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ACCOUNTING & AUDIT

The Parallel Problems of Public Accounting & Major League Baseball

After reading former MLB manager Joe Maddon's recent book, *The Book of Joe* – cowritten with Tom Verducci – it struck me: The plight of the public accounting industry is not unlike that of Major League Baseball.

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Credit: Pixabay User Pexels.

By **Chris Vanover.**

The Houston Astros won the 2022 Major League Baseball World Series on November 5, and ready or not, spring training will kick off the 2023 season when pitchers and catchers report on February 14. The season and games are longer today, but beyond that, not much else has changed in more than 120 years of professional baseball.

After reading former MLB manager Joe Maddon's recent book, *The Book of Joe* – cowritten with Tom Verducci – it struck me: The plight of the public accounting industry is not unlike that of Major League Baseball.

Changing demographics, declining appreciation for tradition, a call for advanced technology and shorter attention spans are among the trends affecting both camps. Maddon came out swinging about accepted baseball conventions, but he could have easily been challenging our own profession:

“Accepted beliefs can stifle individuality and instinct. . . . When you adhere to them, you stifle what the player can become. It's important to be uncomfortable. Getting out of the box spurs growth and denies complacency.”

Let's look at some of the parallel problems facing both public accounting and MLB.

- **Shifting demographics**

In just seven years, the last baby boomers will reach the traditional retirement age of 65. But despite an upcoming exodus, most CPA firms have continued to operate in the same basic pyramid model. Gray-haired partners lead as they were taught, overseeing largely inexperienced employees who toil away during an even longer busy season and then resent their career choices during the sliver of the year that remains.

While most American attitudes about work have evolved, the public accounting industry and firm leaders remain stuck in the past, either pacified by filling their coffers or too busy to search for progressive answers. In much the same way, MLB executives can barely get out of the batter's box when considering new ways to play the game and keeping today's audience interested.

As the boomers in the public accounting industry continue to age out, we also can't seem to get prospects interested in playing our game. The number of U.S. students earning undergraduate degrees in accounting declined from 2016 to 2020, according

to the AICPA's 2021 Trends Report. In other words, the farm team has left the farm for greener pastures, and there are fewer kids on deck.

- **Commodity pricing**

For too many years, audit leaders have failed to differentiate our services, leading firms to undercut fees with the hopes of making it up on the back end. The byproduct of failing to charge what we're worth is the need to squeeze costs to maintain a certain level of profitability. When the greatest single expense is labor, firms don't have much choice than to burden their fixed-cost salaried people with excessive workloads. Stop selling your brainpower like it's a ballpark hotdog and you won't have to demand your burned-out staff do more simply because you failed at your part. Just as nobody likes extra innings, nobody likes working overtime because you struck out with your sales pitch.

- **Lousy pay, lousy hours**

The partner-to-staff compensation ratio is about as laughable as the pay disparity between a major league veteran and a minor league rookie. According to Bankrate.com, the average college graduate's starting salary is \$55,260, the same as first-year audit staff in most middle-market firms. So our industry compensation is only *average* when comparing to other enticing career choices for smart kids: Computer science majors have a projected average starting salary of \$75,900, while engineering graduates are not far behind at \$73,922. Don't even get me started on calculating their actual hourly wage.

If you were a new graduate with an average \$27,000 in student debt, which career track would sound more appealing? Heck, I chose an internship with one firm simply because it offered me \$500 more and a trip to Disney World. It didn't hurt that it also audited my beloved Angels baseball team.

Either offer better balance by implementing a year-round four-day workweek or pay more upfront and institute an aggressive and transparent incentive compensation program. And, at the end of the day, be able to charge your clients for the difference or maybe lay down a sacrifice bunt by giving up a little of the industry-average \$583,824 partner compensation.

- **Play to win**

The younger people in your firm derive satisfaction from a mission and purpose. According to a Forbes.com article, “79% of business leaders surveyed by PwC believe that an organization’s purpose is central to business success, yet 68% shared that purpose is not used as a guidepost in leadership decision making processes.” The PwC survey indicated that millennials with a strong connection to their organization’s purpose were 5.3 times more likely to stay. But only 33% of employees indicated that they derived real meaning from their employer’s purpose. What is the mission and meaning of public accounting? Is it acting as guardians of the capital markets? Is it protecting assets? It would be interesting to have that conversation with your staff to learn what’s important to them and how – or if – they see purpose in what your firm does. If you’re having a hard time keeping your people in their seats, either the stadium you’ve built looks as bad as Tropicana Field or you’re playing a game with no action. Money talks for some, but most free agents sign with contenders where they can play to win a ring.

- **Advanced technology**

Today’s 20-something staff are light-years ahead of their predecessors when it comes to technology. It’s in their DNA. Consider that they weren’t even 10 years old when the iPhone was introduced in 2007. From drones to automated workpapers, there’s so much game-changing audit technology available to advance the audit process, but few firms invest the time or money to adopt them, instead continuing to pay the price of errors, rework and the frustration caused by busy season blues. The most technologically advanced generation doesn’t have access to the right tools in most local and regional firms, and they suffer silently because firm leadership doesn’t understand all the hype, can’t find the time to learn or, in most cases, doesn’t want to take a hit to partner profits.

Even MLB might have public accounting firms beat here. Back in 2006, PITCHf/x was installed in all MLB stadiums to track key data on every pitch. Statcast has since replaced it and is now measuring what was once immeasurable. And believe it or not, MLB’s automated strike zone finally made a debut in the Triple A Pacific Coast League last year. If the audit you’re executing today looks anything like it did in 2006, take your seat on the bench and be prepared to learn some new ways to play.

- **Metrics that matter**

If the only conversations you’re having with your teams are about chargeable hours and deadlines, then you’re measuring what doesn’t matter. Billable hour goals, utilization targets and realization are about as useless as traditional baseball metrics

such as batting average or a pitcher's wins and losses. It's time to ditch yesterday's statistics in favor of advanced firm metrics. What's your equivalent to WAR (wins above replacement) or OPS (on-base plus slugging percentage)? Your staff aren't robots – yet – nor are they an audit assembly line. We are in the knowledge economy now: Knowledge creates solutions. Solutions deliver outcomes. Outcomes drive value. Value generates profit.

One strike away

Partners leading today's firms have a few choices within an industry ripe for disruption: Play the waiting game and resist true change until the day they make their final out, Lou Gehrig style. Play defense and put a shift on to seal the hole before your competition scores – a maneuver which, by the way, will be banned by MLB in 2023. Or swing for the fences to win the game for your people, your clients and your community and walk off the field a winner. Most public accounting firms are one strike away from irrelevancy. Here's to throwing out the traditional public accounting firm rules and building a "Firm of Dreams." If you build it, they will come.

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Chris Vanover is an outspoken survivor of the Big 4 and PCAOB and has committed himself and AuditClub to making public accounting better. Offering auditors-as-a-service through a flexible and fractional membership model, AuditClub has inverted the traditional pyramid, killed the billable hour and democratized firm infrastructure. The result is an alternative public accounting environment for rising stars who love to audit but don't like working in antiquated audit firms. You can learn more about Chris Vanover and AuditClub at www.auditclub.cpa.

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