

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

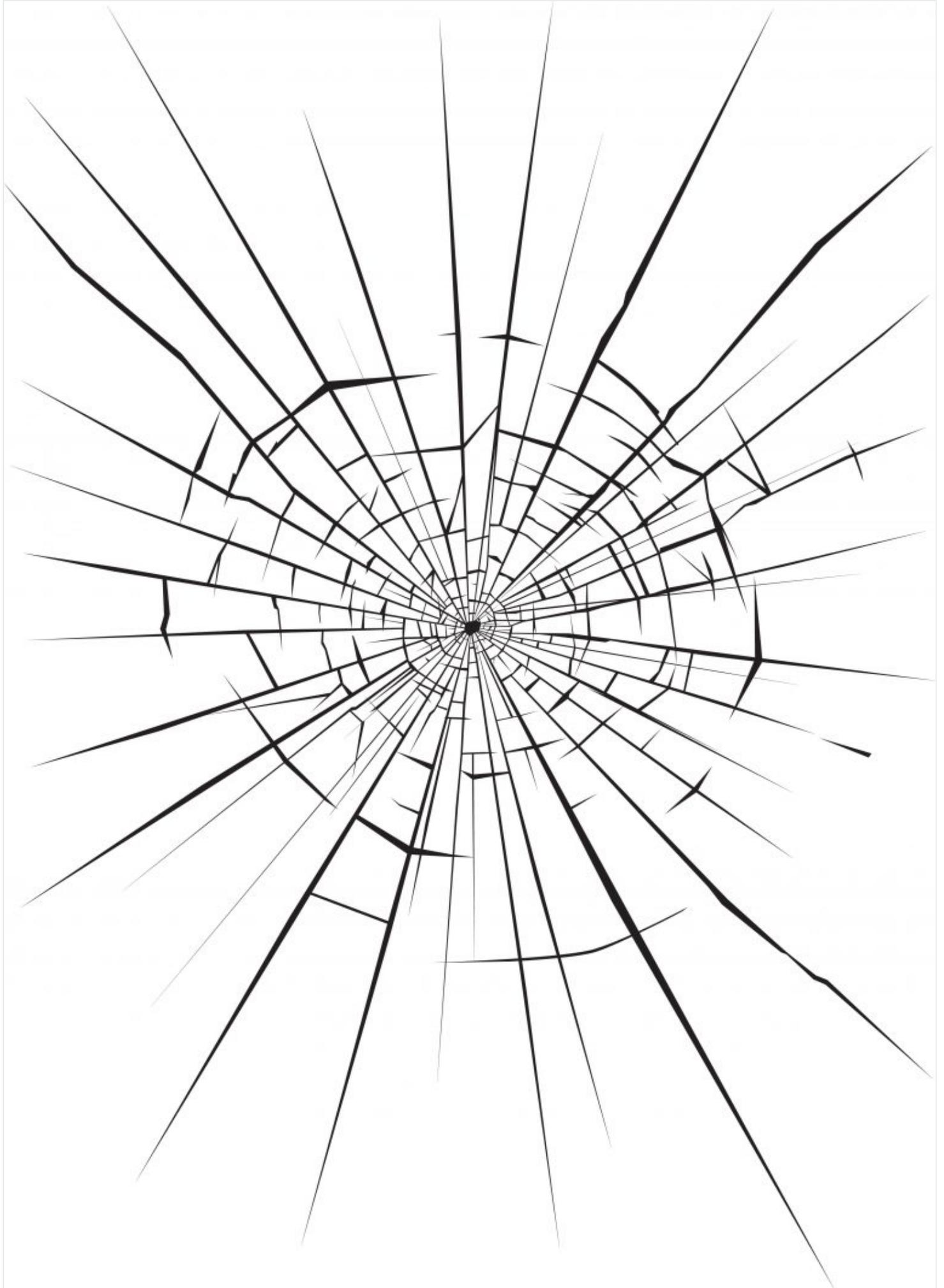
If you have any questions or need help you can email us

FIRM MANAGEMENT

Is Your Accounting Firm's Partnership Model Broken?

What's holding CPAs back from increasing the percentage of their revenue from advisory services (vs. compliance work)? In part, it's the partnership model that's so pervasive in the profession.

Feb. 23, 2016



At the recent *CPA Practice Advisor Thought Leader Symposium*, I mentioned during our annual round table discussion that the partnership model is probably one of the

biggest sources of problems for CPA firms. The most tragic loss is one you might not have connected with the partnership model yet: the too-slow adoption of CPAs as true business advisors to their clients (vs. compliance workers).

Here's why I said that and what you can do about it, short of changing your form of entity.

Partners Are Top Management

Certainly, most partnerships have a managing partner. Look at a typical corporation: at the C-level, there are COOs, CEOs, CFOs, CIOs, Sales and Marketing VPs, HR VPs, and Operations VPs, to name a few. Each position is filled by a person with decades of experience in that one position. In many CPA firms, the partners play part-time roles without the deep experience and while still being held to bring in the business.

Hiring for these skills and positions is not easy for CPAs, and many firms who try it fail to get the right person in the door, which ends up being incredibly discouraging and costly. While building out these functions and hiring the right people would solve many of the partnership's chronic problems, it will also reduce the fat industry margins. Some partners don't want to trade solving their problems for less money in their pocketbook. However, once filled, the margins will rise again due to economies of scale, improved operational efficiency, and centralized support functions such as HR and marketing.

Partners are Bosses

Many partners are promoted because of their technical strength and/or their rainmaking ability. They are hardly ever promoted based on their leadership or management ability. This leaves the firm without a variety or diversity of personalities. Analytical types rule from top to bottom, making a CPA firm very single-focused when it comes to talent. Better decisions are made when the business consists of many different talent sets and personalities.

Partners Are Silos

Each partner has their own book of business, set of employees, and way of working. Each partner effectively has their own "division" or business unit, while sharing some of the overhead. This looks less like a business model and more like a contractor model; the partner is the contractor that gets the clients and pulls the team together, but otherwise there is little corporate structure and support.

Some compensation models (and partner egos) do not promote sharing of clients, even if other partner specialties can benefit the client. The silos lose out on increased revenue and economies of scale.

Partners Have Compensation Formulas

There is a lot of weeping and gnashing of teeth around compensation in CPA firms. How many hours do you spend figuring out your compensation formula (that's never going to be fair or perfect and) that's time taken away from serving your clients or developing business? The succession issue has been exacerbated by the compensation model as well.

Partners Are the Only Promotion Track

I suspect your three- to five- year employees would stay longer if there was more flexibility in promotion, skill utilization, and compensation than simply becoming partner. Not everyone in a CPA firm wants to make partner, but most firms don't have any other promotion track.

This is pretty much the opposite of what I enjoyed early in my career spending a decade at Frito-Lay. The phrase among management there was that if the executives bought a circus tomorrow, we would have the skills and flexibility to manage it beautifully.

Partners Are Compliance Machines

Here's where we really lose out on having adopted a partnership model industry-wide. How can we hold ourselves out to clients as true business advisors if we don't run our partnerships as a true business with fully functioning departments?

One beautiful gift I see in my clients is when I teach them business skills they can implement in their own business, they then turn that skill into a service for clients, helping their clients be more profitable and successful. I love this synergy, but I only see it with solos and not partners because the learning curve is longer due to the built-in partnership model issues.

Time for Innovation

Many of the solos I work with as well as new startups have embraced and solved most of these issues and are rocking their clients' worlds with the relationships they've built, the systems, procedures, and functional talent they've put in place, and

the new service lines they've developed. A few CPA firms have been quite innovative too. But we have not seen the movement of the "early majority" in the CPA firm industry implementing these changes, and it's getting late.

There's truly something wrong with the CPA firm industry when one of the most effective marketing slogans for the last 20 years has been and still is "We're not your traditional CPA firm." Perhaps that's the best marker yet that our partnership model is broken and needs an innovative overhaul today, not tomorrow.

Sandi Smith Leyva, CPA, CMA, MBA, has helped thousands of accountants grow their practices through her innovative [coaching and training services](#).

Firm Management • News • equity partners • Firm Management • Firm Partners • managing partner • Partner Awards • partners • partnership • PARTNERSHIPS

CPAPA is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors.

© 2023 Firmworks, LLC. All rights reserved