

ACCOUNTING OFFICE MANAGEMENT & ADMINISTRATION REPORT



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Recession Report: What Should You Expect?

How is the recession affecting CPA firms so far? The answer, according to discussions with a number of CPA firm consultants, seems to be: it depends. Where your firm is located, the type of clients you serve, your firm's structure and strategic plan—all are factors that will affect whether your firm will be laying off or looking to acquire talent, reducing or freezing raises, and seeking to acquire firms and talent or being acquired.

While busy season has been a distraction of sorts from the recession—taxes and audits have to be done, no matter what is happening on Wall Street or in Washington—April 15 tends to bring economic issues back into sharp focus.

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Steal These Ideas: How Clients Are Saving on Smart HR Initiatives

Just as your CPA firm can provide all kinds of help to your clients as they struggle to adapt to the new economic realities, there are opportunities for your firm to learn from its clients as well, particularly in the HR arena.

As an employer yourself, you face the same issues of motivation, engagement, and retention as your clients do right now. As you interact with your clients for the rest of the year, consider what they are doing to manage their people; you may

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FIRM LEADERSHIP

Don't Neglect Your Succession Planning

As busy season draws to a close, CPA firm leaders will turn their focus to reviewing how it went: revenues, profits, engagements, performance, and all of the usual factors, flavored by the current, unusual economic conditions.

This review is a prelude to the summer retreat planning, and as you begin to prepare, AOMAR urges you to maintain your focus on a most important initiative: planning for succession.

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A survey shows that more CPAs expect the struggling economy to persist into 2010.

● New Accounting Practice Laws Take Effect in New York State

Gov. Paterson expands oversight of CPA practices.

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Looking for a new niche?

Consider helping your clients with risk management. New research from the Institute of Internal Auditors indicates there is a real need here, one with which already overburdened in-house audit and finance staff may welcome your firm's expertise. Turn to Page 8 for more information.



KELLER'S COMMENTS

By Rita Keller

Measuring and Planning: They Count Now More Than Ever!

You can't manage what you can't measure. In our world, we hear this over and over. But, as with many things, we're often slow to take action and measure the many tasks, duties, and projects inside our firms.

A story: For one full week, a partner in a firm stood at the front desk with a clipboard from 8:00 until 8:15 each day. As people arrived, without making any comments, the partner made notes on the clipboard. Guess what happened? People began coming in at 7:55 or earlier. Why? People do what you measure.

Preparing your firm for the future. The same logic applies to our commitment to building leaders within our firms. How is your firm doing cultivating the next generation of owners? Are you making progress? How do you know? How are you measuring your success at building future leaders?

Take the time to draft an action plan, and follow the target dates for developing leaders and for the succession of your firm. Then do the following:

- Communicate what you are measuring up and down your firm.
- Publicize team and individual results.

- Review your measurements and use them to guide your actions.
- Share the successes with everyone!

It is not just an issue of developing future leaders. Just think of all the areas in your firm where measuring and taking action would benefit the entire firm.

Get ready for your retreat. The leadership of a firm getting together to talk about what they can do to make their firm "a firm of the future," one where young people want to build their careers, is time well spent.

If your firm has not taken the time this year to have some open, honest conversation among the leadership group, plan for it after busy season. Busy season sometimes leads to very productive discussion on topics such as work flow, scheduling, processes, immediate feedback on performance, and the importance of documenting performance, all of which is even more important in light of the difficult economic times.

I like to see firms have two planning retreats each year: a two-day planning session immediately after busy season with bigger-issue, long-term topics, and a one-day retreat in November, December, or January to focus both on what has been accomplished since the spring retreat and

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on short-term, everyday issues. In case you are wondering, yes, firms actually do this in January because the workload is fairly light until late in the month or into early February. It is more of a challenge keeping interns busy in January.

I'll stress this again: Be sure that your firm is thoroughly documenting performance as you move through this busy season. You should have been doing it anyway, but it has taken on much greater meaning with the economic downturn. Call me for advice on how to do this or if you need some tools.

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Recession Report

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To get a broad range of views about what is likely to happen this spring and beyond, we asked leading consultants in early February to share their insights and predictions based on their interactions with clients. At press time, they agreed that:

- The situation is different depending upon where your firm is located, what kind of practice you operate, and various other individual factors. Because of this, there is no general picture of what is happening or what may happen.

- The size of your firm is also a contributor to how your firm may react to these issues. Local and regional firms may, in fact, be the winners in this recession because of "trickle down" work and available talent from the Big Four firms that have already been feeling the pain from the economy.

- Firms that are responsive and see these times as an opportunity rather than a curse

are most likely to emerge as winners when the recovery comes.

The consultants (see the sidebar for the list of those we asked for input) had excellent advice and observations about how CPA firms are addressing the recession and related issues. These included increased client requests for fee relief and shopping for potential merger partners for later in the year. Some felt that things may become quite dire, while others were not yet seeing much impact as firms entered busy season and remained closely focused on busy season work.

An opportunity to "clean house."

Whether or not firms will be laying off staff in a few weeks depends, as noted above, on a lot of factors. In fact, some firms already have let staff go.

"About 20% of the firms I work with have already made significant layoffs," said Allan Koltin, president/CEO of PDI Global Inc. "Another 40% or so clearly are looking at a post-busy season layoff, and the remaining 40%, for a variety of reasons, don't have any layoffs planned in the near future. In all instances, the reasons for the layoffs are economic in nature, due to the shortage of top-line revenue being generated."

Bill Reeb of the Succession Institute LLC agreed that layoffs have already begun for some firms, but believes that there may be

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more to it than “just” the economy. “Firms are using the economic downturn as a free pass to clean house of marginal people,” he said. “For the most part, CPA firms do a marginal job of setting expectations and being consistent, and since I work with my firms on this, we have already done this weeding out to make room for new hires and people to be promoted.” Some firms as of February were still in the “what if” stage, preparing for a worst-case scenario, he noted, and considering what they may choose to do after busy season.

Koltin said that when it comes to layoffs, it will indeed be the bottom 20 percent of performers who will be eliminated first. “The real question will be how deep firms will dig into the next 20 percent. Firms would like to hold on to these performers, as they’ll have to rehire them once the economy ultimately turns around.”

Layoffs may affect as many as 40 percent of firms, predicted Marc Rosenberg of The Rosenberg Associates Ltd. The recession is the main reason. “Most firms are saying they will be happy if 2009 fees equal 2008,” he said. However, he agreed that this is a chance to evaluate staff and trim poorer performers, and could be a time when needed talent is added to the firm. “The number one factor will be to shed the weak performers,” Rosenberg said. “After that, firms will be laying off their less experienced staff a lot more than experienced staff.”

At the other end of the spectrum, Gale Crosley of Crosley + Company said, “the general tone is ‘brace for impact’ or ‘waiting for the shoe to fall.’” As of early February, she said few firms that she works with are predicting or budgeting for layoffs.

Most of the consultants do not foresee the elimination of partners—yet. Even where firms are not removing partners,

August Aquila of Aquila Global Advisors LLC predicted some changes in demands for partner accountability. In addition to more emphasis on accountability, he said some firms may add tiers of partners if they haven’t done so already.

Koltin was the only consultant to report seeing partners being let go as early as this past winter. “Typically, the first group that has gone has been non-revenue/administrative support type partners (viewed as overhead). I am seeing this first-hand, as we’ve already had a handful of high level administrative type partners from Top 100 accounting firms using our search division to assist in helping them find a position.”

Hiring and mergers: Is opportunity knocking? The flip side of “cleaning house” is that firms may be able to pick up staff and other practices or firms with more choices and more bargaining power in the current economy.

The economy may, in fact, give some firms the nudge they need. “Firms are absolutely planning on mergers,” Rosenberg said. There’s “no question that some firms who are on the fence about merging up will now go forward due to the uncertain economic times.”

While interest in mergers will continue, Aquila observed that—if the recession lasts and revenues decline—there may be a small impact upon prices. He doesn’t foresee a “fire sale” situation, however. “The bottom would have to fall out for that. A 5 to 10 percent decrease in revenue or profits is not enough to push the panic button.” It is going to be more of a buyers’ market in the near future, he noted, due to aging CPAs nearing retirement. So more firms will be available for purchase for that reason.

Steve Erickson of Steve Erickson LLC agreed that fire sales won’t be a part of the picture this year. “Sophisticated strategic

planning is focusing on niches and young partner group acquisitions," he said.

That strategy may be delayed until the completion of busy season for many firms, indicated Crosley. "There is a combination of wait and see, plus distractions with busy season. Strategic planning in many firms often involves looking only a few months ahead."

Expect to see both mergers and selective hiring this year, said Koltin. "I believe 2009 will be a record year for CPA firm mergers (similar to 2008)," he predicted, and furthermore, he believes that most will be straight mergers rather than cash deals.

While there may be staff to hire, Reeb cautioned firms to be careful about those hiring decisions. "Be very cautious about hiring experienced people to make sure they are a good fit," he said, adding that if you find good, experienced talent, now is the time to get those people on board.

How can you tell if you are acquiring talent that may not measure up? "I have been telling my firms to watch for CPAs that seem to change firms about every two years," Reeb said. "That is about the amount of time someone can get away with way-overselling their skills before they are finally weeded out. If someone moves into town, that is totally different. But be careful: There are a lot of five-to-10-year people out there that have one year of experience for five or 10 years in a row."

Compensation changes are still a question. Some firms will certainly reward their top performers as well as possible; others may reduce wages or freeze them across the board.

One interesting trend that may be encouraged by the recession could be a pay for performance approach, where firms dole out precious compensation dollars in

larger amounts to the best performers and in lower amounts—or not at all—to staff who fall farther down on the performance continuum.

But the issue of how to handle raises for staff is a challenging one at the moment. "The profession is in a difficult situation.

AOMAR Calendar

AICPA Practitioners Symposium, Las Vegas, May 4-6. Contact: AICPA, 888-777-7077; www.cpa2biz.com/conferences

2009 Technology Fly In, Chicago, May 5-6. Contact: Association for Accounting Administration, 937-222-0030; aaainfo@cpaadmin.org; www.cpaadmin.org

National Conference on Employee Benefits Plans, Orlando, Fla., May 18-20. Contact: AICPA, 888-777-7077; www.cpa2biz.com/conferences

AAM Summit 2009, Austin, Tex., June 2-5. Contact: Association for Accounting Marketing, 816-221-1296; www.accountingmarketing.org

Emerging Partner Training Forum, Lake Buena Vista, Fla., June 8-9. Contact: AICPA, 888-777-7077; www.cpa2biz.com/conferences

National Not-for-Profit Industry Conference, Washington, D.C., June 11-12. Contact: AICPA, 888-777-7077; www.cpa2biz.com/conferences

AICPA Tech+ Conference, Las Vegas, June 15-17. Contact: AICPA, 888-777-7077; www.cpa2biz.com/conferences

AAA 2009 Practice Management Conference, Denver, June 16-19. Contact: Association for Accounting Administration, 937-222-0030; aaainfo@cpaadmin.org; www.cpaadmin.org

National Association of Black Accountants 2009 Convention, New Orleans, June 16-20. Contact: NABA, 301-474-6222; www.nabainc.org

SHRM's 61st Annual Conference & Exposition, New Orleans, June 28-July 1. Contact: Society for Human Resource Management, 800-283-7476; shrm@shrm.org; www.shrm.org

Association of Latino Professionals in Finance and Accounting 2009 Annual Convention, Boston, Aug. 8-12. Contact: ALPFA, 213-243-0004; www.alpfa.org

They've just thrown money at experienced staff and have passed this on to clients in fees," Erickson said. "Now clients are pushing back, so the rate of increases is decreasing. Firms will honor their commitment to employees, but raises and bonuses could be limited or flat." He expects this to be handled on a case-by-case basis. And firms should keep in mind that the downturn presents new opportunities to staff who have never experienced a down economy.

Some firms were preparing to scale back on post-busy season raises by early February. "My firms have taken the approach that there will be limited to no raises until we see how the economy impacts the firm," Reeb said. "The message to our people has been that we are trying to keep everyone on board, and that message has been received fairly positively. We always try to consider non-financial rewards. Some firms have cut back, or committed to cutting back hours of a particular group in order to keep everyone, like cutting back to 32 hours a week for certain times of the year for administrative staff or certain skill levels."

A more varied response was reported by Koltin. "Some firms have already told staff not to expect raises and have certainly given that same message to their partner group. Others are talking about modest 2 percent to 4 percent raises. Believe it or not, there are still a percentage of firms out there that don't even know we're in an economic recession!" This is not the case in states such as Ohio or Michigan, which have been most affected by the recession.

Proactive firms already met with staff before busy season to explain the realities of the marketplace and what the firm was doing to control expenses. "I think a majority of associates in CPA firms today understand that they have received above-market raises probably for the last four or five years, and this year any raise would be welcomed, even if it is 2 percent to 3 percent," Koltin added.

Rosenberg agreed that raises will be smaller, indicating that about 75 percent of the firms he deals with plan on this, though the other 25 percent planned on normal raises as of February.

Partner compensation may be taking a hit as well, Erickson noted. Many firms with set pay and bonus pools may need to change those arrangements. Erickson noted that partner compensation has been accelerating over the last five to six years—especially in the Top 100 firms—much faster and higher than employees' pay.

Bonuses this year may follow the pattern of compensation trends, although a "wait and see" attitude was the most prevalent during the winter months. This is especially true when it comes to partner bonuses, Koltin observed. "Most firms have frozen partner compensation and told partners it doesn't mean they won't get a big bonus at the end of the year; it just means that they're going to play it safe and wait to see

Coming in future issues of AOMAR

- Partnership, The Economy, & More: CPAs Speak Out on Today's Critical Issues
- How Clients *Really* See Your Firm: Exclusive Survey Results From Clients About What's Working—And What Isn't
- The Recessionary Staff and How Your Firm Can Capitalize on Opportunities
- Where to Flex Your Marketing Muscle After Busy Season: What Matters Most to Clients Now, and What They Will Pay for
- Technology You Need This Year—and Technology You Can Wait on for Now
- Benefits Roundup: What to Keep, What to Toss to Save Money and Keep Key Staff

what the results look like.”

Action steps. Despite all the unknowns, the consultants had concrete suggestions in addition to predictions about how the rest of 2009 will go, including:

- **CPA firms need to adjust growth expectations.** Depending upon the practice, growth is becoming a changing factor in CPA firms, and both an attitude check and strategic adjustment are needed.

“Firms will be in pretty good shape coming out of tax season,” Aquila predicted. “The second half of the year is the question. Clients could cut back on special projects, and that could have more impact. This is unknown.”

The best strategy, Aquila suggested: “Firms need to get out of the office and get in front of clients. Help them to understand what they are doing. Quit the passive marketing!”

Firms need to adapt their plans to lower billables and revenues if necessary. “In the first 10 days of February, I had more firms reach out to me to tell me that their January 2009 billable hours were less than the year before and that, in many instances, this was the first time this had happened in the past 10 years,” Koltin said. “The scary part for firms will be whether February, March, and April ‘09 results also lag significantly behind the prior year. If so, I think that post tax season, you’ll see many, many more layoffs than we are anticipating at the moment.”

Such impact may not be across the board, though. Koltin said: “As some firms are essentially what I would refer to as ‘blocking and tackling’ firms, they never really experienced a dramatic ‘up tick’ over the past five years, in terms of Sarbanes-Oxley or special project-type work. For these firms, while I don’t want to say they are recession proof, they probably will continue to

plow forward somewhat unaffected by the recession.

“The firms that are getting hit the hardest clearly are the firms that invested heavily in growth and now have found that the growth is not only coming to a screeching halt, but is suffering a significant decline. Firms that were heavily invested in financial services, private equity groups, hedge funds, home builders, auto dealers, and other related industries have taken a major step backward. Firms that had general type practices unaffected by those industries seem to be still doing well and, ironically, may find 2009 to be one of their best years ever.”

Rosenberg was in the midst of surveying managing partners at the time he spoke with AOMAR for this story. From these conversations and the usual discussions with CPA firm leaders, he learned that about a third of the firm leaders were projecting 10 to 15 percent growth for 2009; about a third believed 3 to 5 percent growth was likely this year, and about a third predicted flat growth or lower fees than in 2008.

He shared some actions that firms are taking in response to the economy, including:

- Forming a client assessment committee to review client continuation based on ability to pay.

- Implementing strict collections policies including past-60 day accounts and monetary penalties for partners who don’t bill WIP on a timely basis.

- Cutting “fluff” from expenses.

- Closely tracking metrics.

- Considering furloughs during quieter months.

- Spending more time with staff to keep

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NEWS BRIEFS

SURVEY: ECONOMIC RECOVERY WILL TAKE LONGER THAN EXPECTED

The downturn will last longer than previously expected, according to a survey by the AICPA and the University of North Carolina's Kenan-Flagler Business School. Results of the survey, conducted between late January and mid-February, indicated that most CPAs in business and industry don't expect an economic recovery before next year, according to Arleen Thomas, AICPA senior vice president for member competency and development.

Eighty-three percent of respondents to the quarterly *Business and Industry Economic Outlook Survey* said they were "pessimistic" or "very pessimistic" about the U.S. economic outlook over the next 12 months, just a small uptick over the 82 percent who reported those same feelings during the 2008 fourth quarter survey in November.

In the November survey, more than 40 percent of respondents said they believed the recovery would begin in the second half of this year. In the latest survey, only 30 percent said they expect that, while 41 percent don't expect recovery to begin until the first half of 2010 and another 20 percent think it will occur in the second half of next year.

Pessimism about the respondents' own organizations increased slightly this quarter, as the executives saw economic factors such as declining consumer confidence, layoffs, rising unemployment, and continued financial instability affecting their own companies.

Sixty percent of respondents indicated that their organizations expect decreased revenue and profits, and more than 50 percent said that they expect the number of employees to decrease.

Nearly half of the responding organizations have capital spending freezes in place, and 43 percent have had layoffs. However, about a quarter of companies still expect some growth.

WILL RISK MANAGEMENT BE THE NEXT BIG NICHE?

Risk management is an area where your corporate clients are likely to be feeling pressure just now, and a new report from the Institute of Internal Auditors (IIA) indicates that only 40 percent of 240 organizations surveyed have implemented a formal enterprise risk management program.

The 2008 ERM Benchmarking Survey reported this finding and also included recommendations to internal accounting and finance professionals about how to establish a program or improve the effectiveness of their current initiative. While the focus is upon internal audit activities, clients that have experienced layoffs and ever-increasing workloads in the internal audit and finance department may welcome assistance from their CPA firms with such endeavors.

"There's a tremendous opportunity for internal auditing in this post-risk management meltdown environment," said Richard Chambers, president of the IIA.

Key risk management elements identified as being important include the presence of a program or process owner, support staff for the program, and integrating risk management within the organization. Documentation and communication about the efforts are essential for success. The number-one obstacle to succeeding with risk management is lack of support at the senior management, board, and staff levels.

NEW ACCOUNTING PRACTICE LAWS TAKE EFFECT IN NEW YORK STATE

New York state is implementing an overhaul of laws governing accounting practice in that state. The legislation signed in January by Governor David Paterson expands the regulated practice of the CPA profession to include management advisory, financial advisory, and tax preparation services. Most provisions of the law take effect 180 days after the

NEWS BRIEFS

Jan. 29 date that the bill was signed into law.

The new law requires all New York state CPA firms that perform attest and/or compilation services to register with the state. Those providing attest services will have to undergo quality review every three years. Exempt from this provision are sole proprietors and firms with two or fewer accounting professionals, unless they perform state or municipal government audits.

The law expands the state's oversight to include CPAs in industry, government, and academia.

Out-of-state CPAs will be permitted to offer attest and compilation services through a temporary practice permit if the CPA's home state has licensure requirements that are significantly comparable to New York's and the CPA is in good standing in his or her licensing state.

"The law has not been changed in 60 years and the world we live in has changed dramatically during that time," said Sharon Sabba Fierstein, president of the New York State Society of Certified Public Accountants. "The law will bring CPA practice and protection of the public in step with the reality of today's internationally-oriented and technology-driven world." She added that the law will help investors and taxpayers by improving the quality of audit services provided by CPA firms.

HOW TO BETTER MANAGE YOUR FIRM'S TELECOMMUTING STAFF

Off-site work is one way to increase staff productivity, although it does present challenges in terms of management and optimizing efficiency and engagement. To help make it work best for all, a report from The Conference Board (www.conference-board.org) provides some insights from recent research.

Some findings of the research include:

- Effective distance teams share five practices: in-person meetings, clear agreements on accessibil-

ity, good use of group software, adequate company support, and clearly defined roles for all.

- Almost 80 percent of the respondents believe that the extra costs of enabling employees to work off site do pay off, although over 60 percent said managing on-site employees is easier than managing distance workers.

- Fifty-three percent of managers reported spending more than an hour a week developing working relationships with distance employees, but only 18 percent of employees believe their managers spend that much time with them.

AICPA OFFERS FREE JOB SITE

The AICPA has established a free online job finder at www.cpajobfinder.com.

"With some firms downsizing while others are adding professional staff, we are in a unique position to be able to help firms to work together in resolving their staffing challenges," said Barry Melancon, president and CEO of the AICPA.

The job center is a component of the AICPA's new Economic Crisis Resource Center (www.aicpa.org/economy).

NEW RESOURCE FOR BENEFITS BENCHMARKS AND METRICS

Benefits are an expense that CPA firms (and all employers) are trying to control now more than ever. The just-released *Benefits Benchmarks and Analysis 2009* report provides benefits-specific benchmark data from major resources that can be helpful in this quest.

This first-time collection from IOMA includes corporate benefits benchmarks, health care costs and plan benchmarks, pharmacy costs and plan benchmarks, 401(k) and pension plan information, data on retiree benefits, and more. For more information, go to www.ioma.com/hr or call 973-718-4700 and ask for report 3223C.

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them informed about how the economy is affecting the firm.

● **CPA firms now have an opportunity to redirect their strategies.** Whether your firm is one that was very growth-oriented and now needs to redirect or your firm has not focused upon growth up until now, it is time to reconsider this issue in light of the current market and opportunities.

“Firms are finally starting to get serious about growth,” noted Crosley. “They’re looking at all the things they haven’t done in recent years and are seriously evaluating how to rectify their ambivalence about driving growth. As a result, I see them considering or implementing hiring business developers, learning how to develop opportunities to increase the odds of winning clients, investing in sales training, and motivating partners to get more engaged in growth.”

Agreed Reeb, “We are trying to get our firms to see changes as opportunities. CPAs are needed in every economy. We give the message that changes like this can be seen as a time to hunker down and hold on, or leap-frog your competition. While we need to be cautious, it is time to aggressively market our services, and even more important, rebrand our services to fit with the current outlook. We have plenty to offer our clients, and our focus needs to shift from compliance to assistance in getting through these troubled times.”

Reeb suggests a variety of ways to do this, including: rebrand internal auditing skills as “lean and mean assessment” services; emphasize fraud detection services; offer performance measurement services; and emphasize financing and cash management services.

Value is always in fashion, never more so than when clients are pinching pennies,

noted Erickson. Offer to review fee structures, and actively demonstrate ways you can save money for the client through your work. This will impress clients and build goodwill.

In addition, be proactive in asking clients about critical business decisions they are facing this year. “We can help with this and it brings greater perceived value,” Erickson said. Your small business clients are likely to be suffering more in this economy because of limited credit availability; consider how you can help these clients, and offer ideas and options. □

Steal These Ideas

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be able to pick up ideas about practices that your firm administrator and/or human resources manager can adapt for a CPA firm environment.

The Society for Human Resource Management, the largest association for HR professionals, recently recognized a series of HR practices developed in the current economic downturn. SHRM believed these practices were so notable and helpful to others in HR, it has granted \$1,000 to the HR professionals who developed them.

Some of these are innovations and some are simply good practices that an HR person spearheaded and pushed through—and as all CPA firm leaders know, simply pushing through good ideas may be just what is needed to achieve similar changes at your own firm.

Economies for the recession. SHRM recognized in particular HR practices that attracted and retained talent through leadership training and career development, created cost-cutting strategies to avoid layoffs, reduced health care costs through employee wellness programs, and implemented financial literacy programs

to help employees in difficult economic circumstances.

Here are some of the winning strategies that are especially useful for CPA firms:

- **Avoiding layoffs.** Karen Wolf, HR manager at Dorner Mfg. Corp., spearheaded a plan in which all 170 employees—including senior executives—agreed to take a “layoff” of one week per quarter in 2009. This action was taken to prevent permanent layoffs, and mirrored a similar initiative that worked for the company during the 2001 recession.

The Wisconsin-based manufacturer saw buy-in the first time it tried this strategy because everyone in the company “took an equal hit.” Wolf reported to SHRM that “In the fall of 2008, we held company-wide meetings to update everyone on how our business had been impacted by the downturn and our plan to once again implement the 2001 layoff strategy. Our employees understood the need for this action and were supportive.”

The current initiative was to begin in the second quarter of the organization’s fiscal year (which runs from Jan. through March). Employees are eligible to apply for unemployment benefits for the layoff periods. “Following their short layoffs, employees will be caught up on their health insurance, life insurance, and other benefits,” she said. Employees choose their layoff weeks, and a schedule will be posted on the company intranet.

- **Cost cutting.** Employee-driven cost cuts, which were used to continue to fund career development and training, were the initiatives for which Catherine Harris, organization development specialist for Toyotetsu America, Inc. was recognized.

The company is based in Kentucky and is a supplier to the automotive industry.

Despite a “dramatically reduced product schedule,” the company wanted to keep its specialized talent and continue to train and develop these valued people.

“Our human resource department devised a strategy to continue providing a full program of career development training to employees by asking them to dig deep and find new ways to cut costs,” according to Harris. “They rose to the challenge and submitted thousands of dollars in additional cost savings. We have also been able to provide the same level of training by adjusting the training schedule to allow for smaller groups and more classes in order to not affect the work schedule or require overtime.”

- **Trimming health care costs.** Offering a cash waiver out of the health plan has proved a money saver and a way to retain excellent health benefits at Central Susquehanna Opportunities, Inc. (CSO). Juliann Brown, HR director, described how the initiative worked for the private non-profitable charitable 501(c)(3) organization in Shamokin, Pa.

The organization needed to react to the downturn’s impact on funding sources, she said. “The purpose of our health waiver strategy is to maintain an excellent benefits package to retain staff and keep morale high during these tough economic times, while at the same time reducing our costs.”

The organization provides medical benefits without charging a premium, which is not only attractive as a retention strategy but helps with recruiting as well, she noted. Instead of instituting premiums, CSO chose another way to address health care costs.

“Our new plan will allow employees to

‘Talented employees are the primary source of a long-term reputation of excellence.’

take a full or partial medical waiver option to eliminate unnecessary health benefits and increase their take-home pay." Employees who have the option of being covered under another family member's plan can choose to waive full or partial coverage.

"We are increasing waiver payments from \$1,500 annually to \$3,500 for waiver of all medical benefits and \$3,200 to enroll in only dental and/or vision benefits." Waiver payments will be paid out biweekly to employees; the money can then be used to cover a premium on another insurance plan if needed for this purpose. "To be eligible to waive medical benefits, employees must have proof that they are covered under another plan," she added.

Employees were notified of the new option in Dec. 2008, and the new plan went into effect on Jan. 1, 2009. Internal surveys showed that 19 employees out of the approximately 92 employees eligible for medical benefits are interested in a full medical waiver, and seven eligible employees stated they would consider a partial waiver. "We currently have 12 employees waiving benefits, four of which are partial waivers. We have estimated a total annual savings in excess of \$80,000 by 2010 by offering this waiver option. This strategy will enable us to continue to pay 100% of the premiums for employees and their qualified dependents despite the economic challenges we face."

- **Investing in training.** Economic pressures notwithstanding, nonprofit Noblis chose to put employee development at the top of its list of initiatives—and increased its investment in training and development. The reason, according to Kim Jackson, senior HR staff, is that the Falls Church, Va., company that works with science, technology, and strategy recognized the importance of ongoing investment in employees.

"We see three main benefits," Jackson explained. "First, talented employees are the primary source of a long-term reputation of excellence in science, technology, and strategy. Second, knowledge-based companies have to ensure that employee skills evolve with markets and with marketplace issues. And third, continual investment engages high performers and helps keep them with the company longer."

Noblis increased its professional training budget, doubled participation in the formal leadership program, and made a substantial investment in a new online performance management system to be rolled out to all of its over 700 employees early this year.

Participants in the leadership development program will improve their ability to address clients' complex systems as well as process and infrastructure problems, and they will develop skills that are immediately applicable to corporate initiatives.

The new online performance management system replaces an unpopular paper appraisal process and will provide a better understanding of how each employee's performance links to company goals, Jackson said. In addition, the new system provides tools to add, modify, and track progress on assignments and fosters a more meaningful dialogue between managers and employees.

- **Wellness programs.** After Ellis County, Tex., saw its workers' compensation premiums double in Jan. 2008, it took action. Diana Buckley, HR director for the county, described the wellness program that has already cut those premiums by 3 percent in a little over three months.

The program was launched at a health fair in Sept. 2008 which was attended by over 300 of 550 employees. Flu shots were administered to 160 attendees; other of-

ferings included blood pressure, glucose, and cholesterol readings. Information was provided about exercise strategies, blood donations, colonoscopies, healthy eating, and other topics. Forty vendors and seven insurance plan providers participated.

A survey culled information on the health and safety topics employees wanted to learn more about. The county launched monthly classes to address those issues and also partnered with the Texas AgriLife Extension Service to provide educational handouts delivered with each paycheck.

“County employees are thrilled,” Buckley said. “They feel that the leadership truly cares about them as people. They are reading the wellness materials, attending the classes, joining the YMCA, and doing other healthy things.”

For more information. Detailed summaries of the winning case studies can be accessed at: <http://www.shrm.org/about/awards/Pages/econstudies.aspx>. □

Succession Planning

CONTINUED FROM PAGE 1

While firms have made some progress in succession planning in the last few years, the economy may draw your attention away from this issue. Keeping it at the forefront of your retreat and your planning for the rest of 2009 and into 2010 is critical. There may be issues that are of great urgency as your firm adjusts to the economy, but as the population of owners continues to move toward retirement, continuing with or launching your succession plan is a must to make sure that your short-term adjustments will have a long-term payoff.

Where firms stand now with succession. AOMAR’s 2009 CPA Firm Practice Management Survey asked respondents to

tell us how their firms are addressing succession, partner retirement, and related areas. The research was conducted in the summer of 2008, before the impact of economic changes was fully recognized.

Succession remains a critical issue among CPA firms, the research indicated. However, only 19.1 percent of respondents said their firms have a formal, written succession plan that is part of the firm’s partnership agreement and incorporation documents. Another 11.7 percent said their firms do have a formal, written plan (see Tables 1 and 2).

Another 4.3 percent are revising their plan now, and 14.9 percent have an informal plan that is being developed into a formal, written plan this year. Where no plan exists, 28.7 percent indicated the owners are working on adopting one within the year.

It would seem that larger firms would be more likely to have a plan in place than smaller firms, but this is not necessarily the case. For instance, while 26.3 percent of firms with \$10 million in gross fees or more do have a formal, written plan that is part of the partnership and incorporation documents, more than a third (36.4 percent) of firms in the \$3-million to \$3.99-million group have such a plan.

Other owner issues. Firm structure, capital contributions, and partner retirements were other owner-oriented issues explored in the research:

- **Operating structure.** The most common operating structure among responding CPA firms is an executive committee management with a managing partner in charge of purely administrative matters (in

**Keep succession
at the forefront of
retreat planning.**

place at 30.5 percent of the responding firms); see Table 3.

The second most popular arrangement (23.2 percent) is a managing partner functioning as a chief executive officer with no “board-type” structure; the managing partner makes major decisions (see Table 3).

● **Partner retirement.** Among the survey respondents, few anticipated imminent

partner retirements in the current fiscal year. Just 13.6 percent said one to two partners were expected to retire, although this percentage was higher for larger firms: 36.4 percent of firms with \$10 million in gross fees or more and 31.8 percent of firms with more than 50 people anticipated that one to two partners would retire in the current fiscal year.

Among firms that are paying out retire-

Table 1. State of Succession Planning, by Gross Fees

	Overall	Less than \$500K	\$500K to \$1M	\$1M to \$1.99M	\$2M to \$2.99M
There is a formal, written plan that is part of the firm’s partnership agreement and incorporation document.	19.1%	0.0%	12.5%	20.0%	8.3%
There is a formal, written plan.	11.7	6.7	12.5	6.7	16.7
There is a formal, written plan that is being revised this year.	4.3	0.0	0.0	0.0	8.3
There is an informal plan that is being developed into a formal, written one this year.	14.9	20.0	0.0	13.3	16.7
There is a plan for the replacement of only the managing partner.	4.3	6.7	0.0	6.7	0.0
No informal or formal, written plan exists now, but the owners are working on one this year.	28.7	26.7	62.5	33.3	41.7
No informal or formal, written plan exists, and there is no plan to develop one.	16.0	40.0	12.5	13.3	16.7
Other	4.3	0.0	0.0	6.7	8.3

(Source: AOMAR’s 2009 CPA Firm Practice Management Survey)

Table 2. State of Succession Planning, by Number of Personnel

	Overall	1 to 5	6 to 10	11 to 15	16 to 25
There is a formal, written plan that is part of the firm’s partnership agreement and incorporation document.	19.1%	0.0%	21.4%	0.0%	25.0%
There is a formal, written plan.	11.7	6.7	7.1	10.0	10.0
There is a formal, written plan that is being revised this year.	4.3	0.0	0.0	0.0	5.0
There is an informal plan that is being developed into a formal, written one this year.	14.9	20.0	0.0	30.0	15.0
There is a plan for the replacement of only the managing partner.	4.3	0.0	21.4	0.0	0.0
No informal or formal, written plan exists now, but the owners are working on one this year.	28.7	33.3	35.7	50.0	25.0
No informal or formal, written plan exists, and there is no plan to develop one.	16.0	40.0	14.3	10.0	15.0
Other	4.3	0.0	0.0	0.0	15.0

(Source: AOMAR’s 2009 CPA Firm Practice Management Survey)

ments, the percentage of gross fees paid to retired owners averages 2.3 percent this year and is projected to remain the same for the year ahead.

These figures may indicate one reason that CPA firms are reluctant to address succession issues—there simply is not a great expense now from retirement pay-outs, nor do firms see immediate retirements looming, so the issue continues to be tabled

until those facts change.

● **Capital benchmarks for owners.**

Another reason that CPA firm owners should pay attention to succession issues sooner rather than later is that 20.8 percent of respondents indicated that capital requirements for owners have increased in the past year. The average percentage increase was 16.4 percent. For many firms, however, capital expenditures have been stable; 76.4 percent reported that expenditures stayed the same during the most recent fiscal year.

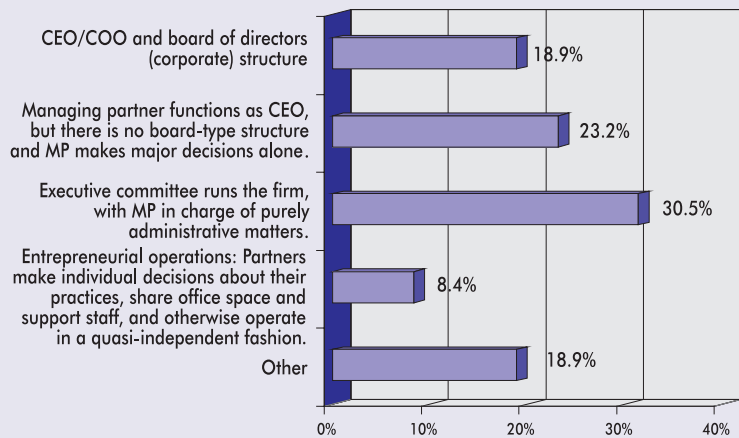
Increased capital expenditures are a topic of which owners should be extra aware during an economic downturn. Understanding where money is being spent—and being more thoughtful about this—is a strategy that all CPA firms would do well to include as a top priority on summer retreat to-do lists.

For more information. Complete results of the survey are in the *CPA Firm Statistical Analysis Reference Handbook 2009*, available at <http://www.ioma.com/cpa> or by calling 973-718-4700. Ask for product number 3315C, or use the form on page 16 to order. □

\$3M to \$3.99M	\$4M to \$9.99M	\$10M or more
36.4%	30.8%	26.3%
0.0	30.8	10.5
9.1	7.7	5.3
18.2	15.4	15.8
0.0	0.0	5.3
18.2	15.4	21.1
9.1	7.7	10.5
9.1	0.0	5.3

26 to 50	More than 50
35.7%	26.3%
28.6	10.5
7.1	10.5
7.1	15.8
0.0	5.3
21.4	15.8
7.1	10.5
0.0	5.3

Table 3. Operational Structure of CPA Firms



(Source: AOMAR's 2009 CPA Firm Practice Management Survey)

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- Partner compensation (excluding bonuses or perks) rose slightly to \$347,071 for the highest-paid owner group in 2008. For owners in the middle or average compensation range, compensation declined 5.6 percent to \$204,292.
- Average NIPP increased slightly, from \$280,009 in 2007 to \$283,364 in 2008.
- Billing rates for CPA firm owners declined on average \$4 per hour to \$225 in 2008. Billing rates were also down for supervisors/managers, seniors, juniors, and non-CPA juniors. Paraprofessionals held steady at \$81. Marketers were the exception, with a 24 percent increase on average to \$152 per hour.

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