

5 FORTUNES OF CPA FIRM GOVERNANCE



GOVERNANCE IS BOTH LOCAL AND GLOBAL

Imagine a CPA firm with no governance structure at all. Imagine, also, the American Old West and a time when gunslingers created a reputation for being known as “quick on the draw.” A strong reputation—whether truly based on skills or simply a perception of skill—was often enough to keep others from encroaching on the gunslinger’s world. Some gunslingers were heroes while others were renowned villains. Some even became legends, but in every case, a gunslinger was an individual fighting for his *own* reasons, his *own* purpose and to protect his *own* turf.

CPA firms are managed under a variety of leadership paradigms ranging from command-and-control to a more formalized corporate structure. Some firms operate as an association of CPAs where fixed costs are shared. Leaders choose the one that is the best fit for what they wish to accomplish globally and in relation to what will resonate best individually (or locally) with the partners, managers and employees of the firm.

EMPHASIZING ENTITY PERFORMANCE TO ELIMINATE SILOS

There is no *one size fits all* answer to designing and applying an effective governance model. Command-and-control consolidates power in one strong leader. A corporate model distributes governance responsibilities and power through a structure that values leadership, transparency of privileged information, and a healthy flow of communication vertically and across all disciplines of the firm. Organizations with no leadership control are chaotic and are characterized by an environment wrought with political silos of staff who fight turf wars, protect their turf and seek to satisfy their own self interests before serving the greater needs of the firm. The “gunslinger” CPA consolidates power in himself for his own purposes and infrequently through his own merits. Poor governance structures value politics and create an environment ripe for the gunslinger mentality.

A firm with sound governance is one that drives toward a global purpose that is communicated to the masses in a way that every pay grade buys-in. Partners, managers and staff are then incentivized “locally” to perform in line with metrics that are established to achieve the “global” objectives of the firm.

A strong governance infrastructure creates a firm that values entity-wide performance, collectively works to pursue goals and objectives, eliminates political silos and ultimately is a sustainable entity that can readily transfer to future generations of owners.

A SUSTAINABLE AND TRANSFERABLE FIRM IS A VALUABLE FIRM

The valuation of a professional services firm is impacted from many directions including partner unity, sales growth, professional development, enhanced internal efficiencies, and tight quality control to protect a firm's brand. Sustainable growth of a firm is affected by culture, tone at the top, and firm leadership keeping their eye on the horizon to understand where the firm is headed and what strategy, tactics and monetary investment might be needed to get there. Firm sustainability is important because it provides for future partner retirements, the livelihoods of current and future employees, professional growth opportunities and a basis for determining the value of the firm.

Collectively, the aforementioned valuation elements of a CPA firm are tangential to firm governance. Strong governance fosters a culture of trust and respect for performance. Some elements of governance are *foundational* in that they must be in place to simply operate a firm. Others are *aspirational* meaning that with the right structure, process and discipline a firm can achieve the greater success to which it aspires.

A firm that is both sustainable and transferable is a firm that achieves its maximum enterprise valuation by using governance as a foundational and aspirational element at the core of the business.

This whitepaper addresses five (among many) benefits of effectively deploying a governance structure in a CPA firm. We will first seek to provide a functional definition of governance that will then frame our deep dive discussion of the five benefits we've chosen to highlight. We hope you find the content provided herein insightful and valuable to your firm.



IGA lives and operates in this space on a daily basis and we're happy to share our expertise with you in the hopes that it might help you define the right-sized, right-shaped governance infrastructure for your firm. We hope you succeed and find the good fortune of exponentially advancing the growth and prosperity of your business.

To Your Sustained Success,

Dan McMahon

Managing Partner & Business Growth Advisor

CONTENTS

- I. WHY FOCUS ON GOVERNANCE?
 - II. THE BUSINESS OF THE FIRM
 - III. DEFINING GOVERNANCE
 - IV. FIVE FORTUNES OF CPA FIRM GOVERNANCE
-

Leading a CPA firm as a Managing Partner and CEO is a challenging endeavor that involves hard work, determination and a commitment to viewing the big picture while guiding partners who function *in the firm* as practitioners and are also incentivized to work simultaneously *on the firm*¹.

Governance relates to working on the firm to develop systems and processes designed to withstand the constant waves of change. Governance is the best path to change management and building a sustainable and transferable firm. Additionally, governance drives a higher firm valuation.

The pages that follow explore key elements of governance for CPA firms of any size. The Five Fortunes outlined describe some core benefits of an effectively designed and operating governance structure. Our objective herein is to illustrate and demonstrate why governance matters.

The search for the pot of gold, and our **five fortunes**, begins here.



WHY FOCUS ON GOVERNANCE?

Governance is about envisioning the big picture, being equipped with the right data, trusting the structure, process and policies of the firm to guide employees' behavior, and make informed and impactful decisions.

The absence of governance almost assuredly has a negative impact on employees' work-life balance. Poor governance causes a lack of trust in firm leadership which, in turn, impairs profitability and achievement of important firmwide initiatives.



The Integrated Growth Advisors ("IGA") service team has served CPA firms as external advisors as well as in a variety of roles from staff accountant to partner. We have also worked as marketing and sales professionals in support of our firms' business development efforts. The prevailing thought throughout every stage of our careers—and especially whenever suffering setbacks—was *"there has got to be a better way."*

Spending unplanned weekends and evenings in the office, away from family and friends, fighting fires, often being reactive, rarely being proactive are examples of setbacks that can create unnecessary pressure on the team and therefore places unneeded strain on the firm.

Lets face it: anyone who has worked in public accounting has struggled with setbacks brought on by any number of reasons. Some reasons are unavoidable. Others can be easily addressed through governance and proactively deploying structure, process, policies and procedures, and clear communication. The IGA team has observed client scenarios—some better, some not so good—and these scenarios have formed the basis for us to develop a suite of solutions that contribute to the design and implementation of a right size, right shape CPA firm governance structure.

CPAs are seemingly always in crisis mode. The pressure to perform as a competent technician, within tight deadlines, as a trusted advisor, an effective administrator and a business owner never lets up. So, why would you want to make things any more difficult on yourself and your firm? **This is why we focus on governance.**

THE BUSINESS OF THE FIRM

Viewing a firm within a big picture context while simultaneously working within the firm requires defined roles and responsibilities. Michael E. Gerber articulated this best with his concept of working *on your business*¹, working *in your business*¹, and understanding the different perspectives viewed through the role of a CEO, a Board of Directors and the mindset of a technician (ie; a CPA). Gerber's theory, popularized in the 1990s as "the e-Myth," was—and still is—transformative. It helps business owners and leaders of closely-held organizations envision why and how larger companies thrive and survive through disciplined application of an effectively designed and efficiently operating corporate governance structure that emphasizes a division of roles and responsibilities across all segments of a firm's operations.

DISTINCT ROLES AND FOCUS OF CEO AND EXECUTIVE COMMITTEE

Beyond Gerber's theory of working on or in the business, the roles of the Managing Partner and/or CEO of a firm and the Board of Directors or Executive Committee have distinct focuses. A Managing Partner is charged with driving performance of the firm, devising its strategy and executing on the strategy to achieve the objectives. The Executive Committee—in fulfilling the role of a Board of Directors—is focused on oversight and driving a higher valuation as well as protecting the firm's valuation. The two functions work together to drive long-term and short-term success for the firm.

The Managing Partner then must work with the partners of the firm who are constantly challenged to balance several priorities including, but not limited to, the following:

- Maintain Technical Competency
- Manage Client Relationships
- Possess Sense of Business Acumen
- Retain and Mentor Staff
- Manage Referral Source Relationships
- Lead Client Service Teams
- Meet or Exceed Billable Hours Goals
- Meet or Exceed Billings Goals
- Meet or Exceed Realization Standards
- Book of Business Administration
- Meet or Exceed Revenue Generating Goals
- Protect Partner Share Value
- Build a Sustainable Business
- Plan for Future Transition of the Firm
- Maintain Involvement in the Community
- Balance a Family and Personal Life

BREAKING DOWN INTO MANAGEABLE PARTS

The list of priorities on the preceding page calls for leadership to bring clarity to roles, responsibilities and expectations of partners and managers. Envisioning what the firm is seeking to accomplish enables firm leadership to develop and implement, when necessary, and sustain processes that compartmentalize firmwide day-to-day efforts.

The demands placed upon partners and managers originate from the Managing Partner or CEO, staff, clients, prospects and a practice administration perspective. The ***competing priorities***—in the words of one managing partner—are best labeled ‘SANITY MAINTENANCE.’ *And, that is so true!*

COMPARTMENTALIZING THE DAY-TO-DAY

A business will not exist unless it generates revenues, prepares and utilizes skilled people to convert services into revenues and then measures how the operation is performing.

Each of these efforts are compartmentalized into **standard operating objectives**. These categories represent the ongoing, relatively straightforward metrics and areas of responsibility that any leadership team must maintain to sustain the organization. The standard operating objectives become the manageable parts through which firm leadership can effectuate a division of roles and responsibilities.

These standard operating objectives do not go away from period to period and are illustrated in the graphic below.



A NOTE ABOUT FIRM VALUE

Partners in a firm face plenty of challenges as they work to make the business perform as well as they know it can. Firms that are committed to building a sustainable and transferrable business sometimes find this to be an overwhelming task as the challenges keep coming faster and faster. Those who succeed not only achieve higher performance, they also increase the valuation of their firms, thus making their firm attractive to both those who internally become the next generation of owners, but also externally to those who may entertain merging with or purchasing the firm in the future.

ADDRESSING INEVITABLE RETIREMENTS AND TRANSFER OF OWNERSHIP

The intergenerational transfer of ownership within the accounting profession is very much at the core of why governance matters and will continue to be highlighted by the aging baby boomer population.

Young, up-and-coming talent in the profession have many options, including a range of choices from buying their own practice, starting their own business, or seeking a different career path altogether.

Sustainable firms will nurture talent and develop a culture that attracts and retains the best, most talented people.

With this said, is your firm regularly measuring partner value? Is your firm doing so from the perspective of building a sustainable firm? Or, is your firm simply pushing off measuring value to a point in the future when an M&A event is looming on the horizon?

“You can proactively act to profit from the inter-generational transfer of the accounting profession that is at play....

....or hope for the good fortune to escape being one of its victims”

~ John L. Kreischer
Founder and Former
Managing Partner
Kreischer Miller

The value of your firm is more than just a theoretical price tag. It's the single most important indicator of your success as a collective team of partners.

GOVERNANCE ROLES: EXECUTIVE COMMITTEE AND MANAGING PARTNER

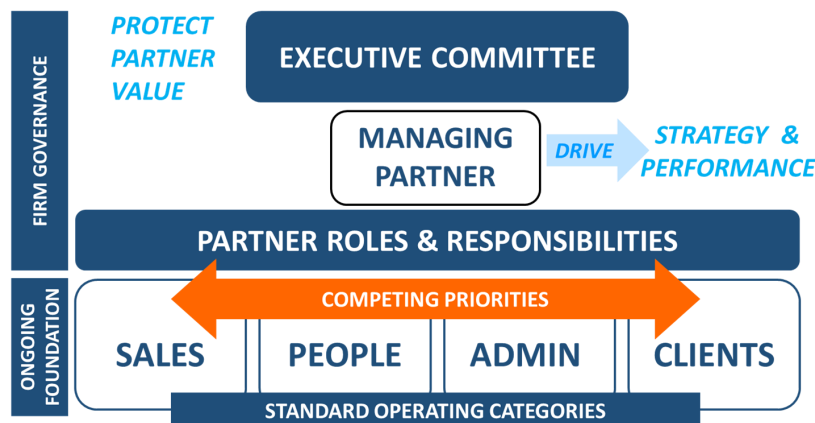
Firms typically do not communicate internally about value in a clear and concise way.

There is no straight-line correlation between profitability and value. In other words, a profitable firm may not always be a valuable firm whereas a valuable firm *is often also* profitable.

We, as CPAs, are taught to focus on the bottom line. We focus on partner compensation as a driver of the P&L. We often operate as if the P&L is all that matters—but the bottom line, profit and cash flow are all just a piece of the puzzle. Focusing on these measurements alone will never generate a higher valuation for the firm.

Ultimately, what really matters to the owner of a business upon transfer to a buyer—internal or external—is the quality of the business asset. We know this as CPAs in our subconscious mind, but do we apply what we inherently know to our own businesses?

An Executive Committee that represents CPA firm owner-partners is tasked with protecting the valuation and overseeing the Managing Partner's performance. An Executive Committee fulfills a key role and function of a Firm's Governance structure because of its objectivity and checks and balances.



The Managing Partner is tasked with driving strategy & performance whereas the Executive Committee is tasked with protecting partner value. This extends beyond a measure of performance into the realm of understanding sustainability and transferability through measuring culture, process, firm governance structure and other intangibles as well. A firm's order of governance and relevant roles is illustrated above.

DEFINING GOVERNANCE

Developing, deploying and executing on the best governance structure for a firm is affected by the cost/benefit relationship of what extent of governance is desired in order to accomplish the goals and objectives of firm ownership and leadership. This section will seek to define governance, highlight common challenges that are mitigated by governance and present a model that helps envision the breadth and depth of the areas encompassing firm governance.

GROWTH, CONTROL, TRANSITION

Managing Partners of CPA firms commonly encounter challenges around growth, control and transition² related matters of their firms. Partners of firms with little to no governance or structure find themselves in the unenviable position of fighting fires in each of these areas on a daily, sometimes even hourly, basis.

A firm that is growing too fast and cannot fulfill delivery promises made to clients in the sales cycle is working to overcome challenges related to **growth**. On the contrary, a firm that is growing too slowly due to issues confronting their ability to compete in the marketplace is suffering from growth related challenges.



Consider the firm where decisions are made based exclusively on needs of staff or needs of clients, the needs of regulators or the needs of the firm's bank or investors. Such a firm is suffering from fighting **control** related fires. Firms

that are in a start-up phase commonly are faced with control challenges, but even established firms are not immune.

CPA firms fight fires related to **transition** given the wide variety of generations present in the firm and the nature of recruiting, people development and mentoring people along an upwardly mobile career path. Governance builds trust in each generation as they move along the continuum of their career paths.

What can you say about the challenges of your firm? How would they relate to growth, control or transition? Would a proactive, effectively designed and operating governance structure mitigate those challenged areas?

FIRM GOVERNANCE—WHAT IS IT?

CPA firm governance is defined differently depending on who you ask. There is no one-size-fits-all structure. Generally, firm governance is the oversight and management of the firm, including its strategy and alignment of tactics, and its execution on those strategies and tactics.

CPA firm governance is affected by a firm's purpose, culture and values, the flow of information and the effective communication of privileged and non-privileged information. Accountability, incentives and rewards, and risk management are affected by roles and responsibilities, policies and procedures, and metrics and goals. Governance is originated from the highest level leadership at the top of the Firm but also encompasses all aspects of the business.

THE SPHERE OF GOVERNANCE

The CPA firm's operating environment consists of depths and layers and functions that exist within a larger sphere or globe.



SPHERE OF GOVERNANCE

Consider this analogy. Earth and its atmosphere is also a sphere. The topography of earth changes geographically and ecosystems survive and thrive where there is ecological balance. The earth's sphere contains its atmosphere; the earth's crust—consisting of mountain ranges, deserts, forests, jungles, rivers, oceans and lakes; the mantle; its inner and outer core: all are part of the earth's geology and ecology. Each layer has its own characteristics and each contributes to the sphere of the earth as a whole.

Firm governance is a sphere, its contents consisting of the levers and controls and oversight that are the lifeblood of the firm. Governance is dynamic, multi-faceted, multi-dimensional and all-encompassing of an entire organization's purpose, culture, values and environment, and communication mechanism for sharing information. Critical aspects of governance are environmental (atmospheric), structural (geological) and functionally balanced (ecological).

Strategy, leadership, and tactics govern the path to the firm's failure or success.

CLARITY AT THE CORE

The sphere of governance relies on culture, purpose, values, strategy, leadership and tactics to collectively govern the journey of the firm through its seasonal peaks and valleys and intangibly impacts the day-to-day balance of the lives of partners, managers and employees.

How can you effectuate growth, success, and a higher firm valuation? Our view is that *clarity at the core* drives overall **E**ffective **C**orporate **G**overnance (“ECG”). And, ECG drives growth, success, and a higher firm valuation.

The simplest way to drive sustainability, transferability, growth and valuation is to:

- Clearly outline roles and responsibilities
- Communicate and drive adherence to clearly understood policies and procedures
- Manage partners, managers and staff against clear metrics and goals



Incentivizing partners and employees to perform within their roles and responsibilities and based on achieving their goals becomes a binding agent that cements the firm's vision and leadership to actual results.

Sound policies and procedures around quality control, efficient processes and human resources related

matters combine with clear roles and responsibilities to enhance the effectiveness of the firm's risk management function.

And, finally, as indicated at the core of the sphere of governance, effective internal reporting helps to inform management and employees about their pursuit of goals as measured by metrics.

Clarity at the core of the sphere of governance serves to guide the day-to-day activities and decisions of firm partners and employees.

FIVE FORTUNES OF CPA FIRM GOVERNANCE

The compilation and analysis contained herein was derived from our expertise, our actual client service experience, our extensive work with CPA firms and interviewing CEOs, managing partners and industry leaders. We also list books and other publications that have been referenced on page 20. All efforts were undertaken after we had developed an outline for this paper that was based on our initial hypothesis.

We tested our hypothesis through research and industry interactions. We aimed to provide a definition of governance and highlight some of the key benefits of a governance structure that is both effectively designed and efficiently operating. The Sphere of Governance model and our definition of governance is included to provide context and a framework to encompass our Five Fortunes of CPA Firm Governance. These fortunes are only a sampling of benefits mined from an effectively designed and operating governance structure.

CPA FIRM GOVERNANCE—ASPIRATIONAL AND FOUNDATIONAL

Governance—for good reason—is easily imagined and defined when considering the internal control structure and requirements of a public company. On the other hand, governance can be highly subjective when applied to the real life scenarios of entrepreneurial and privately-held CPA firms. Our research helped us articulate something that we may not have envisioned or inherently understood at the onset of our work.



We struck gold in that we learned private company governance consists of elements characterized as either being foundational or aspirational. And, that there is no right-sized, right-shaped governance model that can be helicoptered in to aid private company or CPA firm executives.

This became more clear to us when we considered the realistic possibility and cost/benefit relationship of implementing certain aspects of a sound governance infrastructure. Our Five Fortunes are both foundational to a degree and may also be aspirational depending on the life cycle stage of the firm, the enterprise's appetite for risk and budgetary factors.

FIVE FORTUNES OF CPA FIRM GOVERNANCE

Illustrating our five fortunes in hierarchical form helps articulate the fact that some benefits are primarily foundational, some are very much both foundational and aspirational and some are primarily aspirational.



We will explore and discuss each “fortune” in more detail as follows.

ATTRACT, ENGAGE, RETAIN

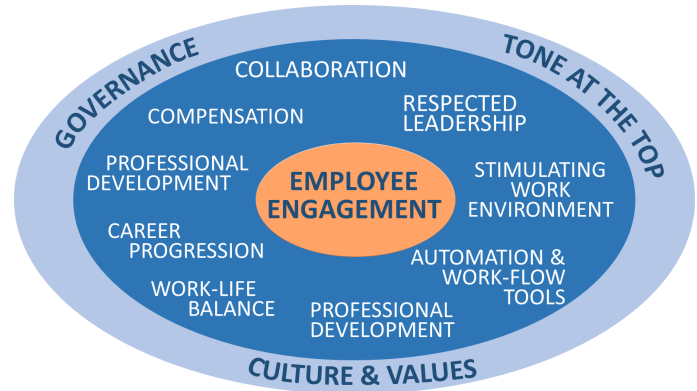
Its no secret that the most valuable asset to a professional services firm is its people. The intellectual capital that occupies office space each day is what a firm is all about. A recent business journal article sites a Gallup, Inc. team coupled “historical workplace information and roundtable discussions with chief human resources officers (“CHROs”) and economists to better understand how to maximize the potential of today’s tech-connected, multi-generational workplace. Whether you’re a small organization or a multi-national, the research shows that the real job of managers involves escalating employee engagement.”¹³

A CPA firm competes for clients based on the quality and capabilities of its people. A firm makes money when its people are focused, accountable, skilled and able to efficiently serve clients. A stable firm accomplishes succession objectives and covers partner retirement obligations by transferring ownership to people who advance their careers along a clearly understood career continuum from staff to partner. Sound governance propagates a trusting environment where senior partners are able to retire with confidence that the firm will continue to sustain and systematically meet its retirement obligations.

Quality people are attracted to a firm that delivers on its promises to clients and staff alike. Firm governance provides structure for people and incorporates a human resources and personnel management function that produces a culture of professional growth.

ATTRACT, ENGAGE, RETAIN, *continued*

Another recent Gallup report states that an overwhelming 70% of American employees are not engaged at work.⁷ Employee engagement is driven by many factors and affected by governance, leadership's tone at the top and cultural values. A happy employee, manager or partner is an engaged member of the team.



Significant dollars and time are invested to recruit, hire, train, and develop employees and partners. The cost of losing people can range from tens of thousands of dollars to as much as 2.0x an employee's annual salary.¹⁴ Therefore, it follows that retention of people is a foundational element of the firm's ability to grow and achieve high performance. Sustainable and transferable firms deploy a governance model and promote a culture that attracts, engages and retains the best, brightest and most talented people.

EFFECTUATE HIGHEST AND BEST USE

The Real Estate Industry defines the concept of *Highest & Best Use* as a key appraisal and zoning principle employed in valuing any parcel of land or property. The highest and best use is that which results in the highest present value, and brings in the greatest net return over a given period of time. The value of, and return on, a property are related to its surrounding environment.

Conceptually speaking, "surrounding environment" might correlate to a firm's "culture and values and team environment." Successful firms deploy their people based upon their *Highest & Best Use* to drive success of the business and bring the greatest net return to the firm.

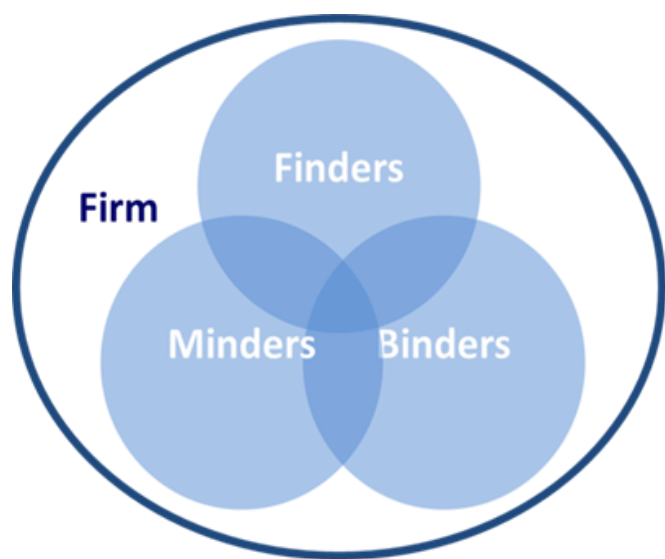
One managing partner, when interviewed about governance, responded by saying "first and foremost, its all about the managing partner." She went on to explain that governance enables her, as Managing Partner and CEO, to perform as leader of the firm. Governance becomes the set of tools that a leader can rely upon to engage others in pursuit of carrying out the firm's mission.

EFFECTUATE HIGHEST AND BEST USE, *continued*

There is an old adage that a CPA firm is made up of Minders, Binders and Finders. Some may also say—with tongue in cheek—Grinders too. The fact is, the machine that drives a CPA firm requires a diverse set of skillsets. Development of new business, development of people, firm administration and delivery of services all must work congruently from a firm's operational perspective. Many firms align the efforts of their partners along the lines of their skills and highest and best use.

Contrarily, many firms are challenged by the dynamic created by Quality Control ("QC") focusing exclusively on QC while limiting their communications with others, the rainmakers focusing exclusively on developing new business while projecting the appearance that they are not attentive to details, and those working on the front lines servicing clients are seemingly always caught in the middle. Team unity is therefore at risk.

Governance speeds the path to achieving a model that enables the Managing Partner to lead and drive a team focused on what each individual does best. The result is synergistic. The result is a whole that is greater than the straight-line sum of its parts.



Talent Configuration of a Sustainable CPA Firm

Envision a sustainable CPA firm whereby those at the partner and manager levels understand the contributions each team member brings to the success of the firm. Consider the firm that respects each other's roles as crucial to the firm's ability to meet the needs of the marketplace. These firms consist of happy and fulfilled people who deliver exceptional service to clients. Meanwhile, QC mitigates risks to the firm.

Now, imagine the Managing Partner performing in the capacity of her highest and best use to drive performance. Imagine also the partner earnings of a firm that is clicking on all cylinders.

Successful CPA firms earn a fortune through the foundational and operational aspects of success by **effectuating highest and best use** of the firm's people.

WHAT GETS MEASURED GETS DONE

“What gets measured gets done, what gets measured and fed back gets done well, what gets rewarded gets repeated.”

~ John E. Jones, III¹⁰

Clarity at the Core outlines the essential components of a firm’s governance structure. Roles & responsibilities, policies & procedures and the intersection with metrics & goals reveals how internal reporting relates to incentives & rewards. “What gets measured gets done” is about accountability and clarity of expectations and measuring achievement of objectives.



Clarity at the Core

Leaders who set clear objectives, identify measures, ensure consequences and provide ongoing feedback and follow up ensure accountability in themselves and in others¹¹. Governance addresses each of these aspects by systematically incorporating a process of metrics & goals, internal reporting and incentives & rewards. The end result sets the table for achieving objectives and taking steps toward success.

METRICS & GOALS

What is the firm trying to accomplish from a firmwide perspective? Are individual goals aligned with firmwide objectives? Metrics are designed to affect actions and results from the individual as well as collective perspectives. Clear goals for individuals and the firm must be **S**pecific, **M**easurable, **A**ttainable, **R**ealistic and defined with a **T**arget date (“SMART”).

INTERNAL REPORTING

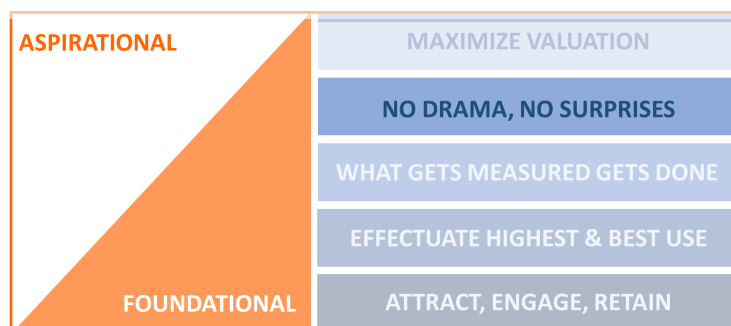
Metrics assigned to manage SMART goals assure accountability for results and progress toward firmwide objectives. Internal reporting is integral to firm governance in that it consists of the firm’s management reports that support a firm’s ability to manage progress.

INCENTIVES AND REWARDS

Compensation and bonus mechanisms are intended to tie measures to consequences. Effective governance deploys metrics and goals that are managed by internal reports with the goal of encouraging positive actions and consequences. **What gets measured gets done and what gets rewarded gets repeated;** good words to encourage investment in developing and implementing an effective firm governance process.

NO DRAMA, NO SURPRISES

- What risks and threats are prevalent on the horizon for your firm?
- Are your partners individually positioned to capitalize on opportunities relative to their respective practice areas?
- What keeps you up at night?
- What opportunities exist for the firm?
- Is your firm systematically addressing each threat, risk and opportunity in a manner that is not disruptive to the daily operations of the firm?
- Is there a feeling deep inside of you that there are simply not enough hours in the day?
- Are you leading from the front? Or does it feel like you are leading from behind?
- How far into the future can you effectively forecast your P&L? And, do you historically meet or exceed the forecasted results?
- What mechanisms, levers or tools are at your disposal to keep you and your firm on the path to success? How does governance benefit a leader?



Many questions come to mind when considering the benefits of an effectively operating firm governance structure and the benefits of such for a Managing Partner or CEO. A firm-wide acceptance of sound governance is a must have for an effective leader.

LEADERS ARE UNDERPAID AS A PRICE TO LEAD

Employees, managers and partners all fulfill an important need in sustaining the firm. Leaders must efficiently capture the energy and good work of the masses today in a way that translates to a favorable outcome six months from today.

Talented leaders live and operate in the future. They create the pull to bring their followers forward and to achieve progress and results. Furthermore, a leader must have the goodwill of all in mind when she creates that pull. Leadership is as much—*or more*—an art as it is a science. It's common to hear the saying "that's why they get paid the big bucks." Well, in reality, leaders are always underpaid as a price to lead whereas followers are always overpaid as a price to follow⁸. So, how does a talented leader relieve herself of the burdens of leadership so she can assure a favorable outcome of progress and future results for her team?

NO DRAMA, NO SURPRISES, *continued*

“The best way to predict the future is to create it”

~ Peter Drucker

“You talk about seeing around corners as an element of success...

Not many people have it. Not many people can predict that corner.

That is a characteristic of great leaders.”⁵

~ Jack Welch on the leadership

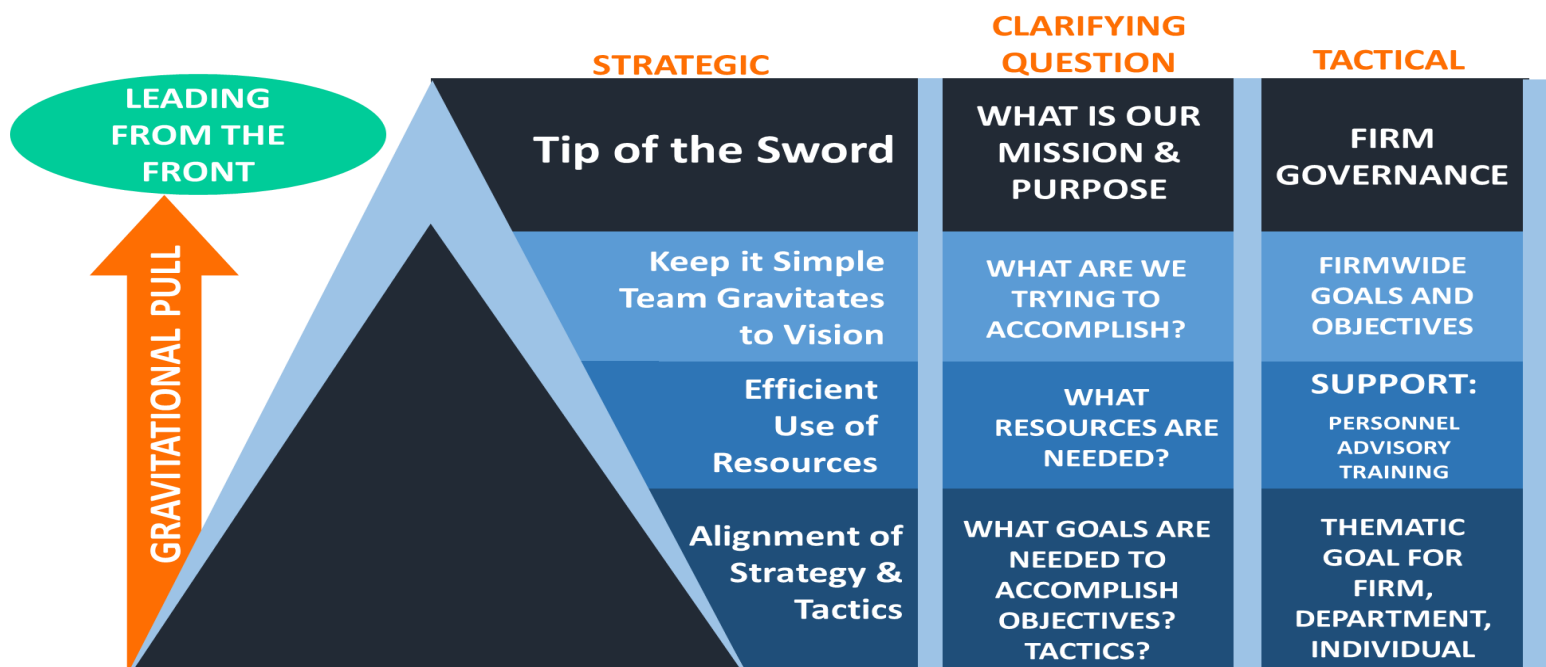
foresight of Cornelius Vanderbilt

LEADING FROM THE FRONT

Consider the questions laid out at the beginning of this section and the fact that talented leaders live and operate in a state of always envisioning “what can be” while also addressing the “here and now.”

Consider also what Jack Welch said about Cornelius Vanderbilt and his ability to build a legacy that remains intact more than 140 years since his death. Leading from the front is a characteristic of a great leader. Effectively forecasting firm results, budgeting, anticipating regulatory changes and mitigating risks are all tangible elements of an effective governance structure. These elements enable a leader to *see around the corner* and lead from the front.

Imagine the efficiencies gained when leading from the front and the role of sound governance. Does the illustration below help conceptualize this style of leadership?



NO DRAMA, NO SURPRISES, *continued*

“Governance and leadership are the yin and the yang of successful [firms]...Leadership without governance risks tyranny, fraud and personal fiefdoms...Governance without leadership risks atrophy, bureaucracy and indifference.”

~ Mark Goyder⁹

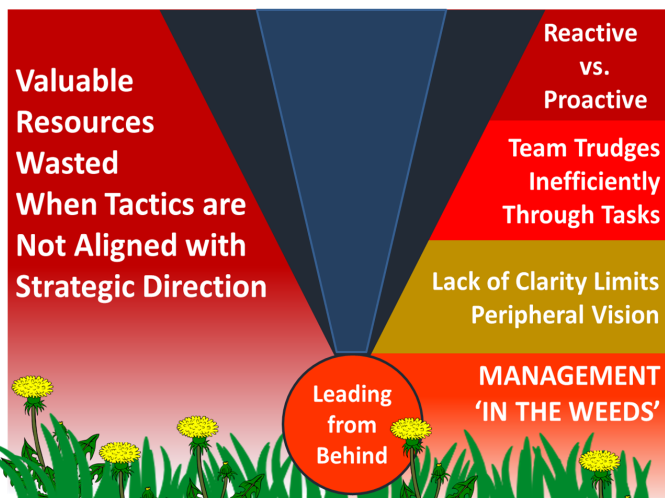
CHOOSING GOVERNANCE AND ACCOUNTABILITY

Showing up, occupying the corner office and carrying the title CEO, Managing Partner, or Executive Committee member while *winging it* isn't an approach anyone would identify as a good idea. Surprisingly, some accounting firms are plagued by highly political cultures and may not be adaptable to a governance-minded model that supports a leader's desire to lead from the front.

Leading from the front is about effectively deploying governance and accountability measures across the partner group and vertically to every paygrade of a firm. Leading the organization while eliminating waste and making the best of available resources is akin to a snow plow with a “v-blade” that throws snow away from the truck's path—anything that doesn't constructively contribute to achieving corporate objectives gets thrown off to the side while the team *plows* forward achieving objectives, goals and success. Imagine if the “v-blade” were inverted. Now imagine the characteristics of an organization that is stuck in the mounds of snow caused by leading from behind.



Leading from the front is not for every firm. It is a choice firm leadership must make with the understanding that shifting to—or sustaining—a culture of accountability starts at the



very top where the Executive Committee and Managing Partners are held accountable to achieve the objectives of the broader partner group. Firm leadership that struggles with proactively driving results drudges through tasks with no purpose or clarity of vision. The leadership choice illustrated to the left is a firm that spins its wheels, routinely facing the need to overcome **drama and surprises** while leading from behind.

<div>ASPIRATIONAL</div> <div>FOUNDATIONAL</div>	MAXIMIZE VALUATION
	NO DRAMA, NO SURPRISES
	WHAT GETS MEASURED GETS DONE
	EFFECTUATE HIGHEST & BEST USE
	ATTRACT, ENGAGE, RETAIN

~ Saint Augustine

Effective Governance yields many fortunes for a CPA firm equity partner but there is not one fortune that is more ASPIRATIONAL than **Maximizing the Firm's Valuation**.

WRAP UP

The business climate is as complex as ever. Opportunities and threats approach business owners from every direction. CPA firm CEOs and Managing Partners face industry developments that originate from several angles. To name only a few, consider the strategies and tactics that address baby boomer retirements, the existence of a leadership gap, managing and retaining millennials, a tight labor market and identifying the highest and best use of where to deploy firm resources. There are threats and opportunities from the developments in technology and artificial intelligence which are reshaping the industry and its talent.

Meanwhile, M&A desires have shifted to be more about strategic fit and valuations of CPA firms are reducing³. The role of the Managing Partner can be a thankless job yet these are the leaders who must “herd the cats,” get everyone focused, and drive the organization to achieve great things. Compensating the Managing Partner with a small stipend will not get the job done. Managing Partners are unique senior executives who must bring leadership skills to accomplish the firm’s vision, chief executive skills to develop a strategy that can fulfill ownership objectives, and decision making skills that are based on reliable data and information.

A CPA firm is a business and a business must bill, collect, develop its people, attract the best people, sell their services, market their services, and manage risks. The Managing Partner cannot do this alone. The Managing Partner is the Chief Executive Officer of a firm who choreographs and oversees the interaction and progression of all facets of the business. Firm governance distributes the roles and responsibilities of achieving success across the varying compartments of a firm. An efficient and effective governance model drives a higher valuation and successful outcomes for firm owners.

T.S. Eliot once said “only those who will risk going too far can possibly find out how far one can go.”⁶

Has your firm gone far enough to effectuate and deploy a strong governance infrastructure?

We hope you set your sights beyond the horizon and find out how far you can go.

We would be delighted to speak with you about your firm’s governance model. If we have piqued your interest in IGA’s capabilities, please do not hesitate to contact us at info@integratedgrowthadvisors.com.

NOTES AND REFERENCES

1. **The E-Myth Revisited: Why Most Small Businesses Don't Work and What to Do About It**
Michael E. Gerber Paperback – October 14, 2004
2. The concept of commonly fought fires is based on theory from Chuck Richards, founder of Chairman's View, Inc. and CoreValue Advisor Software
3. **Accounting Today | Vol. 33 | No.2 | February 2019** *Changes in M&A*
4. **The SunTrust Survey** was conducted by Wakefield Research among 500 U.S. business owners between 54 and 72 years old with annual business revenue of \$5 million to \$250 million between October 12 and October 19, 2018, using an email invitation and an online survey. Quotas were set to ensure statistically significant data by company size: less than 500 employees, 500-1,000 employees and more than 1,000 employees.
5. **Jack Welch**, former Chairman and CEO of GE quoted on *The Men Who Built America*, History Channel Fall 2012
6. **Thomas Stearns Eliot** OM, "one of the twentieth century's major poets", was also an essayist, publisher, playwright, and literary and social critic. Wikipedia.
7. Gallup report: **State of the American Workplace** dated February 2017.
8. **Jack Kreischer**, Founder and Former Managing Partner of **Kreischer Miller** accountants and advisors, Horsham, Pennsylvania
9. **Mark Goyder** is a British Author and governance expert who is known for his work in the fields of corporate governance, corporate social responsibility, stewardship and sustainability. He is CEO and founder of Tomorrow's Company, an independent think tank that laid the foundations for the enlightened shareholder value approach and the duties of board directors as redefined by the United Kingdom Parliament's Companies Act of 2006.
10. **John E. Jones, III** is a United States District Judge of the United States District Court for the Middle District of Pennsylvania.
11. **Dave Ulrich | Norm Smallwood | 2013** *Leadership Sustainability*
12. **Kevin Cashman | 2012** *The Pause Principle: Step Back to Lead Forward*
13. **Hartford Business Journal | July 8, 2019** | book review of *It's the Manager* | Jim Clifton and Jim Harter From Gallup
14. **Huffington Post | January 18, 2017** *How much does Employee Turnover Really Cost?*
15. **Stephen R. Covey | 1989** *The 7 Habits of Highly Effective People*

NOTABLE AND QUOTABLE

“The real mechanism for corporate governance is the active involvement of the owners.”

~ Louis V. Gerstner, Jr.

“I have yet to meet members of a leadership team who I thought lacked the intelligence or the domain expertise required to be successful.

I've met many, however, who failed to foster organizational health.

Their companies were riddled with politics, various forms of dysfunction, and general confusion about their direction and mission.”

~ Patrick Lencioni

“The more effortlessly you can align, integrate, and optimize the important business factors inside an organization, the closer you can accelerate performance and lead changes.”

~ Pearl Zhu

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ABOUT THE AUTHOR



Dan McMahon is Founder, Managing Partner & Leader of Business Growth and Strategic Advisory Services with Integrated Growth Advisors.

Dan's career has spanned over 20 years in the public accounting and business advisory services space with focused experience in the professional services, manufacturing, community banking and real estate industries. Dan was an Audit Partner and the Partner-in-Charge of Sales and Marketing for a \$28 million revenue regional public accounting firm based in New England prior to founding IGA in 2011.

Dan's current work is notable in working to address the issues that confront the public accounting profession from the perspective of building partner equity value by advising on the creation of a firm rooted in sound firm governance, structure, process and cultural values.

Dan has practiced as a certified public accountant in the states of Massachusetts, Connecticut and Illinois and has spent several years as a member of the American Institute of Certified Public Accountants, the Illinois CPA Society and the Connecticut Society of Certified Public Accountants.

Dan's community service includes having served as the workplace coordinator for the Greater Hartford Arts Council United Arts Campaign and as a member of the Marlborough, Connecticut Board of Finance, a member of the Board of Directors for the Exit Planning Exchange, Connecticut Chapter and as a Board member for the Community Investment Corporation.

Prior to relocating to Connecticut in 2006, Dan resided in Chicago where he served as a member of the Accounting Principles Committee for the Illinois CPA Society and as the Treasurer for the DePaul University Young Alumni Association.

Dan is a graduate of DePaul University's College of Commerce where he earned his Bachelor of Science degree in accounting.

Integrated Growth Advisors is a value creation and growth advisory firm focused on empowering our clients to systematically drive growth of their businesses in terms of revenues, profitability, sustainability, and valuation. We deliver customized solutions that allow complex businesses to thrive by delivering on a consultative approach focused on corporate governance, business acumen, accountability and metrics.

Our clients obtain a sharper focus and a cleaner path towards a bright business future. Our core service areas are governance and strategic planning, strategic marketing services and executive coaching. We have deep experience with helping our clients attain sustainable growth and a higher equity valuation. Request your "no obligation" consultation today. **Contact us at info@integratedgrowthadvisors.com**



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