Background

"Excellent firms don't believe in excellence
—only in constant improvement and constant change."
—Tom Peters

This book is based on our first-hand learnings and experience as practitioners, clients and members of CPA firm management. Those vantage points have shaped our perspective, as leaders accountable for both building businesses and for helping others set and meet their growth and profitability objectives.

Do not presume from the subtitle of the book that we recommend you stop adding new clients. New clients are critical to every practice. But, we are convinced that practitioners do not fully capture the significant incremental revenue inherent in their current client base.

One of us spent an entire career in Public Accounting, 25 years in client service and 11 years in CPA firm management. The other spent most of his in industry, as buyer of legal, accounting and consulting services, but also in operations of public accounting firms. That is where we connected, and together came to the same conclusion: CPA firms measure, with great precision and rigor, everything that moves or breathes internally. This includes, but is not limited to:

- Charge hours per person, per year, per month, per week and per day
- Realization
- Utilization
- Collected rate per hour
- Revenue per client and per partner (book of business)
- Margin, both dollars and percentage
- Client retention, for those few firms that can convince a partner to mark a client as "lost" in the system
- Occupancy (i.e., rent, utilities, etc.), Continuing Education, Marketing, Human Resources, IT, Finance, Administrative Support, and other essential "overhead" both in terms of annual spending and on a per full-time equivalent (FTE) basis.

These are all admirable statistics. But armed with deep experience in the M&A market for professional service firms, we knew the only assets that really create value are an acquired firm's clients and the people serving them. Nearly all professional service firms measure everything except those two significant assets. In all of our personal prior M&A agreements, we went to great lengths to ensure the continuity of those two assets and included claw back provisions, tying the acquired firm's proceeds to the continuity of client relationships and, in some cases, retention of key personnel.

So we started our quest to determine and quantify the "value" of client relationships. We left the value of the people serving clients to others. We started by designing client loyalty assessments and "test driving" them. Within two years realized we were hitting the mark —firms wanted to know what clients are thinking and were truly interested in meeting client needs.

Our process also includes a survey of the partners/ directors serving the clients. While there is value in raw client feedback, the true value is in comparing the perceptions of clients and the professionals serving them. We are not behavioral psychologists, but we can identify and point out the Perception Gaps℠ between clients and client servers. There is no shortage of gaps.

We have created a national database of the responses we've gathered from the more than 5,000 professional service firm clients we've surveyed during the past two years. We have also created a database of insights collected from the 700 professional service firm partners who serve those clients and 150 managing partners and practice leaders. Our data now allows us to benchmark firms against their peers and provides tremendous insight into the relationships between and among clients, client servers, and firm management. (Please note how all the data in our database is anonymous. The identities of the clients and partners who completed assessments cannot be matched with their ratings and comments.)

We also hope readers who are not with CPA firms will excuse our references to this particular profession. Our observations, processes, and suggestions also apply to the other professional services firms that rely on referrals and repeat business as key sources of their growth - e.g., law firms, wealth management advisors, advertising agencies, banks, etc.

As was our first edition, this version of the book is designed to be read on a flight from Boston to Phoenix. Each chapter includes a section to make notes about what might work for your firm. You will not be able to convince your partners to adopt every concept we recommend. But given that our observations and suggestions are based on market-based data that has been interpreted using our first-hand experience as practitioners and clients, we believe they are relevant and worthy of your consideration. Hopefully, you will find at least one of our insights of value and will put it to use in your firm.

Lee Eisenstaedt (Chicago, 262.412.4710)
Tom Siders (Minneapolis, 612.889.8858)
www.LHarrisPartners.com

Chapter 7

What Prevents Us From All Getting on the Same Page?

"The only constant in life is change."
—Heraclitus, Greek philosopher

The status quo always has a huge constituency, is predictable and is the devil we know. Change is stressful, takes time, requires us to take some risk and who among us likes really it? But, how many of us would buy a television, computer, or cell phone, fly on an airplane, or have surgery at a hospital that makes the promise that it does things the same way they were done 10 years ago?

We are being forced to rethink how we work and build businesses. For example, almost everything today seems to be going high tech, high touch, or high growth. Mobility and social media are impacting how we collaborate and the ways we build credibility and relationship capital. Big data may be difficult to analyze and visualize, but it helps us uncover new problems to be solved.

Getting Horses To Drink Water

Yet it seems common for many of the core practices and processes of professional services firms to be almost the same as they were 10 or more years ago. Why do so many partners and leaders of firms seem to cling to the status quo, sometimes to the point that their firms or services, or they themselves, are regarded as being non-essential or irrelevant? Why is it so difficult to get everyone on the same page on the issues that matter most to firms including growth, staff retention and earning relationship capital?

Good News or Bad News

As Mike Tyson said "Everybody's got plans…until they are hit." The American economist, Paul Romer, also said it well in 2004 when he noted that "A crisis is a terrible thing to waste." In their own ways, both men provided an insight into the challenge of implementing change. Until we're punched in the nose or are personally and tangibly impacted by a crisis, it's hard to see why we should embrace new ways of doing things. Perhaps this is one of the reasons that many people perceive professional services firms as resistant to change; their leaders and partners haven't felt enough pain to consider different ways of conducting business and building relationships. This is both good news and bad news, because despite having successfully avoided a major loss or setback, either through luck or skillful management, a strategy of playing catch-up after being caught in the cross-hairs of a flood, hurricane, defection of a marquee client, or the unexpected passing of a key partner, is usually high risk, expensive, time consuming, and unnecessary.

Success Promotes Complacency

We find that many partners earn significantly more than they ever expected when they entered their chosen profession. This can lead them to assess decisions differently and move toward objectives that are at odds with the changes being proposed. So change agents should expect to encounter resistance when they propose modifying or abandoning the very practices and processes that led to that measure of success. Resistance is almost certain because:

- There's usually no way to guarantee that partner compensation will neither increase nor decrease by adopting the new way(s) of doing things.

- The changes are likely to be viewed by some partners, especially those that are rainmakers, as injecting risk into their carefully cultivated relationships with "their" clients.

An Already Full Plate

Another challenge to getting everyone on the same page that we've heard from some partners is how they're already working more than they would like. They tell us how they've got plenty of things to keep them busy for the next two to three years. When they start to run out of things to do, that's when they'll deal with it. Some have even told us how they know they can double their books of business, but because they're the only ones they trust to do the work, and they're already overworked, they won't pursue those opportunities.

One way to get around this is to review the clients these partners are serving. Are each of them a good fit with the attributes of what the firm's best or ideal clients look like? Which of them can be re-assigned to a partner or senior manager who has capacity to take on more work? Should any of them be moved out of the firm to create capacity to take on more profitable clients with greater growth potential?

Building a Firm, Not a Job

We worked with a client that was in the process of implementing a Client Relationship Management system (CRM) for the first time. One of the senior partners, who also happened to be a rainmaker, refused to put any information about his clients into the system, claiming that was his personal intellectual property. The success of the project depended on everyone sharing their contacts, not to mention how others would follow this partner's lead if his behavior was tolerated.

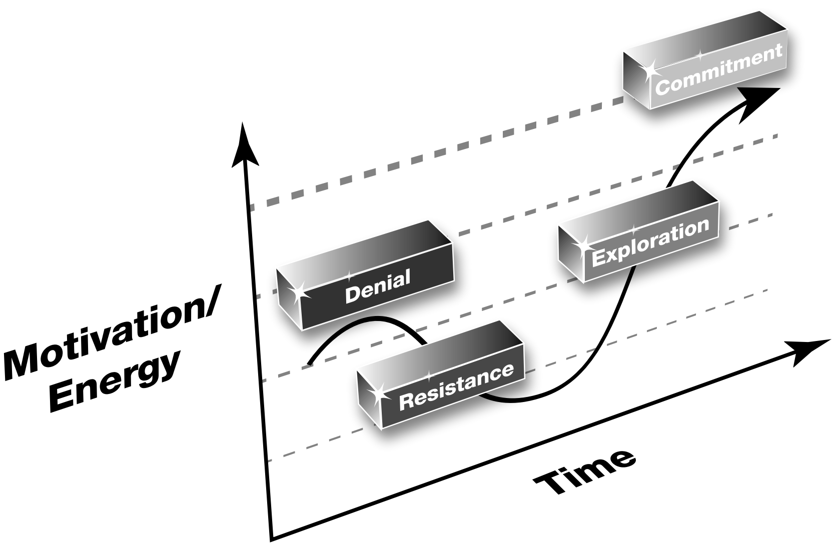
It was clear that the partner felt threatened by the CRM project. To avoid any possible dilution of his power, control, and security, he didn't want to be a part of the initiative. Fortunately, the firm's managing partner could see that no good would come from this test of his commitment to the project. He forced the issue with the partner by promising to remove him from a couple of high-impact committees and to convert his large corner office into a conference room if his non-participation persisted. Knowing these would have an impact on the resistant partner's perception of himself, the partner agreed to comply with the request..

By putting the needs of the firm before the arrogance and ego of the partner, the managing partner demonstrated the difference between building a firm, whose absence in the market would be missed, and creating a job for a person; in being an organization with shared values and objectives rather than a collection of independent contractors working in the same office space under a common name for their personal welfare.

Change's Travel Companion is Conflict

Anytime we do something differently than we're accustomed to doing in the past, it takes us longer to accomplish. This usually leads to a short-term drop in productivity, revenue, margins, etc., followed by even higher levels of performance after the change has been adopted across the organization.

Change also leads some people to become angry, aggressive, and sarcastic. Others will feel overwhelmed and complain, and some may even become depressed. More than a few will ask "Why me? Why now?" If these reactions are not anticipated and proactively managed, passive aggressive resistance to an idea can morph into a demoralizing, visible-to-all conflict. But these are not reasons to abandon the initiative.



An issue many leaders have to confront when proposing or implementing a change is the tendency to compromise too early and quickly in the process because they are conflict-averse. It sounds ironic, but avoiding conflict creates more conflict. To the extent people avoid conflict, the more they are conflicted – with themselves. This is because many of us think of conflict in a negative sense: an argument, a disagreement, a free for all, or a fistfight. To get beyond this, try reframing conflict as a way to resolve a problem.

To overcome resistance to change, leaders need to:

- Pick their change initiatives carefully – not too many at the same time, choosing those that are substantive and will have a noticeable impact on the value of the firm, etc.

- Follow the 20/20/60 Rule: 20% of the people will adopt the new way of doing things immediately, 20% will be opposed to it and never get on board, and 60% can be influenced one way or the other. Spending time and effort on either of the 20%s is unnecessary. Instead, invest attention and genuine interest in the remaining group, which is composed of the people that can be influenced and moved to the "positive" side of the curve.

- Share their agenda(s) and plan(s) with opinion-setters prior to finalizing it, both at the partner and staff level. Depending on the scope of the change, asking a few key clients and/or staff for their feedback might be appropriate. This is different from gaining their support, which would be ideal. Even if some people don't agree with the plan, knowing their objections in advance, and dealing with them if possible, will enable a change champion to anticipate and be better prepared for the challenges that lay ahead.

- Whenever possible, take the Band-Aid off with one big yank rather than pulling it off one hair at a time.

- Communicate the benefits and progress being made across the firm again and again and again.

- Show a low to zero tolerance for non-compliance with the decision to move forward. A classic push-back is how the new practice, in the short term, will reduce billable hours. Leaders should not allow progress to be held hostage by this threat nor accept it as the rationale for why some partners don't need to adopt the change. Leaders need to keep in mind that other partners and the firm's staff will be watching them closely for this lack of commitment to an initiative.

Next Stop: Extinction

Each of us can cite examples of the benefits that come from clearly defining what success looks like, having shared values and objectives, and knowing that each team member will deliver on their commitments to the best of their abilities. The Manhattan Project, landing a man on the moon, developing the Macintosh personal computer, and mapping the genes that constitute human DNA are a few of them. We also know what happens when we let self-interest, greed and ego dominate our decision making, give up when things seem frustrating, boring or hopeless, and believe we are the smartest guys in the room – examples include Enron, Bernie Madoff, federal government gridlock, and New Coke.

It might be that some firms find that change requires too much socialization, discussion and consensus among the partners. Even when agreed to, change is often treated as an option by the partnership, which leads to execution that is inconsistent or poor and results that are less than expected or needed.

While change can be time consuming, controversial and risky, if your firm isn't going somewhere, then your best people will. The alternative to change is usually not a good choice either: a stressful and all-but-certain trek to extinction. And who really wants to say they're a member of a club that already boasts among its members Arthur Anderson, Blockbuster Video, Circuit City, Woolworth's, Bear Stearns and Eastern Airlines?

Key Learnings

- Change's biggest rival and threat is the status quo.

- Building a "firm" is something that must be worked at and toward, not merely hoped for.

- Mandates for implementing changes should be used only after lobbying, negotiating, and compromising haven't worked. But, patience and tolerance for non-compliance should not be unlimited.

- Avoiding conflict leads to more conflict.

Wallet Share Ideas to Try in Our Firm

Barriers to Implementation