

# **CPA FIRM MANAGEMENT & GOVERNANCE**

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## **Topics Covered in CPA Firm Management & Governance**

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## Introduction

If I were writing this monograph prior to, say, 2005, the title would simply be “How to Manage a CPA Firm.” But in recent years, a new term has come into vogue: Firm Governance.

As I pondered ideas for this introduction, I gave a lot of thought to what “governance” means, what “management” means, how they are alike and how they are different.

I sought out the opinions of several well-known national CPA firm consultants and their responses were, as always, enlightening and insightful. Their major sentiments were:

1. Today, when people use the term “firm governance,” they’re referring to formal, written rules and bylaws for making decisions such as voting and defining authorities of the MP and other individuals and committees. Two of my colleagues summed it up with “who does what.”
2. “Management” is the execution of decisions, which includes implementation of goals, policies, procedures, planning, managing people, improving their performance and holding people accountable. Management is the process of making sure everyone knows what to do and managing them to make sure it gets done. My thanks to **Charles Hylan, CPA** of St. Louis-based The Growth Partnership, for the bulk of this paragraph.

Until the time that “governance” became a buzz word, there was very little thought given to the distinction between these two terms. Management was clearly the all-encompassing term, with governance being a subset of it.

So there you have it. Using the above definitions, this monograph addresses both areas quite heavily.

I would like to share two particularly insightful quotes from my colleagues:

“Leadership is a whole other subject. I once read that if you want to understand the difference between leaders and managers you look to where their power comes from. Leaders derive their power from the consent of the people (partners). Managers derive their power from the organizational hierarchy. Leaders do not need titles. Managers always have titles.” Denver-based CPA firm consultant **Rich Rinehart of Grant Partners.**

“What we consultants think is not as important as what the client has in mind when he/she uses the firm governance phrase. I believe you will learn a lot about what is going on with that client if you ask “What does that phrase mean to you?” Sedona, AZ-based CPA firm consultant **Dr. Bob Martin.**

My thanks to several other nationally renowned CPA firm consultants who contributed to this introduction: Chicago-based Allan Koltin of Koltin Consulting, Rita Keller of Keller Advisors in Dayton, Connecticut-based Steve Weinstein, Steve Erickson of Albuquerque, Phoenix-based Roman Kepczyk of Xcentric and Gordon Gilchrist from the 2020 Group in the U.K.

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# Management & Leadership

While the differentiation of management from governance is really an issue of professional jargon, a discussion of “management vs. leadership” is a more substantive matter. During my 30+ year career in the business world, I have read many books and articles and heard many speeches on these two subjects that are near and dear to my heart. Here is a very short list of my favorite definitions of management and leadership.

Management's job is to:

- Decide what you want to be (plan) and make it happen (implement).
- Hold others accountable for their performance.
- Create an environment in which firm personnel can be successful and achieve their goals.

"While leadership decides what "first things" are, it is management that puts them first - day by day, moment by moment. Management is discipline; carrying it out." Stephen Covey.

Management is getting results through other people.

Important management functions:

- Hit the firm's top and bottom line targets.
- Carry out the firm's business plan.

- Ensure that people meet personal goals that are linked to the firm's overall goals.
- Establish systems of accountability.
- Solve problems swiftly as they arise.
- Be a cheerleader to the troops.
- Remove obstacles for co-workers.

Leadership identifies challenges & focuses people's attention on those challenges. Ronald Heifetz.

Leadership is coping with change. Management is coping with complexity.

Leadership controls people by pushing them in the right direction; leadership motivates them by satisfying basic human needs.

Leadership is visionary. Leaders are constantly finding new things that the firm needs to be doing, stretching the abilities and imaginations of everyone.

Real leaders possess real convictions - strong feelings that build up over time. If those convictions match the requirements of a group of followers, then great leadership emerges.

Leadership is crucial for facilitating change in organizations because people need help in overcoming their natural resistance to change.

Leadership is the ability to establish a powerful relationship with a subordinate or a peer that will motivate and inspire that person to commit wholeheartedly and passionately and with dedication to the challenges the leader needs to solve which will, in turn, solve the problem of the follower.

Management is a people job. If you're not up to the task of working with people - helping them, listening to them, encouraging them and guiding them - then you shouldn't be a manager. Bob Nelson and Peter Economy.

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When reading the above quotes on management and leadership, it seems we are being told that the two traits are almost mutually exclusive, like black and white. Yes, it's true that many inspiring, innovative leaders are lousy managers because they don't have the focus and discipline required to manage. And some managers make terrible leaders because either they lack the necessary interpersonal skills or over-rely on titles, authority and intimidation to get people to follow.

But in every walk of life, there are a lot of managers who are *also* good leaders and vice versa. I have had the good fortune to work with many of them. It *can* be done.

Many CPA firm partners confuse *charisma* with *leadership*. Jim Collins in his book *Good To Great*, clarified this nicely:

“Good-to-great leaders...are often self-effacing, quiet, reserved, even shy, a paradoxical blend of personal humility and professional will. They act with quiet, calm determination, relying principally on inspired standards, not inspiring charisma, to motivate.

Darwin Smith, former CEO of Kimberly-Clark said: “I never stopped trying to become qualified for the job.”

## Leadership vs. Management vs. Administration

When attending conferences, we love “aha” moments. Those are moments when a speaker says something so profound that it causes a sudden understanding of a major issue and captures our imagination. We can’t wait to get back to the office, share it with our partners and start implementing the idea.

I had an “aha” moment in 2005 or so. The speaker was Bob Bunting, long time MP of west coast regional firm Moss Adams, a leader in our profession par excellence. He delivered a very simple but powerful statement that described a value system at Moss Adams:

- Leadership is worth MORE than your billing rate.
- Management is worth your billing rate.
- Administration is worth LESS than your billing rate.

My take on this is:

1. The most important thing a partner can do is lead. It’s worth more than management, bringing in business or managing clients.
2. Hours spent managing the firm, an office or department are just as valuable as a billable hours.
3. Administration is important, but not as important as management because the former can be performed by a non-partner at a fraction of what a typical partner earns. Partners should not be doing administration. More on this later in this monograph.

I’ve taken the liberty of converting Bunting’s “aha” moment into the chart on the next page.



## Leadership vs. Management vs. Administration

Leadership	Worth <b>MORE</b> than your billing rate.	<ul style="list-style-type: none"><li>• Identifies challenges.</li><li>• Gets people to follow.</li><li>• Builds strong culture.</li><li>• Visionary.</li><li>• Inspires and energizes people.</li><li>• Copes with change.</li></ul>
Management	Worth your billing rate.	<ul style="list-style-type: none"><li>• Plan and implement.</li><li>• Hold people accountable.</li><li>• Solves problems quickly.</li><li>• P&amp;L management.</li><li>• Copes with complexity.</li></ul>
Administration	Worth <b>LESS</b> than your billing rate.	<ul style="list-style-type: none"><li>• Focus is on day to day.</li><li>• Monitor/report on results.</li><li>• Operate systems.</li><li>• Policies and procedures.</li><li>• Support role.</li></ul>

## Management vs. Administration

These two terms have been erroneously used interchangeably over the years, but they are quite different. Here is a concise summary of the distinctions.

Management's job is to ...	Administration's job is to ...
<ul style="list-style-type: none"> <li>• Decide what you want to be (plan) and make it happen (implement).</li> <li>• Lead. Foster collegiality, a strong culture and team spirit; get people to follow.</li> <li>• Help firm personnel realize their potential.</li> <li>• Impact the performance and behavior of the partners; partner accountability.</li> <li>• Create an environment in which people can be successful.</li> <li>• Leverage their time so that every hour they work creates multiple hours of work and opportunities for others.</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on the day-to-day, putting first things first.</li> <li>• Monitor and report operating results (keep score).</li> <li>• Operate, maintain and upgrade systems.</li> <li>• Create, enforce and interpret policy.</li> <li>• Support practice personnel by providing them with an efficient, comfortable work environment, thereby enhancing their productivity.</li> </ul>

Partners should stay out of administration and leave it to firm administrators, COOs or office managers.

## MANAGEMENT PHILOSOPHY OF CPA FIRMS



### Management philosophy of a CPA firm

I have used the above flowchart for nearly 20 years and it has not lost one iota of relevance in demonstrating how to effectively manage a CPA firm. Its message is simple yet powerful.

Most firms make the mistake of managing from the bottom of the chart, and try to work their way up. The firm is primarily managed by:

- Appointing a managing partner who usually is the guy with the biggest book of business but often is a lousy manager.
- Allocating income based on an “eat what you kill” mentality. The partners reason that altering the size of one’s paycheck is the best way to provide feedback to a partner which will, in turn, lead to improved performance.

There are many flaws to this management approach, a couple of which are:

1. How can you compensate partners if you don’t identify what you want to pay them *for*?
2. How can a firm ever expect to attain its vision and strategic goals if achievement of those goals isn’t strongly linked with partners’ compensation?

The correct way to manage a firm is, of course, to start at the top. Let’s skip the bus at the top of the chart for now and start with **VISION**. The firm looks at where they are now and where they want to be in 5 years, concluding with the creation of a vision statement that clearly describes what they would like the firm to look like in 5 years, in very specific terms. This is where management begins.

Next, the firm decides what **FIRM GOALS** and actions are needed to achieve the vision.

At this stage the firm acknowledges that “the firm” can’t do *anything*. The **PARTNERS** and other key personnel need to be assigned roles in achieving the firm **GOALS**.

Up to this point, the firm is like an automobile whose engine hasn’t been turned on. The 4 items in the **ENGINES** box represent the ignition that energizes and propels the firm to implementing the vision:

- **Leadership.** Every plan must have a champion.
- **Management structure.** The partners have a critically important role in the firm: to provide fantastic service to a large volume of clients and to bring in new business. The partners won’t have any time to implement strategic plan goals unless the firm has a management structure in place which provides the support needed by the partners to function effectively.
- **Accountability.** This is probably the biggest reason why CPA firms fail to implement the vision. Firms must have systems in place to hold partners accountable for the parts they play in helping the firm achieve its vision.
- **Partner compensation.** The firm needs to allocate income based on the relative success each partner has in achieving goals and helping the firm achieve its vision.

Now, back to the bus at the top of the chart. The bus relates to one of the most often-cited business quotes of the last 50 years. This passage comes from Jim Collins' legendary *Good To Great*:

“Great organizations did not *first* figure out where to drive the bus and then get people to take it there. Instead, they *first* got the right people off the bus and *then* figured out where to drive it. People either stay on the bus for a long time or they get off in a hurry.”

Some firms have partners who are always saying negative things like:

- “That will never work.”
- “We’ve tried that before and it failed.”
- “Goal setting is a waste of time.”

These people zap everyone’s energy and make people doubt the value of management and strategic planning, thereby making it difficult to rally the troops on the firm’s game plan. They must leave the firm or be confined to the periphery before strategic planning can start.

Many firms aren’t willing to confront these naysayers and hold them in check. But these negative people will sabotage the firm’s efforts to manage effectively.