AICPA

Private Companies
Practice Section

A program for emerging professionals

Section 1

Pathway to partnership

The role of the partner, its benefits and responsibilities

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This document describes of the role, benefits and responsibilities of becoming a partner to help you decide if this is an opportunity you wish to pursue.

What is a partner at an accounting firm?

Entering into the partnership of an accounting firm means becoming one of the owners of the company. Ownership of any private business has a mixture of rewards and responsibilities. It is not for everyone. It is for:

- The person who wishes to be a master of their fate
- Who is willing to accept that to make more than a salary, one must accept risk
- Who has a vision for the future and wants to have influence in making that vision a reality
- Who wants to lead and not follow?
- Who wants to become part of a collaborative team of motivated professionals

> "Understand that when you become a partner life is not easier, it's different."

If this is you, becoming part of the owner/management team of your accounting firm is an excellent opportunity.

Trust is an essential element in any partnership, work or otherwise. As you read through this document and evaluate the partnership opportunity at your firm, you must have the sense that you trust the current partners. And that you'll be able to work together with them to make the practice even better.

Benefits of partnership

Influence — Partnership is ownership. An owner has a greater say in decision-making and allocation of resources. One of the chief purposes of any business is to generate a profit, and owners in an accounting practice have greater opportunity to share in the profits.

Compensation — Partners take on great responsibility, both legal and financial. As a partner, there are many advantages. Compensation for owners includes not just pay and bonuses, but may also distribution of profits and a greater benefits package.

Self-reliance — With a job, the continuance of employment depends on factors out of most employees' control. If management is not successful, then jobs disappear along with the employing company. As an owner, you can control and influence success factors. In an accounting firm, marketing, business development, client relationship management, work flow management and consistent quality of work and advice are critical. The success of the practice depends on a lifeline of new clients and projects on the front end, and successful work product on the back end. The result is self-reliance, the knowledge that the success of the practice rests most fully on your shoulders. This is one of the key attributes of ownership.

Pride — The saying goes "anything worth doing is worth doing well." This certainly applies to the work you do each day. It also applies to the daily activities of running a practice. Pride in a job well done is a large part of the reward in any activity and in many accounting firms it is as much reward as compensation. By becoming a partner, you become part of and can contribute to this accomplishment.

Equity — When most people buy a home, the financial benefit is not felt immediately. Every month a check goes out to the mortgage company instead of a landlord, and frequently the out-of-pocket expense is like renting, if not greater. Buying into a practice can be similar, as the financial reward may not be not immediate. When you own a house, eventually the house no longer meets your needs and you sell. If all goes well, there is a profit from the sale. Likewise, a practice that regularly produces profit has value. The goal at your firm is to create a practice with lasting and increasing value that can contribute to the long-term financial goals of current and future partners.

Expert advice — Your firm engages a variety of professionals to advise in the running of the business, including business consultants; financial and retirement planning; insurance; legal; and banking. Many of these professionals can also advise on personal concerns, such as personal financial planning, or provide appropriate referrals.

Challenges of partnership

Risk — There is substantial risk associated with owning any business — especially a professional firm whose work affects the financial well-being of its clients. It is impossible to fully shield partners from potential liability. **The risk/reward relationship (see compensation and equity above) is a primary attribute of ownership.** Not everyone wants to be an owner. In fact, most people want to be employees and not have that risk and worry (see self-reliance below). Consider whether the risk inherent in partnership is right for you.

Self-reliance — Self-reliance and the pride that comes from directing your own destiny can be a significant challenge. If marketing and business development efforts are not successful, if client work is not managed efficiently, or if there are substantial claims against the firm related to performance, then there will be no profits — or in the most disastrous case — the practice will fail. And that responsibility is a personal one of the partners.

Sacrifice — Owning a business can be like having a child. The business comes first, more than you (or your significant others) might always find convenient. If you have a child and there is insufficient food, the child eats first. Likewise, in your practice, if cash flow is poor, the practice comes first; employees and creditors get paid first and owners may need to wait.

While partners get the benefit of distributions, part of the sacrifice of buying into an ownership stake is that distributions early in the ownership journey typically get applied to the purchase of shares. There is short-term pain for long-term gain.

Being in charge — While there are many positives to being in a position of authority, becoming a partner can cause a startling shift in your work relationships. Coworkers with whom you have formerly had collegial relationships may now see you as responsible for all that is negative about their jobs. There can also be resentment if others with a similar level of experience were not chosen for partnership. In the worst case, the relationships may never be repaired and the situation can only be set right through long-term staff turnover.

Roles of partners

While each accounting firm practice is different, in general a partner/owner at an accounting firm has four major responsibilities, shared among the partners. The relative proportion of each may vary from partner to partner based on what is most effective for the firm. But all partners have these responsibilities to some degree.

Business development, marketing, relationship management — A professional accounting firm must have new business to live. It is like air, food and water to any living thing. Without them it dies. Many professionals struggle with the business development role. After all, you went to school to learn accounting, not business development.

> "Be conscious of the all-encompassing nature of the [business development] job. When you're not working, be out in the community. Be seen. You have to bring in new business. It never stops."

Management — No professional accounting firm can grow if their partners must do all the accounting work. The difference in a one-person practice and a practice such as the one you may become a partner of is the use of collaborative effort to handle clients greater in number and scope than any individual could. This requires management. Management is not monolithic — there are different types. Your specific duties will encompass these in varying degrees:

- Staff management — How we aid and assist those in the firm to become the best professionals they can be, and productive for both themselves and the company
- Resource management — How we combine our various talents and efforts to produce results our clients desire
- Time management — How we prioritize the work of the firm to ensure it is as productive as possible
- Work flow management — How we coordinate the disparate parts of the work so that it achieves the clients' goals and delivers a profit to the company.
- Quality management — How we ensure that work is done to standards and the level of professionalism that is the standard at our firm

> "You are now a people manager and have to figure out how to get people to be motivated and have respect"

Business direction and strategy — The partners of a practice are responsible for its future; there is no one else. Time must be allocated to thinking about what might happen, what changes in circumstances will mean, and how to anticipate the future. It is easy to get caught up in the tyranny of the now. But any firm, large or small, needs its owners to be strategists and planners as well as operators.

Financial management — The flow of money (billings coming in, expenses going out) is the blood flow of any business. Like business development, it is not a skill set that we are taught when we get our professional training. But as an owner/partner it is essential to become familiar with financial management principals and to learn how to use financial data to get key information that will help you understand the health of the firm.

This tool was developed
by PCPS in conjuction with:

The Podolny Group was formed in 1994 with a simple but powerful goal of helping business owners to achieve outcomes that made all the effort and risk of business ownership worthwhile. It does this with a very logical approach that the most complete evaluation prior to developing a plan and a commitment to creating doable plans that can be successfully implemented.