AICPA® PCPS
Private Companies Practice Section

Becoming the Firm of the Future

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Are you ready for the many opportunities that await our firms, now and in the future? CPA firms face tremendous opportunities in the coming years, but they also face a wide range of challenges, including some that we have created ourselves. "The reigning paradigm of how to manage a CPA firm hasn't changed for more than a half-century," notes Ron Baker, founder of the VeraSage Institute, in a *Journal of Accountancy* article. While the traditional firm structure has worked well, it is increasingly out of step with the demands of clients and the needs of a new generation of CPAs, as well as with a constantly changing marketplace. Even if the existing firm model may still appear to be working in numerous practices, there are many signs that it is not serving the needs of today's CPAs. They include unaddressed succession challenges, failure to attract and retain a diverse workforce and challenges in identifying and meeting clients' changing needs and expectations. The future of the profession is at stake if CPA firms don't acknowledge the importance of adapting to new and emerging developments and take steps to keep pace with rapid change.

This white paper will spotlight areas where opportunities exist for firms to shake off the ropes of our past successes that bind us to obsolete practices and address a changing workforce and marketplace. It is a call to action to face the issues that all of us must address. It also offers an analysis of some critical challenges and recommendations on how we can seize the opportunities open to us.

Chapter 1: Examining the Business Case for Transformation

All around the country, CPAs firm professionals are energetically working their way through a wide variety of assignments. Meeting strategic goals, however, is different from pursuing high utilization. To prosper over the long term, firms must address the radical changes taking place in the domestic and international marketplace, including increasing market and technical complexity facing CPAs and their clients. To do so, among other things, we may have to narrow our scope, no longer attempting to be all things to all clients. If we do not, our "busyness" may lead to mediocre results and prevent us from meeting the evolving challenges facing our profession and the marketplace today. History itself shows us many examples of lost relevance when inevitable transformations within a market were ignored. Think of the 100-year-old law firms that became bankrupt or dissolved and icons such as Blackberry and Kodak, whose fortunes fell when they failed to remain relevant.

CPA firms have held to one business model for decades, following the same conventions for management decision-making and other critical concerns as previous generations. In that respect, we are different from a wide range of market segments that have experienced significant alterations in virtually every aspect of their business. But there is an inevitable disruptive transformation of our profession taking place, one that is particularly intimidating given the extent and pace change. And though this transformation is already underway, we still can control our own destiny by deciding how it will affect our firms and the profession overall. Controlling our destiny requires hard choices that affect long-held beliefs. It also means engaging in a fierce debate over who we are and what we plan to become in order to remain relevant in the future. The result, however, can be an exciting transformation that will set the stage for continuing CPA firm growth and innovation.

Never before has it been more important for public accounting firms to have a clear understanding of our own identity — of who we are. A strong sense of what we stand for and what we have to offer can help us maintain and increase our relevance with clients, team members and society. Unfortunately, most firms don't know who they are, which raises the sense of urgency. Even if we do have an awareness of our identity, we may struggle with the uncommon discipline necessary to turn down clients or business lines that don't really fit. Both prosperity and a desire to be all things to all people have led firms to a sense of complacency that can blind them to the need for ongoing transformation. It also prevents firms from proactively addressing the growing complexity of client needs.

Client Hoarding: A Failed Strategy

A great deal of our identity is based on the services we offer and the clients we serve, so let's examine one critical consideration for firms: client acceptance. Our bar for client acceptance and retention is simply set too low. In fact, it's not even one bar. Too frequently, individual partners make their own determinations about which opportunities are worth using the firm's resources to pursue or take on. We develop our service list based on the experience of one partner or one past engagement, and that service or industry becomes part of our growth strategy by default. Our client list and service offerings become cluttered with too many isolated engagements that may be profitable but that have no strategic value and that don't add true muscle to our expertise or experience. The end result: Most CPA firms are hoarders.

Over and over again, client acceptance standards are discarded because a new engagement is profitable, geography trumps strategy, or the work can be done during our "offseason." Better client acceptance considerations would include, for example, whether the client contributes to the firm's long-term strategic goals. That may encompass whether the client presents an opportunity for substantial growth and leveraging of knowledge or the chance for significant referrals and higher profit margins.

When we are stretched with limited capacity, we miss opportunities that are right in front of us because we do not have the time, energy or strategic vision to see and cultivate them. Most firms miss the opportunity to grow

during their busy season because they are too harried, yet it's a time of great client interaction. In a changing economy, though, we can't just do more of the same and expect to grow. We must be innovative, energized and passionate about bringing solutions to the market place. Insufficient capacity stifles the forces that bring opportunities to us and therefore diminishes our growth.

When our firms are bogged down serving clients that don't contribute to long-term growth, they miss the opportunity to deliver exceptional value and increase their usefulness and relevance to desirable clients or prospects. It's not uncommon even in small firms to see 10 to 15 industries, 10 or more niches and long lists of services prominently displayed on websites. This begs credibility and makes it difficult for clients to appreciate or even identify our true strengths.

All Things to All People

Challenged by complexities and complicated markets, clients are demanding more than compliance. They want insights, strategic vision, discovery, forward-thinking opinions, thought-provoking questions and more proactive alignment with the challenges they face. It is difficult for firms to meet these needs, however, if we spread ourselves thin and attempt to be all things to all people. We do not develop the skills or wisdom we need to meet these demands because we are busy being everything to everybody. Yes, many firms focus on their strengths, but struggle to recognize that not everything we are now doing or the clients we accept can fall into that category.

In *Good to Great*, Jim Collins notes that the hardest decision for great companies is deciding **what they are not going to do.** Unfortunately, this can be a difficult task for CPA firms. Traditionally, being competent across a wide range of industries and services provided growth and enough profitability to sustain our profession. A broad-based approach was considered risk averse, but many firms have created more risk by casting a wide net, and being spread too thin. Too many strategic plans have a "wish list" of industries, services and niches in which firms promote themselves, even though they may have no real competitive advantage in many of them, no critical mass, no clear champion spearheading their services. The result is a very few significant clients in many niches. Firms are beginning to feel the churn of these clients as the clients seek better, proactive solutions or turn to additional firms or the competition. Tragically this lack of clarity in strategy continues to add fuel to an escalating commodization of our services since we haven't differentiated ourselves with focus, depth and thought leadership.

We all know that hope is not a viable strategy. In a competitive and changing marketplace, we do not have the resources to remain relevant and become great at 20, 15, 10 or maybe even 5 industries or niches. To become great, we must return instead to what becomes a surprisingly tough question: Who are we?

The Dangers of Complacency

"Complacency has hatched and spread through the profession, putting it at risk of losing its rightful leadership position in business and greater society," says Chief Executive of CPA Australia Alex Malley in the article, "State of Accounting: A Need to Regain Control." "[W]e have been **slow** to move with the times," he concludes.

David Maister discusses two types of partner behavior in his book, *True Professionalism*. Maister describes the *dynamo* behavior as actively building new skills, knowledge and the practice. Dynamos actively give work to others and move on to new challenging areas. They grow the firm. Meanwhile, he describes *cruisers* as fully competent, successful and hard working. They take care of clients. They are living off their existing skills and are not moving themselves or the firm forward. We must have partners and team members that display dynamo behaviors to meet the challenges of our clients today. Have we accepted cruising behavior as a benchmark for success? Has this viewpoint led to the complacency to which Alex Malley refers?

In the last two PCPS CPA Firm Top Issues surveys, accountability has ranked as the top or second-place concern for practices with 21 or more professionals and it made the top five for firms with 6 to 10 professionals for the first time in 2013. Firms prosper when partners are accountable for substantial firm growth, leadership and people development, continuous learning of new skills, alignment with the firm mission and overall high

performance toward significant goals. Complacency is one reason that partner accountability is an ongoing problem at many firms. Are there other reasons why firms are struggling to hold partners accountable?

Could our failure to define who we are be directly connected to our growing issues with partner accountability? It is difficult to establish true accountability when we have not determined which results truly contribute to strategic growth and which are distractions from greatness. Busyness thrives in our profession today due to this lack of clarity and focus. Settling for good remains the biggest threat to achieving greatness. We have a lot of good firms in our profession, but we are missing the opportunity to have a lot of great firms. Jim Collins got it right many years ago when he told us "the enemy of great is good."

Could the root cause of partner accountability issues and lack of high performance be that most firms don't know who they are? Even more important: Could it be that most firms have not yet decided who they are *not* going to be? It's certainly difficult to hold partners accountable if the firm doesn't uphold a realistic central strategy, definition or set of driving principles. Instead of working together toward a common goal, moving the firm forward and anticipating changing market and client needs, the partners continue to do whatever is most comfortable. Failure to define who we are makes it easy for individual partners to generate a lot of activity that *looks* good but might not actually bring great results. Could most of the growth that we are chasing today, especially as individual partners and managers, actually not be smart growth? (Smart growth being defined as expansion in strategic areas where firms have critical mass and true distinction; where growth can be sustainable but possible to leverage and highly profitable.)

A Bright Future Remains

If we accept that "knowing who we are and who we are not" is critical, then the time for change is now. The transformation taking place in our profession and throughout the business world will not wait on any person or firm. Firms that fail to define their identity will miss opportunities to tackle the many challenges associated with burgeoning complexity and to meet new client demands. They risk being overtaken by more disciplined firms or watching their own relevance to clients decline.

The good news is that firms that embrace the discipline and courage to define who they are and what they do will enjoy growth and enduring prosperity. Our profession is certainly well poised to capitalize on the many opportunities available in a transforming business world. Firms have the chance to enhance their internal leadership, their influence with clients and their prominence. There is a bright future for a profession that is identified with leadership, trustworthiness, adaptability and one of the best by the coming generations in terms of career path. But we must first identify the obstacles preventing us from affecting meaningful change, a topic that will be covered in the next chapter.

It is difficult to establish true accountability when we have not determined which results truly contribute to strategic growth and which are distractions from greatness.

Discussion Questions for Practitioners:

1. Has your firm adequately defined who you are, in terms of clients or industries served, services offered and specialties? Do you have an adequate sense of who you are not?

2. Do your client acceptance policies reflect who you are and are not? How can you ensure your policies better reflect your identity?

3. What "good business" have you transitioned out of your firm because it does not fit your long-term strategy?

4. Among the industries and services listed on your website, which ones represent areas in which you have critical mass? In which are you truly great, so much so that you distinguish yourself in the marketplace?

5. Have you identified areas of your firm that will continue to have reduced profitability because they offer no real competitive advantage? Do you provide services that produce data and information but create no real value based on knowledge, wisdom and thought leadership?

6. Are your team members specifically aligned with your areas of focus so that they quickly grow in knowledge and wisdom?

7. Do you hold partners accountable for your core strategies? Do they work together toward a common goal that is in the firm's best long-term interest or work in unrelated silos?

8. Have you reviewed the client acceptance list for the last six months to verify that only "ideal client prospects" are being onboarded?

Chapter 2: The Stumbling Blocks on the Road to Greatness

As the last chapter established, the public accounting profession faces an inevitable transformation of unprecedented magnitude. To prepare our firms to make the most of this transformation requires sweeping changes in leadership and new approaches to how we work. Evolving client demands and a talent shortage that will consume our full energy must be engaged directly. We will also see increasing competition from non-accounting firms that will challenge our relevance to clients and compete for scarce talent.

Traditionally, public accounting has stuck to the status quo rather than engaging in intense, healthy debates on cultural change within our industry. As a result, we may underestimate the speed and intensity of the transformation going on around us. Like someone caught in quicksand, we are struggling to get away from some past missteps, but they are the very things that are holding us back.

Public accounting boasts an incredible roster of leaders and talent with the brilliance, experience and courage to capitalize on the many opportunities that will result from the dynamic transformation taking place in our profession. There are prospects for us collectively, and for our individual firms, to experience new relevance and prominence. Our challenge is to get out front and manage this reinvention of the profession. That challenge will only get bigger — or even become a threat — if we postpone our efforts. A quick response, on the other hand, will position us for new growth and opportunities.

Six Stumbling Blocks

According to Nobel Prize winning physicist Richard Feynman, "The first principle is that you must not fool yourself — and you are the easiest person to fool." For firms are in denial about the need for change, let's examine six common characteristics that may be fostering that denial.

1. **Partner/manager comfort zones.** We like things the way they are, so we ignore or discount the sweeping changes on the horizon. Underlying this behavior is the fear of loss, of losing what we have or even going backward in our finances, careers or whatever we hold dear. Fear of loss is the reason we don't tighten our client acceptance policies, because we want to grab and hold on to every single possible client. We fear we may not find a replacement if we drop or pass on one. Our comfort zones are danger zones, however, if they lead to complacency. They prevent us from taking bold steps and moving forward.

   Many of us insist we embrace change. It's one thing to believe in change and another to acknowledge that it must begin with us, however. As CPAs, we are naturally risk averse, but sticking to the status quo may present even more risk to a firm than making a few bold moves.

2. **Artificial harmony.** We tend to overestimate the extent of shared views, vision and beliefs within our firms. Most firms have collegial cultures that avoid conflicts and we're reluctant to change the current balance. There also is an inherent pressure to agree with others in our team-based cultures.

   At the same time, confirmation bias, seeking out others who share our opinions, can creep into our behaviors. Selective recall helps us remember only the facts that support our point of view. We tend to quickly accept facts or opinions that support us while we might be very wary of or even hostile to contrary facts or opinions. We may give tacit approval to new initiatives yet never engage in them. In the end, we do not benefit from enough healthy challenge to each other's views and beliefs.

3. **Overconfidence.** Did you know that 94% of men rank themselves in the top half of all men in terms of athletic ability? This phenomenon leads us to be very overconfident in our ability to make accurate estimates, a skill that is necessary for our business and vital to our clients. This same self-serving bias blinds us to the degree of change necessary as the world transforms around us. Our overconfidence causes us to underestimate the effects this transformation will have on all our firms. Remember, we certainly would not be the first business to make this mistake, as we noted in the first chapter. With the inevitable passage

of tort reform, law firms went out of existence simply because they ignored and failed to respond to significant changes in their profession. Futurist Dan Burrus recently reminded us that Blackberry, Blockbuster, Sony, Kodak and Polaroid, just to name a few, made similar mistakes.

4. **Herding instinct.** We would rather fail as a group than be seen as an outlier who did something foolish. We assume that there is less risk of failure in following the herd than in making bold decisions about an uncertain future. Our profession is too often labeled a "fast follower" versus a pioneer or innovator. We offer clients cogent advice about innovation, talent management and strategic planning, but we fail to follow it ourselves.

   In managing our firms, we tend to copy competitors rather than create new ideas. As a result, many clients find it difficult to distinguish our firms except by size. What happens when we are following the herd and the herd is in denial?

5. **Banking on good intentions.** We mistakenly assume that wanting to change, maintain or increase our relevance is a strategy. Good intentions are simply not good enough. It's not what we know that counts, it's what we do with that knowledge that makes a difference. We are fooling ourselves when we hold retreats and create goals, objectives and action plans, then fail to act on them. Being in favor of innovation is not enough. Too often our partners recognize the need for change — but it is always for everyone else, and not me.

6. **Vested anchoring.** We believe that past successes will inevitably lead to future accomplishments, which robs us of any motivation to change. We expect clients to retain us based on long-term relationships, even though their needs have changed. They are seeking deeper insights, more proactive advice and unrivaled expertise that will help them anticipate and address the uncertainty ahead. If we don't change with them, will we simply become historians?

Most CPAs excel at identifying the risks associated with any new strategies or services. Just suggest an innovative approach in a partner meeting and listen to the lively discussion of all the possible risks. But is there ever a discussion of the many risks associated with maintaining the status quo? Do we adequately gauge the lost value of **not** doing something?

In the interest of transparency, we also are solidly anchored to the past due to common business models, the ones that have vested our leadership and partners in buyouts and deferred compensation arrangements based on indicators of past success. The fear of loss with a new business model moors us to the status quo. Does our investment in current business models prevent us from paving a path to future success?

The Danger of the Status Quo

The future is uncertain, but it always has been. The status quo presents its own uncertainties as the world changes around us. Let's focus on leading, providing a vision for our profession that captures the opportunities before us. If we do, we will pull our partners, firms and profession out of denial — out of the quicksand — and build a stronger foundation that leaves a valuable legacy for every young professional who chooses such a noble calling.

Being in favor of innovation is not enough. Too often our partners recognize the need for change — but it is always for everyone else, and not me.

Discussion Questions for Practitioners:

1. Which of the six stumbling blocks exist at your firm? Estimate how much of an impact each one is having. Is it holding you back now or making future initiatives more difficult or unlikely? What consequences is each one having on your practice? For example, is it preventing you from remaining relevant with clients, recruiting and retaining quality staff or enhancing your practice? What are the potential risks if you don't remove the stumbling blocks? What are the short- and long-term consequences?

2. How can your firm address the stumbling blocks and clear the path toward future success? Name specific actions, giving each one a timeline and a champion responsible for progress.

3. What is the best path to having more open and healthy challenges to your present strategies and beliefs?

4. What actions have you taken that reflect your firm's commitment to bold decisions based on our profession's inevitable transformation? Do your actions reflect more of a continuance of the status quo?

Resources

- "Hidden Flaws in Strategy," Charles Roxburgh, *McKinsey Quarterly*, May 2003.

- "The Irrational Side of Change Management," Carolyn Aiken and Scott Keller, *McKinsey Quarterly*, April 2009.

Let's focus on leading, providing a vision for our profession that captures the opportunities before us.

Chapter 3: Five Challenges for the Profession

Monumental change rarely happens all at once. Instead, people and organizations maintain their long-standing daily routines, only to notice well down the road that many new circumstances and expectations have been quietly making profound changes in the world in which they live or the markets in which they do business. Once again, it's much like quicksand, which in our imagination can swallow us slowly over time. CPA firms are poised at a point where they must recognize the changes going on around them or risk losing relevance.

As I've pointed out, most firms are threatened by their own success. For decades, time-based revenues and top-down communication have led to prosperity and growth. But that success should not blind us to new and sometimes hidden emerging challenges.

Here's one: By 2020, many CPA firms will be composed of 75% millennials — the generation born roughly between 1980 and 2000 — yet firms continue to be managed the way the parents or even grandparents of current partners would have run them. That's a major disconnect, because the aspirations and expectations of the new generation are drastically different from those of current firm leaders. The rising team member turnover rate in our profession is threatening our ability to provide the services and response that clients demand.

We cannot run the risk of becoming an unattractive career option for future talent and generations. We now compete in a talent market that closely resembles free agency in the sports world. Accountants, like athletes, move often and quickly.

In addition to addressing the competitive talent market, we must also take a hard look at five hidden challenges that are hindering our ability to attract the best talent.

Challenge No. 1: The Leadership Void

For the most part, today's partners and managers achieved their positions because they just *got it*; they figured out how to rise to and succeed in a leadership role. With that history, our firms' cultures have long promoted a sink or swim mentality. As a result, we often fail to focus on proper talent development because that's not the road we took and there's always been enough talent willing to sink or swim. That's why younger generations are now uncertain how to get ahead in our firms. This seems to be an unrecognized disconnect in many firms, and it visibly slows our ability to transition into excellent leadership development organizations quickly enough. Why is timeliness important? As we move from the leadership of roughly 77 million baby boomers to the estimated 50 million Gen Xers, we are facing what many are calling a people drought, especially as the boomers retire faster than we can groom people to fill their roles. We already are seeing firms scramble to find ways to address this leadership void.

In a more complex and competitive world, it's no longer prudent to sit back and hope that new leaders will emerge on their own. It's in our best interest to take a proactive approach, identifying the best-qualified people and offering them formal training, sponsorship, coaching, and advocacy, along with increased opportunities for hands-on practical experience. It will boost morale and loyalty among our top people while better preparing our firms for future transitions.

CPA firms are not alone in this dilemma. In a Deloitte survey, Global Human Capital Trends 2014, 86% of respondents identified the single biggest challenge as leadership development, followed closely by retention and engagement, at 79%. The report also found that 75% of the organizations surveyed rated "workforce capability" as urgent or important, but only 15% rated themselves as ready to develop leaders in the millennial generation.

It also is evident that our organizations, our partners and managers are not prepared to develop leaders within our current work environment. Overall, we do not possess the skills to grow leaders on a daily basis. Yes, we have some great leadership programs, but the disconnect happens when those who participate return to work and the existing leadership of our firms is not prepared to give them the guidance and feedback they need and serve as the kinds of role models who can offer fast, effective leadership development.

Challenge No. 2: Recruiting and Retention Rationalizations

> *"It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so." — Mark Twain*

At many firms, the recruiting program is based on one immutable fact: The accounting profession offers desirable careers, including solid income and security. That leads to the assumption that if you build a CPA firm, talented people will flock to it. That belief is built on many rationalizations. Since we have always experienced high turnover in our profession, firm leadership is more complacent about current turnover trends, dismissing them as simply to be expected. We rationalize that millennials will view our profession as a favorable option due to our income potential. If it's tough to recruit or keep millennials, we say it's because they lack a strong work ethic. Retention is not a concern because our seniors and managers are content and can be counted on to stick with the firm.

Many firm leaders would be surprised at the findings of PWCs' "NextGen: A Global Generational Study," however. They reveal that millennials do not view our profession as "worth the sacrifice," EVEN given the potential for substantial compensation in the future.

And they're not lacking in work ethic. As Stew Friedman, professor at Wharton and author of *Baby Bust: New Choices for Men and Women in Work and Family*, reported in his study of college graduates, 2012 graduates planned to work an average of 72 hours a week, while 1992 graduates had said they planned to work an average of 58 hours. Obviously they do not view those 72 hours as solely being "at a work place," but they do expect to work in a multi-tasking environment for more hours than previous generations. Simply stated, the new generation doesn't expect to work less, they just expect to work differently. They have grown up with technology and social media that allows them to work when and where they please. But they need to see that the CPA firm model is agile enough to change with changing times. If any evidence of that statement is needed, in a white paper on CPA firm leadership, the CPA Consultants' Alliance documents the risk of a talent shortage and the potential for more turnover in our experienced staff.

These findings defy past assumptions about our ability to hold on to new talent. And yet these assumptions underlie many firm succession planning discussions. Failure to challenge this bad logic impedes the effectiveness and timeliness of recruiting and retention initiatives.

Challenge No. 3: Seeing Is Believing

Firms and partners are slowly understanding the need to change how we work. Many great policies demonstrate intentions to revitalize our current culture. In fact, a recent survey of 99 firms by Convergence Coaching found that 95% reported offering flexibility programs and 77% reported work-from-home programs. Now, I agree with Convergence Coaching, that SOUNDS and reads great. Recognizing this need and putting options in place is not our challenge. The problem is that people believe what they see, not what they hear or read. People are not changing how they work, nor do they believe they can, because the vast majority of partners and managers are working just as they always have. As a result, others feel guilty about participating in a more flexible work arrangement and often worry about the impact it might have on their careers. They don't express these concerns, but they do exist in most firms. In the end, work habits don't change and the effectiveness of flexibility policies is ruined.

Compounding this disconnect, we too frequently also undermine the effectiveness of these policies with constant emergencies due to poor management of our team and clients. These constant urgent issues and projects (which are rationalized by a conviction that that's how the business works; sound familiar?) result in an overworked, unengaged, unempowered team member who exits the door. Historically, this valued team member would give another CPA firm a chance and maybe even a third. Today, however, our

talent frequently leaves our profession after one bad experience. Frankly, given the way we manage (or fail to), it's highly likely that they have a bad experience.

Firms also continue to function on a command and control approach for managing people. Showing up and putting in time remain the main acknowledged indicators of commitment, value and potential. The insistence that quality work depends on being present in a particular place for a minimum amount of time crushes the creativity, flexibility and innovative spirit of today's millennials. The top professionals often conclude that the profession offers few options for individual contributions, professional growth and engagement. In the meantime, partners and managers continue to manage just as they always have and are surprised when talented people leave the firm for positions that offer better balance or greater challenges. Unfortunately, today, this opportunity is frequently outside of our profession.

Challenge No. 4: Time Stinks

The economic engines of almost all CPA firms are built on the chargeable hour (time). Creating a vibrant firm culture requires that we understand value (worth) and appreciate the contributions of individuals rather than the time they report or spend completing a project or task. Valuing time only reinforces the status quo.

The obvious problem is that time plus presence have never assured productivity or value. I've often found that many people with impressive rates of chargeable hours actually turn in sub-quality work. For years, many in the profession have questioned the relationship between time and value, but firms still cling to the chargeable hour model because of the design of their revenue models and their comfort with the status quo.

I'm afraid we do not have the luxury of stringing that debate along much further. We have some hard trend lines that will continue to force the value of time into our past. To ignore the speed of technology, artificial intelligence, millennial impact, our lack of project management skills, client demands and, frankly, the best interests of our clients, will be a drastic mistake.

Even today, we are seeing advancements in real-time auditing and accounting. If we are going to be relevant with real-time systems and clients begging for outcomes and insights, surely something besides an hour of time will be needed? Millions of 1040 tax clients have exited our market due to "new technology." We must begin now to plan and transition our economic engines away from value based on time to a value based on the client's viewpoint of worth for the outcomes we deliver. If we turn our attention to outcomes and deliverables, time will not be relevant. We are ill-prepared for this transition and it continues to negatively affect how we manage people.

Setting aside that debate for a moment, let's consider the impact on our profession when we ask young professionals to track all of their time. How can we also quantify the enormous and untracked expense due to turnover when bright, entrepreneurial professionals clearly see the disconnect between time recorded and quality work, and move on to other positions?

Time sheets have become a crutch for managing people, which is preventing us from growing new leaders as fast as we need them. They drain the life out of the diminishing pool of leadership-ready talent. We all claim that our people are our most valuable assets, yet long hours do not demonstrate our interest in them. What incentives do they have under the chargeable hour model to be creative, innovative and FASTER? Today's technology, information, collaboration and connectivity make time even less important. Meanwhile, we must recognize that in the future, our clients are going to pay for results and not care how long it took us. As we try to move our cultures forward, it's fair to say that time stinks.

Challenge No. 5: Heart Matters

> *"Employees today (particularly millennials) are looking for employers that inspire passion and allow them to fulfill their professional, personal and social goals."*
>
> — Global Human Capital Trends 2014: Engaging the 21st Century Workforce, *Deloitte University Press*

Does your firm inspire passion? Many firms have drifted away from their mission without realizing it. They are certainly aware of their mission statement and core principles, and they maintain their integrity. But what seems to be missing, all too often, is the requisite energy and passion — the heart behind their actions. A firm's culture ends up being based the artifacts of policies established long ago.

Patrick Lencioni points out in his book, *The Advantage: Why Organizational Health Trumps Everything Else in Business*, that in the future, culture will be the only sustainable competitive advantage. Data, knowledge and information are fleeting advantages at best. Honestly, from a culture aspect, our profession already is behind many competing professions and alternative opportunities because of our resistance to change the way we have worked for the last 100 years (including this year).

We are focusing a lot of our time and energy on the business side — finance, marketing, technology — and not enough on our people and culture. The answer is to shift our focus in ways that will give our team members a better sense of connection. We can do that by tackling the problem raised in the first chapter: Defining who we are and who we are not. That will enable us to maintain a better sense of purpose and communicate it with passion and transparency.

Growth and Prosperity

Firms that ignore the need for sweeping changes to create strong cultures will be overtaken by competition or will watch their clients drift away. Those that recognize the obstacles holding them back will experience growth and enduring prosperity. It is past time for us to unpack our assumptions and engage in a real debate about how to remain relevant now and into the future.

Like someone emerging from quicksand, the best step is to shake off the things that are holding us back. Let's make big decisions that help us define who we are and who we are not. Let's make bold investments in leadership skills for all partners and managers so we can develop young professionals daily and fill the leadership void that exists in many of our firms. Let's confront bad logic every time we hear it and reflect on facts so that we don't make management decisions based on myths or misconceptions. Let's begin that transition away from time as our primary revenue driver and a crutch for our people management. Most of all, we must be boldly transparent, showing our heart while connecting everyone to our purpose. These self-assured steps forward must start at the top so that our team members will see that our actions match our words and follow our leadership.

Discussion Questions for Practitioners:

1. Which of these challenges do you face in your firm? What impact are they having?

   A. The Leadership Void — Has your firm adopted a formal succession plan for key leadership positions with specific individuals identified? What is the age and timeline for key leadership positions? How many early retirements do you anticipate? Given your needs and timeline, are there team members on track to step into the leadership roles being vacated? Do you have sufficient mentors to nurture your most promising professionals? Does your partner and manager group as a whole truly possess the skills needed to grow the next generation of leadership with daily guidance and feedback? What recent training have your partners and managers participated in that was focused on daily growing other leaders?

   B. Recruiting and Retention Rationalizations — How do you monitor employee satisfaction? Do you know whether your top people are satisfied or if they have an eye on the exit door?

   C. Seeing Is Believing — What steps has your firm taken to understand how your team members might want to work differently? Have you asked your team about the guilt factor (self-imposed or not) and how it might limit the effectiveness of your flexibility policies? How many of your partners and managers are modeling the kind of satisfying career/life integration that would appeal to promising younger professionals? Are your partners and managers actually encouraging and proactively guiding team members for flexibility and work from home opportunities?

   D. Time Stinks — Have you had an open debate on the best way forward to establish your value to your clients? Have you debated the hard trend lines that raise concerns if we continue to tie our value to an hour of work? Are your team members' goals and expectations based on the time they spend at their desks or on the results they achieve? How often do team members receive feedback related to chargeable hours or hours worked? How does that compare to the quantity and quality of feedback they receive on their own roles and responsibilities and the results you expect?

   E. Heart Matters — What percentage of your firm members can state your mission or vision? How often is the "why" of your organization — its purpose and reason for being — communicated to everyone? How much of its time does your leadership group spend on issues such as finance, marketing and technology? How much time does it spend on its people and culture? What examples can you give of time spent on people and culture? What might be the potential results if you spent more time on people and culture? Have you personally shared with your team members your individual purpose and how it connects to the organizational mission?

Does your firm inspire passion? Many firms have drifted away from their mission without realizing it.

Chapter 4: Necessary Steps Toward Transformation

Although the challenges and changes we face may seem daunting, the good news is that we're all in it together. Some firms may have addressed some or even many of the issues discussed here, but very few have truly evolved into the kind of practice that can rely on maintaining its relevance now and in the future. I'm afraid too frequently what we want to believe and what we put in policies is not being "lived" within our firms. My own practice is working its way through these challenges, each and every one of them. Although we narrowed our focus, we still are working to define a laser focus in all areas of the firm and to make more decisions about work we should not be doing. Our efforts have brought some successes and some disappointments, and lots of works still in progress. This chapter is an attempt to share our story and offer a commentary of ideas and recommendations that CPAs can consider to begin the necessary transformation of their firms. I will also share potential solutions we're trying in our firm to address the challenges discussed in this paper so far. Are there more challenges than I have raised in this white paper? Yes, but I believe these are the challenges that are slowing us down the most.

Challenge No. 1: The Leadership Void

- Recognize and acknowledge that more proactive programs may be necessary to groom future leaders, even if current firm leaders didn't have formal programs themselves. Formal leadership development programs should be started sooner than ever for future succession and to slow the outward flow of talent from our profession.

- As part of that effort, leadership must identify training needs, develop tools and implement the transfer of knowledge. This may require revamping or expanding your learning and development programs to reflect the multifaceted skills required by our professionals today. Among other things, in our firm we've added a new career growth curriculum that mirrors the partner track, offering young professionals an introduction to the fundamentals required for a leadership role.

- A comprehensive approach to learning and development should use all of the existing technology and resources to provide challenging and timely information. This training, offered on an as-needed basis in small segments to allow users to implement new knowledge quickly, will be more effective and desirable.

- We must spend more dollars and time on learning and development to succeed in the future. This starts with partners and managers developing skill sets that enable them to provide daily guidance for development of future leaders.

- It's common within firms to see people development as a partner and manager role, goal and responsibility. More uncommon are measurements and accountability for being effective with people development. Developing accountability for people development is critical to our future as a profession.

- Using David Maister's definition of dynamos and cruisers, who is displaying what behaviors in your firm? Do you have too many cruisers in your firm? What is the plan to move more team members to the dynamo mindset?

Challenge No. 2: Recruiting and Retention Rationalizations

- Even if your firm is already successful at it, be sure to make recruiting a priority. It is the lifeblood of a growing firm. This will keep you up to date on the changing and highly competitive recruiting market.

- As part of that effort, measure your turnover to see where it's occurring and what situations might cause it. It's also possible to have a culture where you have no turnover and your young talent is bottlenecked by team members who have become stagnant in their growth. Today, our future leaders will not wait for someone to retire or leave so they can grow.

- In order to move away from some of the mainstays of our profession, measure new things that provide insight into how people are working. Areas to monitor include how frequently team members work more than 50 hour weeks, consecutive weeks of high overtime, how much overnight travel is required and whether vacation or paid time off is being used. These statistics can help pinpoint reasons that promising people may leave a firm.

- Invest in your team members' future. We work with two Full Potential coaches to ensure our people have the chance to meet their career and life goals. This is in addition to their performance advisor or mentor. While enhancing their skills, this step also demonstrates our interest in retaining and promoting them, and builds loyalty.

- Implement a faster career track. We are losing talented people because we have them on career tracks that largely mimic our own paths or our firm's history. Seniority is dead and career tracks should follow results, regardless of experience or age. We will all benefit if there are alternate routes to partnership or appealing options for talented professionals who don't seek an ownership role.

- Instill a sense of belonging. Current leadership at most firms is largely composed of white males. Many firms make committed efforts to promote diversity, but they may not understand the needs or expectations of younger people, women and minorities. Consider using an outside consultant to address the experiences of different generations, genders and ethnic groups within your firm. Encourage open sessions to understand how a more equitable playing field can be had for all team members. We cannot remain blind to the fact that there are differences in access to leadership, to strong role models and overall connection for females and ethnic minorities. As I shared with our firm, it is great to be invited to the dance, until you get there and no one wants to dance with you. We have too many team members who are struggling to have an opportunity to dance.

- Start early. Firms can build a strong future pipeline with focused intern programs that engage students in real work. Be prepared to hire more than you thought you would need. Our profession continues to have some pent-up dissatisfaction that is accelerating some of our turnover.

Challenge No. 3: Seeing Is Believing

- Determine who you are. Once firms can clearly communicate who they are, team members align better for higher career satisfaction and achievement.

- Follow your own firm's philosophy on flexibility. Many firms have career/life integration initiatives, but partners and mangers often fail to participate themselves, which leaves team members wondering whether involvement will harm their careers. Our firm's Fearless Unrivaled Flexibility philosophy is one that developed from collaboration around the firm. Our ability to get buy-in to changing how we work is stronger because we developed this philosophy together. I must add that this philosophy recently afforded me the opportunity to fulfill a lifelong dream by attending the College World Series. If you allow yourself time for your life priorities, your team members will be more confident that they can, too. That can lead to better morale, retention and effectiveness.

- Bring firm management on board. All partners and managers should be aware of the importance of taking new approaches and creating a sense of inclusiveness. They should be challenged to live and manage differently. Partners and managers should actively promote team member discussions and choices on flexibility.

- Make it clear that leadership is embracing change. Begin by establishing that the firm is not going to continue to work in the same way. Our firm has adopted an overall "beBetter" mindset that encourages all of us to challenge the status quo. I meet with our partners and managers in small group sessions to provide clarity on our direction and on the need to tackle the kinds of challenges discussed in this paper.

- Be patient. Our profession is full of conflict avoidance, which makes fast adoption of new ways of working hard to do. Mistakes will be made and we must have an environment where they are not viewed as damaging or career ending.

- Include others in the process. Programs that gather input from team members have a better chance of success because they can be designed to meet real needs and goals of which management may be unaware. Our beBetter teams, for example, collaborate about ways to challenge our thinking about some of the approaches or policies that have become the mainstays of our profession. They include volunteers from a range of positions, generations and backgrounds. Firms can also consider open forums to brainstorm the best ways to implement planned changes and programs or survey the entire team confidentially on sensitive issues. Surveys are effective and convenient, but lots of this work needs to be done collaboratively and face to face. This teaches everyone the skills of healthy conflict and how to collaborate, and removes the avoidance-of-conflict mentality.

- Provide transparency. State-of-the-firm meetings can offer team members perspective on your intentions and goals and create a sense of inclusion in and excitement about the process. Transparency also means sharing the bad as well as the good news.

Challenge No. 4: Time Stinks

- Develop a transition plan to move away from basing fees on the chargeable hours. Education, project management, collaboration and patience all have to be part of the solutions. It is a process that must be developed over time as you focus on skill sets that will lead to success with a different pricing method.

- Develop a plan to advance price almost all firm work. This takes a comprehensive plan, which includes project management and detailed scope definition. At our firm, for example, we've initiated a two-year program to move most of our business to an advanced pricing model that's based not on hours but on the worth we bring to the client. Prepricing offers the firm and our team member incentives to be innovative and creative in service delivery.

- Begin messaging to clients about outcomes and deliverables. Talk less about services. Practice the skill of discussing worth of the outcomes with the client.

- Internally, shift the focus away from time measurement. We are removing most operating statistics associated with time from our partner and manager dashboards. As part of our transition, we are now measuring one time-related operating statistic — rate per hour. We have increased our measurement of leverage on each engagement. Tracking and rewarding work transferred to other team members are just two of the new measurements we are using to change our direction.

- Remove chargeable hour goals from team members and set goals that are related to their role, responsibilities and results.

- Initiate additional learning and development for all performance advisers to be sure the right message and better feedback is given to all team members.

Challenge No. 5: Heart Matters

- Create a vision for the culture you want to have. We've adopted a Wise Firm© culture. As we explain on our site, that "doesn't mean we think we are smarter than anyone else. Instead, it refers to our plan to accomplish smart, sustainable growth in disciplined focus areas and leave our clients better than we found them." It means growing with collaboration and a sense of belonging while we stretch to reach our full potential. The Wise Firm culture results in lots of positive energy, which we believe is very relevant and appealing to millennials.

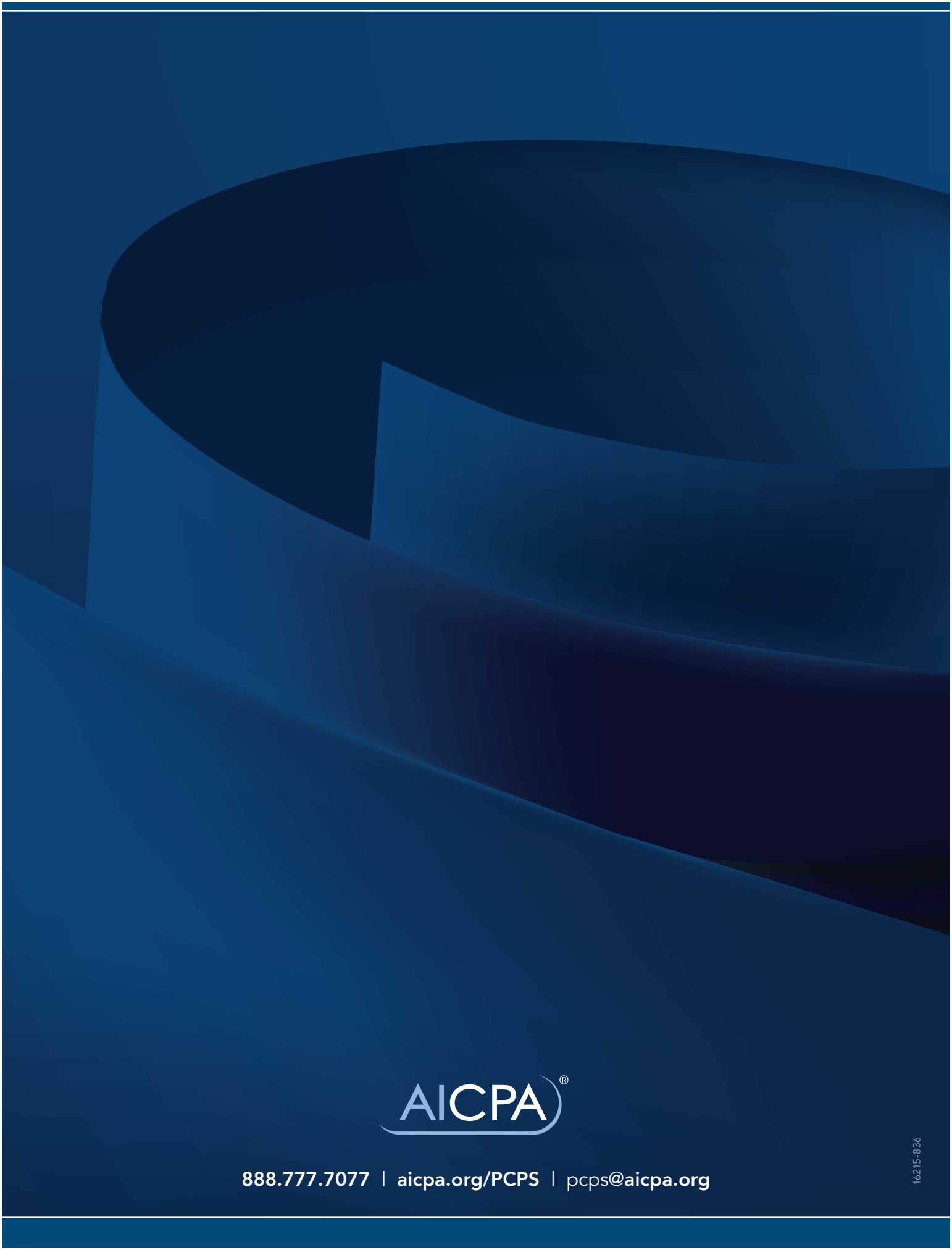
- Maintain physical reminders of your mission and vision. Post them so that all team members become familiar with them. When I visit offices or participate in certain team meetings, I will sometimes challenge a team member to stand and cite our 2020 vision for the group and win a crisp $100 bill. It's scary, but in our Faststart program for new employees, I had two new team members nail me for $200!

- Lead with an open, transparent heart. One way I have increased my transparency is with a personal blog. This blog shares my vulnerability and struggles with various challenges as well as provides motivating thoughts for our team members. I regularly share my personal purpose and how that purpose connects to the firm's mission.
- Engage the entire team in frequent open and challenging debates on the best direction and policies for the firm.

Are You Ready?

There's no certain path or a checklist that will provide us direction for our future. What will it cost to implement some of these ideas or a new way of working? The cost of doing business in our profession is rising and it will continue to rise. I believe the more important question is what it will cost if we don't address them. Just as changes in tort reform laws, the appearance of the digital picture and the explosion of online movies transformed other businesses, there are also hard trends that are transforming our profession. Ignoring these challenges and trends will be very costly and in many cases will result in a CPA firm that is simply not relevant in the future.

Let's return to the question that opened this white paper: Are you ready for the many opportunities that await our firms, now and in the future? Together, we can seize these opportunities to be more relevant, more impactful and to be a profession that attracts the very best talent into our world.



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