yields—an attraction hard to pass up for many investors.

Naturally, your client would have to meet certain criteria to be able to raise money in the public sector. For example, investment bankers may not wish to underwrite issues below a particular amount, may specify minimum interest coverage requirements or demand a superior return on equity capital to attract investors.

In many instances, private placements can be an attractive alternative to public offerings or can be used in conjunction with them. According to Mr. Cooke, more and more financial institutions are recognizing the need to serve smaller corporations and have established departments for this purpose. Commercial finance companies have become active in this type of financing, small business investment corporations (SBICs) have increased supplies of governmental funds, some of the major commercial banks have established pools and venture capitalists currently have more money than ever before.

A private placement generally involves the purchase of securities by a limited number of institutions. Typically, these transactions would include

- ☐ Intermediate-term bank financing.
- ☐ Long-term senior and subordinated debentures.
- ☐ Preferred and common stock.
- ☐ Sale and leaseback financing.
- ☐ Project financing.
- ☐ Venture capital.

Still seem farfetched? Well, Mr. Cooke says accountants often introduce clients who are seeking capital to investment banking firms. He thinks the relationship is a good one. As he says, accountants know the corporation's capital requirements, whether the issue should be equity, debt or a combination and can help decide whether it should be a public offering or a private placement. They can also communicate the corporation's needs to the banker.

How to Earn 40 Hours of CPE Credit at Home

The AICPA has developed a new self-assessment CPE program on estate, gift and trust taxation and planning especially for practicing CPAs, particularly those whose clients include owners of closely held businesses, executives, investors and professionals. The format is adapted from an extremely successful method used by the medical profession to serve its continuing education needs, and the contents of the program are continually monitored by an advisory panel of nationally known estate planning authorities.

The program utilizes unique self-evaluation techniques, confidential performance reports and educational critiques to help you

- ☐ Evaluate and increase your awareness of recent developments in estate, gift and trust taxation.
- ☐ Measure and improve the efficiency with which you obtain necessary facts from clients.
- ☐ Assess the appropriateness of the plan you devise for a client's particular tax situation.

An annual subscription to this home-study program will allow you to identify your strengths and weaknesses in the estate and gift tax area (the assessment component), help you increase your technical knowledge and professional competence (the educational component) and earn a recommended 40 hours of CPE credit on completion of the program.

With the subscription you will receive two sets of new material during the year. The November 1979 and May 1980 sets will contain

- ☐ One hundred fifty multiple choice questions designed to assess your knowledge of estate planning and ability to apply this knowledge to clients' needs.
- ☐ An answer sheet notifying you which questions you answered incorrectly, giving you the correct answers, the percentage of participants who answered correctly and group norms in each major category.
- ☐ A client management problem which evaluates the way you gather and interpret facts and determines the appropriateness of the decisions you reach in formulating an estate plan for a particular client.
- ☐ A self-scoring mechanism for the client management problem.
- ☐ Educational critiques giving in-depth explanations of the correct answers and choices and reference sources for further study.

The AICPA will not have access to individual responses—all scoring and reporting to be conducted confidentially by Professional Evaluation and Publication Services, Inc. This enables subscribers to compare their knowledge with that of other CPAs on a completely confidential basis and save chargeable time and travel expenses into the bargain.

The subscription price of $300, which should be sent to the AICPA CPE division, covers all materials, performance feedback and critiques for the two semiannual issues in 1979-80.

Mergers—Opportunities Unlimited

In the June 1979 issue of the Practicing CPA, *we published the results of a survey on why firms merge that was conducted by Sidney F. Jarrow, CPA at an AICPA MAP conference in Cambridge, Massachusetts. This article, based on his presentation at that conference, contains some more of Mr. Jarrow's observations on mergers and some unique advice on how to prepare for them.*

It is difficult for a firm to remain at a given size because if the partners resist growth, the staff stagnates and leaves. However, growing for the sheer sake of it is not the answer; there must be sound reasons for wanting to expand the firm. Many of these reasons were given in the June issue as the motivating forces behind planned mergers.

Merger must not be thought of as an end result in itself. It is not a substitute for organizing your practice, thinking, planning and budgeting, etc. It can be the basis for growth, however, if done intelligently. But you can't just wait to see how it turns out; you must be precise, have a written plan and remember that the merging firms are not the only considerations—there are people involved.

Despite the advantages a merger may offer, sometimes there are psychological reasons why practitioners are hesitant to go through with one. For example,

- ☐ The partners may feel that the present practice already provides enough income and professional challenge.
- ☐ Senior or older partners may be reluctant to have their authority diminished or possibly lose some personal independence.
- ☐ Some of the younger partners may not wish to lose status and become managers or principals of the new firm.
- ☐ Egos may be deflated if the new firm name does not include the names of all partners.

There are many points to be considered and resolved before the merger. Even then, you still can't be sure how it will work out. Nevertheless, you must not have a negative attitude. You may find it helpful to draw an analogy between merging your firm and providing for your family.

Merging is not unlike cooking. You decide upon a menu, carefully select your recipes to ensure compatibility, obtain the best ingredients, mix them together in the proper proportion and cook them to taste. Then, you serve reasonable portions (don't get involved in more mergers than you can handle or you will get indigestion) and watch for your family's reaction. One bit of advice to the cook is don't stew over a possible failure or you could end up starving to death. One bad meal might make you uncomfortable for a while, but it is not usually fatal.

Let us move from the kitchen into the garden where growth can be controlled to a marked degree. You should nurture your people carefully and place them in the right environment where they can grow. It is very important to fit the people to the job. Let them know what will remain the same after the merger and what will be different. The merger provides an opportunity for the staff to grow as well as the firm. Do not build such a magnificent greenhouse that you forget that the plants are the most important part. In other words, don't forget your people.

There are many rewards that come from good planning and planting in your firm garden. Some of these rewards are:

- ☐ Achievers are stimulated by the expanded horizons.
- ☐ Communicational skills are refined through keeping staff and clients informed about the merger. Be positive and make sure you give clients good service after the merger.
- ☐ Growth is achieved through negative attrition of clients. The greater resources of the merged firm will give you the chance to upgrade clients.
- ☐ There is greater mobility of labor. You have a larger staff with which to work.
- ☐ A defined firm image emerges.
- ☐ You can indulge in the luxury of thinking—you'll have more time.
- ☐ Prospects for continuity and survivability of the firm (family) are enhanced.
- ☐ You might ultimately even have to buy more acreage—you might have to expand again because you did it right.

What growing pains can be expected if we increase the size of the family? Sometimes the rewards are further down the road than you think, and you may be required to invest in your own future. It is a good idea to have a partners' retreat at a site away from the office to evaluate the economic contribution of each family member and resolve differences. Philosophical differences can arise over whether the firm should stress quality or quantity, what the policies should be toward billing, collecting, expenses and CPE, even over the nature of

Answers to questions
on the Heavenly Hotshot Case Study

1. Harvey is ambitious, technically skilled and, although he is not being constructive in this particular instance, he is earning the respect of the staff for his confidence in dealing with partners, clients and his peers.

2. The problem is lack of communication. The older partners have the clients, and Joe and Gary do not think they have control. They are caught between the views of Harvey and those of the older partners who do not want to take risks. Joe and Gary have not been assertive, and there is doubt as to whether or not Harvey can be relied on.

3. Joe and Gary did not show strength in dealing with a strong subordinate and allowed themselves to be caught in the middle of opposing viewpoints. Had they been decisive and shown leadership, they could have earned the respect of everyone, including Harvey.

4. Harvey tends to be overly aggressive, and because of the weak handling of him by Joe and Gary probably overestimates his value to the firm. He shows leadership in his ability to gain the respect of the staff and to stir up trouble. Also, he demonstrates responsibility by not divulging all salary details. One could infer that he is instigating a crisis to force the partners to be leaders.

5. Joe and Gary must be firm with Harvey but they should handle him carefully. They must not go into the meeting with predetermined viewpoints. They must listen to his side of the story, take a balanced approach and make sure the meeting ends on a positive note.

6. Joe and Gary should call a meeting of the staff, give everyone the facts and be positive. They should dramatize the points they make with action; make changes, promote other staff members and get rid of clients/people if necessary.

7. Yes, but Joe and Gary will have to be strong every step of the way and be willing to pay the price of success.

8. Joe and Gary will have to go about quietly mending fences with Harvey.

practice clients and whether bigger is necessarily better. In addition, you may be faced with sibling rivalry, problems of partner adjustment and subordination of identity.

Plan your housekeeping to minimize wasteful and time-consuming chores. Draw a picture of the family tree—present and future—and define responsibilities. There are many areas that might need to be taken care of or cleaned up—areas such as accounts receivable and payable, work-in-process, insurance, supplies, wage rates and fringe benefits. You can check to see if the manuals and workpapers are compatible, cancel duplicate subscriptions and let important people know about the merger.

Don't waste time trying to change people; if they don't get along, consider the need for minor surgery. If more surgery is needed, you may have to determine whether or not the patient is terminally ill.

Take a look at the bedroom. Recognize that you must sleep together, and learn the language of love (communication). But, don't just look at the bed, look under it and in the closet. Feel secure when you turn out the lights.

The living room is where the family should gather and have a free exchange of ideas. Get people together—the technical staff, support staff, partners and potential members of the family. This is where decisions should be made (both pleasant and unpleasant), where guests are entertained, where you think and relax.

Decide on the facade of the house—the name, address and necessary upkeep. Get more space than you need so that you don't have to move in a year or so. And don't forget the other rooms, the basement—supplying energy, the bathroom—functional, the dining room—feast or famine, the attic—upstairs storage and possibly a place where you might find things you don't like.

You will have to consider divorce, retirement, disability, death and many items mentioned in the previous article. However, don't let the tail wag the dog—don't let a merger be forced on the firm by client action, a palace revolt or dissolution of the partnership. Remember, most good mergers are the result of careful, effective planning coupled with judicious risk, and they can be a means by which you can achieve certain objectives.

The most important ingredient to the success of any firm is the chemistry of the partners and the environment they provide in which to motivate the staff. A merger can help provide this environment but, don't forget, "planning is expansive, not planning is expensive."

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