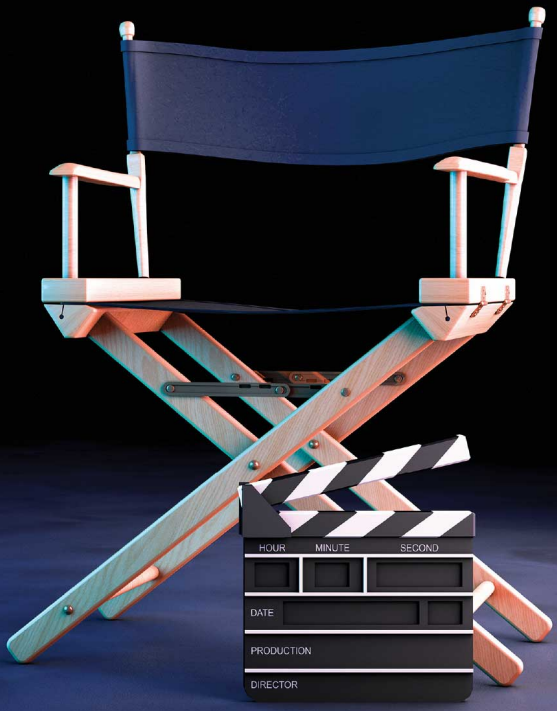
CPA FIRM
MANAGEMENT & GOVERNANCE

Second Edition



MARC ROSENBERG, CPA
with KRISTEN RAMPE, CPA

CPA FIRM
MANAGEMENT & GOVERNANCE

Second Edition

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- *The Role of the Managing Partner*
- *How to Bring in New Partners*
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- *CPA Firm Partner Retirement/Buyout Plans*
- *CPA Firm Growth: Keys to Practice Development*
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1

Introduction

"Wisdom is the reward you get for a lifetime of listening when you would have preferred to talk."

Doug Larson

When I began my CPA consulting career, our industry used one word – management – to describe similar but different terms: management of the firm, leadership and governance. But our profession has grown more sophisticated. Today, firms understand the important differences between these three terms:

Management: The execution of strategies, decisions, policies and procedures to operate the firm. This includes implementation of strategies and goals, planning, managing people and improving their performance, holding them accountable and ensuring continuous increases in growth and profitability. 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, a partner of St. Louis-based The Growth Partnership, for the bulk of this paragraph. Much more on management in Chapter 2.

Leadership: "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 (at CPA firms, it's the partners). Managers derive their power from the organizational hierarchy. Leaders do not need titles. Managers always

have titles." Much more on leadership in Chapter 2. Thanks to Rich Rinehart for the quote above. Rich is a retired CPA firm consultant.

Firm governance: Formal, written rules and bylaws for making decisions and creating a structure for complying with these rules. Examples include voting, defining authorities of the MP and other positions and committees, describing how new partners buy in and how departing owners are bought out, and duties and obligations of partners. Some of my colleagues have summed it up with "who does what, what a partner can do, what a partner cannot do and the authorities of the firm's management positions."

Are Management and Leadership Mutually Exclusive?

After reading these definitions, let's be clear. The majority of people occupying the top position in large organizations such as large corporations and CPA firms are almost always a blend of management and leadership and they do both well. Some may be better at management than leadership and vice versa but many successful CEOs/managing partners are effective at both management and leadership. They are not mutually exclusive. Far from it.

The Biggest Key to Success

There are many keys to successful CPA firms. The "A" list consists of:

- A great client base
- Having a great, engaged, ambitious staff
- Growth activities including marketing and business development
- Quality service and quality work
- Succession planning
- Strategic planning, especially implementation

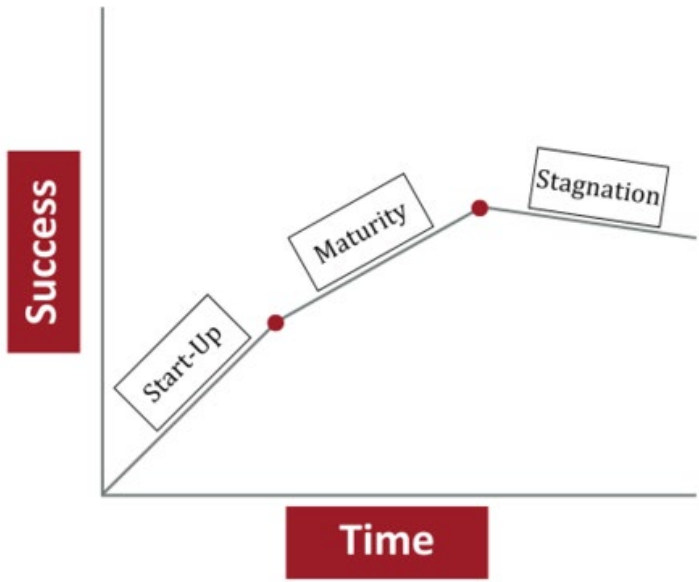
But as we shall show throughout this book, one critically important thing is missing from this list – and we think it is the *most important* success factor of all: effective management and leadership, which is the subject of this entire book. Why is the effective management and leadership factor #1? Because it makes all the other success factors happen. Devil's advocates would argue that a firm can *still* be successful if some or many

of the A-list items are missing and has *average* leadership effectiveness at best. It's hard to argue with that. The 2023 Rosenberg MAP Survey showed the average income per equity partner (IPP) of firms below the top 100 (#100 was nearly $60M in 2024) was $653,000, a level of compensation that most partners never dreamed of. If we define "success" by IPP, then it's clearly possible, though far from guaranteed, for a firm to be successful without effective management. We can attest to this from our consulting: less than half of firms under $30M have what we would term *effective* management and leadership.

However, as important as IPP may be in defining success, there are many other factors, which this book describes in the ensuing chapters. Examples are developing a steady stream of new leaders and revenue growth.

One final point. A firm might be successful today, but it might *not* be tomorrow. Profitability and continuity *today* might not be sustainable in the future. This can be explained by the chart below, which shows three stages of evolution for many firms:

Three Stages of Evolution for Many CPA Firms



Evidence of the reality of the stagnation phase is that 60%–80% of first-generation firms never make it to the second. Causes include ineffective management, lack of new leaders, aging partners and complacency – often a combination of all three. So, continue reading to keep your firm in the “maturity” phase!