

The Profitable and Sustainable Practice



For further copies please contact:

Jacquie Parkins

T: 020 7920 8529

F: 020 7920 8687

Email: jacqueline.parkins@icaew.co.uk

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Contributors

Members of the Task Force

Ian Buckley

Chief Financial Officer, Tenon

Paul Druckman

Vice President, Institute of Chartered Accountants in England and Wales

Kevin Hayman

The UK 200 Group

Graham Lamont

Partner, Lamont Pridmore

John Malthouse

Partner, Malthouse & Co

Mark Scott

Partner, Mark Scott Financial Planning

Keith Seeley

Target Consulting Group

Mark Spofforth – Chairman

Partner, Spofforths

David Turnbull

The UK 200 Group

Secretariat

Sharron Gunn

Clive Lewis

Leslie Sopp

Alan Taylor

Susan Wilkie

Members of discussion groups

Peter Calvert

Gordon Fryer

Rebecca Harding

Evelyn Hatch

Simon Hurst

Jonathan Jones

Paul Lambden

Colin Leigh

Mark Levey

Mark Lloydbottom

Harry McAdoe

Dean Maragh

Simon May

Chris Page

Mike Reilly

Mark Regan

Phil Shoheit

Martyn Sloman

Richard Spofforth

Kristin Watson

Ross Wilson



Foreword

'Budgets for the bank? No, sorry, we don't do that sort of thing,'

said a two-partner practice I knew some years ago and so I picked up one of my largest and most profitable clients as a sole practitioner. The lesson is a simple one. Innovate and adapt in line with the changing needs of your clients to remain competitive and grow your business or see the good clients go elsewhere.

This report has been written to help signpost the General Practitioner towards a more profitable and sustainable practice. The advice it contains is intended to be inspirational, drawing as it does on the experiences of Chartered Accountants in General Practice who have grappled with and found solutions to many of the issues you may also be facing in the course of your professional life.

It builds on the work which I initiated during my year as President of the Institute under the **Enterprise Programme**, which was launched in June 2001 to help encourage and support our pre-eminent involvement with the UK SME sector.

Many of the key themes and ideas resonate when I look back to starting my own practice in 1971 and my subsequent work advising firms, presenting seminars and writing on practice management matters. Others reflect the way in which new technologies have begun to impact on the way in which we do business.

The report takes a very practical approach and provides a wealth of advice on everything from SWOT analysis to business planning and has been deliberately written as a reference guide to be dipped into depending on your specific needs. For example, by instigating a proper approach to accepting and retaining clients, charging on a value added basis and getting the cash in you can quickly and dramatically improve profitability and the cash position of your firm. Try it – you may be surprised!

I offer my sincere thanks to Mark Spofforth, the members of the Task Force and all who have contributed to this Enterprise Programme project – it is an excellent piece of work which I commend to all those committed to growing their General Practice into a profitable successful enterprise and providing a first class service to clients.

A handwritten signature in black ink that reads "Michael Groom". The signature is written in a cursive, slightly slanted style.

Michael Groom
President 2001-2002 Institute of Chartered Accountants in England & Wales

January 2003

Introduction

This report is about running a successful and enterprising practice, one which can successfully meet the demands of modern business. It has been compiled as the result of consultations with members of the ICAEW who are at the sharp end – running practices of their own of many different shapes and sizes.

The members who contributed to this report can talk with real authority because they have all grappled with the issues around building a business of a grade and quality greater than the sum of its parts – businesses capable of thriving on what the future has to offer.

The report is aimed particularly at small practices, which operate in the SME sector. Too many practices at this level appear to continue to rely substantially upon the assignments of preparing accounts, preparing management accounts, and preparing tax returns. Whilst this work is useful and remunerative, we have seen, in talking to many of the most successful practices in the country, that those Chartered Accountants who provide the best proactive advisory services reap the rewards, and generally are the most profitable. Whilst there is no single rulebook that will guarantee success, the advice given is intended to point you in the right direction. Research shows that there are a number of practices averaging partner profit of £75,000 p.a. By any standards this is a good living. But equally we have identified another group earning £150,000 per partner and more, using the same skill set, similar locations and premises, and with a similar profile of client portfolios. This report sets out the steps that need to be taken to add that additional £75,000.

It highlights the decisions that need to be made and the actions that need to be taken. It also covers areas that are very often ignored because they are ‘too difficult’, or left unresolved because management cannot agree.

Wherever possible we have backed up the assertions with research or practical examples. Occasionally some of the comments are based on anecdotal evidence or intuition. We don't believe that this invalidates the assertions – so much of management is based on gut feel rather than clear data. Indeed, that may be one of the reasons why accountants are viewed as being poor managers in many cases; we search for the decision-making criteria in terms of our accounting language, when sometimes the best advice is ‘just do it!’

That said we also provide statistical information to support or debunk a number of myths that are regularly the subject of discussion whenever a few practitioners get together, whether it's in a partners' meeting, at a conference, or in the bar. We aim to give you some real life experiences of partners and practice managers who have managed to re-engineer their practice, and make the changes that have resulted in greater profitability, and a more acceptable lifestyle for the partners in the practice.

We also aim to give you some help in building a template for a business plan that you can apply to your business in order to help you along the path to greater sustained profitability. And we aim to give you an insight into some of the major threats and opportunities you should bear in mind as you try to improve profitability.

We hope that you find the report stimulating and thought provoking. If it helps to get management in practices focussed on difficult areas, or helps to formulate and inform your firm's business plan, we will have succeeded in our aims. But at the end of the day, only you can decide whether you want to follow the action plan we set out, or whether you consign it to the pile of other unread papers next to your desk! Take a leap of faith. It will reap rewards.



Mark Spofforth
Chair – Profitable and Sustainable Practice Task Force



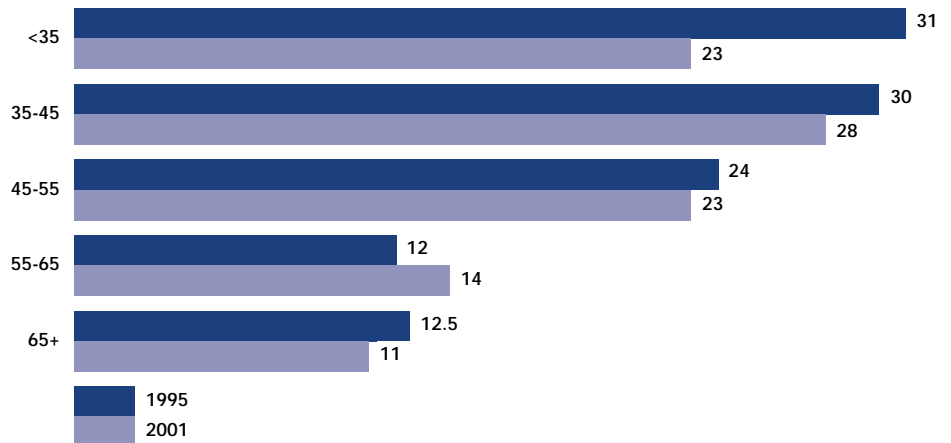
Change

Whatever kind of practice you have, or wish to have, unless you are capable of changing and responding to the challenges of change your ability to thrive in the long term will be significantly impeded. You only need to look at the current business landscape to see the importance of this point.

In the UK the total value of accounting services in its broadest sense was estimated at £10.5bn in 2000. The average growth in the market is estimated at being 10%, and the growth in total fee income between 1999 and 2000 is recorded as 14.3%.

The Big 5 firms (as they were then) had 54% of this market; the mid-tier firms (45 in number) represented about 14% of the annual turnover, leaving 32% of the market for smaller firms. The population of providers for the SME marketplace is made up of about 15,000 such firms registered with the ICAEW. Along with those firms registered with ACCA and other accountancy bodies they represent the main providers of business advice to the SME market.

Many firms say they are experiencing difficulty in recruiting and retaining high quality staff, and that their ability to expand is being affected by staff shortages. In addition, the average age of partners in these firms is increasing. It is therefore likely that the number of small firms will decrease over time. The graph below shows the breakdown in age of members of the Institute in thousands.



Over the last five years, the growth in fees in the profession has been fuelled by the increased turnover in consultancy work, as more smaller firms move into this area. Audit and accountancy services grew by 38% between 1996 and 2000, whereas management consultancy fee income has doubled.

The main areas in which this growth has been achieved are:

Human resource consultancy	110%
Financial systems and administration	85%
IT consultancy	63%
Strategic planning	51%

The ICAEW's 2001 General Practitioner conference carried out a survey of those firms attending. It showed that those firms produced an average £76,000 profit per partner from fees of £251,000, a 30% net profit margin, surprisingly low when compared to the best performers in the sector.

Moreover, there is clearly scope for better management in smaller firms. SWAT, a private firm advising this sector show similar results from their own inter-firm survey. Interestingly, this research also shows stagnation in profitability, the 1998 profit per partner being almost the same as that in 2000 despite increased turnover. This reinforces the view that practices are running faster to stand still, dealing with increased capital investment but not being able to increase fees in line with the increased costs associated with the changed cost base.

Over recent years practice surveys and inter-firm comparisons conducted by the ICAEW have shown the upper quartile of profitable firms pulling away from the rest, a polarization of profitability at the smaller end of the accountancy profession. In 2000/2001 for example, fee growth amounted to 14.7% at the upper quartile with firms at the lower quartile experiencing shrinkage in fees of 0.7%. This contrasted with a change in profitability where upper quartile performance stood at 27% and lower quartile a decline of 5%. Clear evidence to support changing margins.

The public's satisfaction with the service delivery by the profession is not very high. A MORI poll conducted in March 2000 showed that whilst 90% were very or fairly satisfied with the way doctors did their jobs, accountants polled only 56%, very similar to lawyers at 57%, but below teachers, the police, and the judiciary. There is clearly room for improvement in public perception of the service delivery, which may result in increased profitability as a by-product.

However, a MORI poll among Britain's captains of industry and the business and financial press, conducted in 2001, showed that 62% of the captains of industry (board directors of Britain's leading companies) had a favourable opinion of accountancy, well above the law, telecommunications or public relations sectors, and well above management consultants who came bottom, with only 18% having a favourable opinion. And that has been a consistent trend since 1997, remaining steadily at or around the 60% mark.

Recent research among family businesses has also confirmed that they would always go to their accountant for advice first, before the banks or any other professional. Clearly this 'trusted advisor' status in the family business sector gives a powerful base from which to build, and one that is to a large extent unaffected by scandals arising in the multinational sector, such as Maxwell or Enron.

***'...there's this umbilical cord between a successful accounting partner and his clients – complete interdependence.'* Alan Koltin, CPA**

The arrival of the consolidators (quoted vehicles buying up a number of partnerships) stimulated a large amount of interest but apart from reducing the number of firms in the sector, appears to have had little effect on the marketplace yet. They appear to have spent the first one or two years focused internally on their organisations; time will tell whether their stated advantages materialize.

The trend in the reduction in the number of small firms training Chartered Accountants in the 1990s has been reversed in the last five years. The ACA syllabus and examination methods have recently been fundamentally reorganized, not only to teach and test greater business skills, but also to reduce the number of weeks that a student is out of the office when studying for ACA. This means that costs of training have been reduced. Additionally, there is now a clear fast-track route from AAT to ACA which is very attractive to many small firms. Hopefully, these changes, when fully appreciated by decision makers in small firms, will lead to resurgence in the number of students in training.

In 1996 there were 709 small firms training 1756 students, yet by 2001 the numbers had increased to 827 small firms training 2520 students, over 20% of the total number of students in training.

Alan Taylor, whose work for the Institute inter-firm comparison and Practice Advisory Service involves speaking to dozens of firms of accountants, has found the following issues to be of most significant concern to today's practices:

- Recruiting good staff, and enough of them, at the right price
- Succession
- The effects of the consolidators and integrators on the marketplace
- Potential rise in the audit exemption limits
- Keeping up to date with technology
- The application of 'practice assurance', a peer review scheme similar to other Institutes
- Risk assessment and the mitigation and management of those risks
- The pricing of professional work.

Practice surveys and inter-firm comparison... have shown...a polarisation of profitability at the smaller end of the accountancy profession...

The public's satisfaction with the service delivery by the profession is not very high.

...research among family businesses has also confirmed that they would always go to their accountant for advice...

The trend in the reduction in the number of small firms training Chartered Accountants... has been reversed in the last five years.

This background suggests that inertia is not an option that will succeed for many of us, neither will detailed consideration and debate. It is clear that the firms that have made the biggest advances in recent years are those that are open to new ways of thinking about the service delivery mechanisms, and which are willing to change and change quickly. They are not afraid to make mistakes, and more importantly, are willing to work hard to implement change.

A much used tool in analysing a firm's performance, enabling comparison both between years, and between firms, is the 'Practice Equation', which can often highlight changes that need to be made (see Appendix 3).

However, if we are to maintain or improve our profitability we need to act. That is why the rest of this report emphasises action rather than analysis.

Choose

The first step is to choose the type of practice you wish to work in. Some of you will find that, as far as this report is concerned, this is also the last step.

Different people have different values and priorities. To generalise, you can choose between a 'lifestyle' practice and an 'enterprising' practice. We do not intend to persuade everyone to follow the path of the 'enterprising' practice, but rather to show those that choose to do so the steps they will need to take.

...choose between a 'lifestyle' practice and an 'enterprising' practice.

<i>Lifestyle</i>	<i>Enterprising</i>
<p>Practices that view themselves as professionals, following a professional vocation, and not as businesspeople. They serve their clients to the best of their ability, unstintingly responding to the demands made upon them. As a result they build a following that provides them with a good living, a status in their local community, and job satisfaction and security that is difficult to beat in any other walk of life. They pride themselves on doing the job well, on being the clients' main trusted advisor, and on building a relationship with the individuals who make up their client base, in which their clients are also their friends and are part of their social circle.</p> <p>The strength of these lifestyle businesses lies in their ability to change quickly when the pressures become too great, to use their experience and qualification in many different guises, so that if one particular area becomes too competitive or unprofitable, they are able to move to another.</p> <p>We see no reason why these competent individuals should not continue to adapt, and continue to meet their lifestyle expectations.</p>	<p>Practices that make money, build capital value (in their clients' businesses as well as in their own firm), provide a stimulating environment in which to work, embrace new technologies and which will ultimately outlive their management.</p> <p>We have come across the view that in some way professionalism and vocation are incompatible with entrepreneurialism and aggressive marketing. Less profitable practices appear to rationalise their lack of profitability by explaining that the more successful practices only reached that state by being overly commercial and that this is in some way unprofessional. We do not subscribe to that view. None of the successful practices that we have investigated appeared to us to be in any way unprofessional – in fact, quite the contrary. Their strength lies in providing what clients want at a price which the client is willing to pay and which produces a good living for the accountant.</p>

'Professionals are people who get paid, not people who get qualifications.'
Surrey-based managing partner

While professionalism lies at the root of everything we do, providing a quality service does depend on being able to resource the firm properly. This is not to suggest that accountants should not get involved in their local community. As well as being seen by many as at least worthwhile, and possibly a duty, the less altruistic will find that it is also likely to be good for business. Such involvement should help generate a positive attitude to the firm among many existing and potential clients. Indeed, we need to recognise that the good opinion held by the

majority of the public about our profession arises in no small part as a result of a large amount of voluntary work carried out in our local communities by members of the profession.

'If you sell yourself well, but haven't got a quality product to follow it up, you very quickly get found out.' Practice leader from the North West

It is our firm view that those practices that continue to rely upon compliance work will decline in profitability as technology and regulation forces change at an increasing pace. There is no hiding place from change. In talking to many practices, there is one factor that seems common to all – there is no such thing as a static and enduring practice these days.

Some years ago it became the norm to write goodwill out of a practice's balance sheet. We are now advocating a reversal of the practice, but only for those firms that can demonstrate that their business has a brand value independent of the partners who run it.

If you find yourself working longer hours this year for the same profit you achieved last year, if you are frightened by the speed of the change happening around you, if you are frustrated by the knowledge that your experience is worth more than you end up billing, then take comfort from the fact that there are ways around the pressures that conspire to stop your business from growing.

The following sections seek to identify some of the key factors that will be critical to the success of practices in the next decade. In a report of this type it is not possible to cover every aspect of practice life, but wherever possible we have signposted sources of help or reference works for those who wish to read further on particular aspects. Every successful practitioner will need to build their own toolbox of systems and processes, but as a profession we appear to be poor at sharing our knowledge of tools that work. We have also included comments and quotes from successful practitioners which may inspire discussion.

Target

Characteristics of an enterprising practice:

- Profits in excess of £100,000 per partner
- Actively selling non-compliance services, and increasing the proportion of fees from such services annually and consistent cross selling
- Consistent double digit annual growth
- Dynamic, inspirational leadership
- A structure that allows leaders to lead
- Clear investment strategy for the future
- A defined firm culture
- A positive attitude to risk
- Appropriate planning procedures and systems
- Lower than average staff turnover figures
- Using technology at all levels in the organisation
- Client portfolios that remain with the firm if a partner leaves or retires
- Providing some specialist advice as well as general accountancy, audit, and tax
- A willingness to treat their own firm like a client
- ... and a genuine enthusiasm for what they do

None of the firms we spoke to managed to demonstrate all these characteristics, and certainly none professed themselves content with where they were. But a lot had clearly defined paths to greater levels of perfection, and in a changing environment, that is a pretty good benchmark for success.

So what are the big issues that anybody attempting to transform a traditional accounting practice into an enterprising practice needs to address? What needs to be included in the business plan to guide a firm on that journey?

Clearly a rigorous SWOT analysis of your current position needs to be carried out. You don't start a journey without knowing your starting point. Very often practices fail to benchmark

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So what are the big issues that anybody attempting to transform a traditional practice into an enterprising practice needs to address?

What needs to be included in the business plan to guide a firm on that journey?

their current position. They feel they are performing adequately without a proper knowledge of the marketplace. Participation in the ICAEW inter-firm comparison, or knowledge of similar exercises will show your areas of weakness and strength.

A summary of a SWOT analysis of the sector of the profession on which we are focussing appears at Appendix 2. How many of these principles do you recognise in your firm?

Strengths

A key strength of general practice is the trusted relationship between client and accountant, the 'umbilical cord between partner and client'. This has been illustrated even at the largest end of the profession post-Enron. Since the demise of Andersen clients of that firm have preferred to stay with partners and other members of the professional team rather than move to other practices.

This strength arises partly because the client has a recurring statutory need for accounts, and the desire to present a good case to the Revenue. This leads to a good base of recurring fees and a client base with substantial inertia – it doesn't move quickly, so there is time to build up a strong business relationship.

Individual Chartered Accountants demonstrate independence, objectivity and integrity, even when advising 'families at war'. These clients are just as complex and difficult to advise in their own way as the big multinationals and clients recognise the depth of experience and the intellectual quality of the people dealing with them – we make good 'quasi FDs'.

Weaknesses

There is a lack of differentiation in the marketplace. Because many of us offer the same services it's often difficult for firms to establish a unique selling point. We are often perceived as knowing the cost of everything and the value of nothing. We have poor marketing skills ('we didn't know you did that'), and we like showing off and giving away valuable advice for free. We're also resistant to change as a profession, and resistant to investment as individuals. We find it difficult to demonstrate passion for the work or enthusiasm. There's also poor teamwork, little knowledge sharing, and partners are often 'too busy' to think about the business they're in, and work on the business itself.

Opportunities

The opportunities for new services are legion – increased regulation also brings new opportunities to hand hold clients in non-traditional areas. One contributor said that the starting point for the value we are currently adding is so low, anything would be an improvement!

Threats

The threats we encountered seem to be more talked about than suffered. Many practitioners talk about the threats from the unqualified, but then state they don't compete on price anyway; they cite the low entry threshold to the business, but then explain that if they had more time they could get lots more work.

The profession's inability to attract capable young people at the smaller end of the market, as well as the potential automation of processes traditionally carried out by hand do however both pose threats. There is also concern about the knock on effect of the American corporate failures on the trust in accountants generally. Research in the US seems to show, however, that the marketplace distinguishes very clearly between the global service firms and those serving the SME sector.

Enthuse

Running through all the successful firms that we've talked to, there is one pre-requisite, one ingredient that sells, one unique selling point, and that's enthusiasm. Enthusiasm for the client, or the business, or simply the job that we do.

If you really enjoy your work, this fact shines through, and you will be successful – clients will want to be with you, and will hire you. It can't be faked – at least not for very long.

'One of our managing partner's great skills is making partners do what they say they will do for clients...and do it with a smile on their face.'

North London general practice partner

'Whether or not you make a success of your firm depends on whether or not you're prepared to work at it. We're good at running a business – our business just happens to be accountancy.' Senior Partner, medium-sized firm based in Grantham

Historically, Chartered Accountants are not trained to be entrepreneurs; they are trained to be prudent and to analyse to the 'nth degree'. They don't like taking risks, and in today's rapidly moving environment you need to take risks sometimes, go with gut instinct, be prepared to make mistakes and learn from them. And clearly what separates the entrepreneurial practice from the rest is being open to change. This quote came from a firm that exhibits a lot of the virtues of an enterprising practice; here's a real manager at the helm, not a technician;

'The managing partner never says "No" to the first request – he's always open minded, and very often we end up doing something rather different to the initial idea, but which we would never have started without that spark.'

All you need to succeed is enthusiasm, an open-minded approach, a corporate mindset, a focus on management, and a lot of hard work! The bad news is that there's no shortcut. The good news is that these principles apply to any firm, of any size, in any location, so there's hope for us all.

Lead

The practice must appoint and support a leader.

Whatever strategy you adopt, whatever vision you may have for the firm, it is clearly fundamental to success that the day-to-day management has sufficient inspirational vision, pragmatic leadership, drive and purpose to make the necessary changes.

There are a number of factors which conspire against such leadership in the profession:

- The traditional partnership structure is not appropriate for a swiftly expanding business
- Chartered Accountants have been trained to be prudent, not entrepreneurial
- Chartered Accountants who are good technicians find themselves in management positions due to their technical ability, regardless of their management expertise
- Chartered Accountants like to get into detail, and prefer to delay decisions until a very detailed level of investigation surrounding an issue has been carried out

'We have a managing partner who never sees problems, only opportunities.'

Successful practices all seem to have a strong and often charismatic leader who is allowed to lead. The other partners are encouraged to work to their strengths, rather than share in the responsibilities of running the practice. Often non-Chartered Accountants are brought in to manage aspects of the practice, and when starting new niches or service lines, these are allocated directly to individuals who relinquish their other workloads or portfolio responsibilities to concentrate on this new line of business.

'Most general practitioners seem to dabble at specialisms; they're amateurs who don't invest enough time or money in new projects, and still expect them to work.'

There is one pre-requisite, one ingredient that sells...and that's enthusiasm.

If you really enjoy your work, that shines through, and you will be successful.

The traditional partnership structure is not appropriate for a swiftly expanding business.

Successful practices... have a strong and... charismatic leader who is allowed to lead.

...profit is always the final arbiter of success.

Successful practices work hard at the management of their own business.

Very often the performance measurements used differ to the traditional ones of fees and chargeable hours. Partners live or die by the amount of new work brought in, or the amount of work transferred to other specialists; and profit is always the final arbiter of success.

Successful practices work hard at the management of their own business. One of the big problems in underperforming practices seems to be confusion between administration and management; not a good advert for selling consultancy on to our clients! And we have to allow for the fact that with the rapid change we are experiencing, there is a need for greater input into practice management. In many cases, it appears that a lack of time set aside for running the business seems to be at the root of small firm fee stagnation, rather than a lack of ideas, or the ability to manage them. But lack of time is really just lack of prioritisation.

This poses problems for smaller practices. Most take their most successful fee earners – great technicians – and make them managing partner. They pay them an extra £5,000 as a token of appreciation, and expect them to carry on their fee earning role as well as getting the management done. The traditional partnership structure gets in the way, because all equity partners want a say in how the business is run. They are director and shareholder and factory worker in one, and fail to differentiate between the roles. Most successful practices appear to be run on corporate lines, even if they choose to retain the ‘invisibility’ of being a partnership.

Nevertheless, whether the formal structure is corporate or partnership, the successful practices are driven by strong leadership by managing partners who are allowed to get on with it, whilst others focus on the production areas.

In a fast moving industry, the explicit distinction between ownership and management that comes with a corporate structure can bring real benefits. Those practices that have been successful have often adopted the methodologies of profit sharing and management that mimic a corporate structure, even if they have avoided incorporation on the basis of tax disadvantages.

There is a further disadvantage which is fundamental in a growing practice. The equity partners expect to be able to extract as a wage the profit remaining after expenses have been paid. Very often they have no strategy for dealing with the investment into the practice which may be required. In the modern practice, serious amounts of reinvestment are needed in technology, marketing and product development. A much longer-term view is required by management on the road to achieving a vision. The lack of such a clear investment strategy results in disharmony when the partner's draw is reduced on the basis of a potential future reward (in which he or she may not share).

But there is little incentive to build a value into a business which has written goodwill out of all the partners' capital accounts, and every incentive to maximize the current level of drawing to invest for your retirement.

‘We needed to treat the firm as a business, not a club for older partners.’

The resources needed in today's marketplace to run a successful professional practice are far greater than in the last 15 years. The infrastructure is no longer concerned primarily with people, and where to put them. Putting those financial resources in place requires longer-term planning.

Manage

There is simply no good reason why the competent technician should necessarily be the most competent business leader or manager. In fact there are many good reasons why the opposite is true.

One of the key factors in transforming the traditional professional practice into an enterprising practice is the recognition of the need for specific management training. Many practitioners appear to believe that there is insufficient time in their busy working day to acquire these special skills. Learning how to make decisions, learning how to negotiate, how to manage a meeting, how to sell, or how to manage people are crucial skills in the modern marketplace. These are not, contrary to most expectations, skills which are acquired outside the working day

in some kind of haphazard manner. You are not born with the skills, but have to acquire them. And in today's marketplace those who fail to acquire the skills will ultimately fail to develop sustainable, profitable, working practices.

'We are not trained in business, just arrogant from experience.'

Practitioner who moved into commerce

Setting out the vision and culture of the firm proves to be crucial to building a team that understands the priorities and is empowered to implement them.

'Consistency of approach is fundamental – no mood swings.'

The areas that we believe are critical to a successful business plan are set out in Appendix 1, but the body of this report deals only with those issues with which firms seem to have difficulty; the reading list on the website, www.icaew.co.uk/practicefocus provides sources of further help.

A key element of management is the management of risk. Chartered Accountants are not risk takers, generally, and in the audit process a prudent view of risk is a great advantage. However, when running a business, whether that be an accountancy practice or a high risk 'dotcom', management has to take a risk to be able to reap the reward. The risk may be very small. It may simply be spending the time to invest in a new service for which there is believed to be a marketplace but where there is no proven track record.

To practices with a regular and repetitive flow of annual audit assignments, accounts preparation assignments, or tax preparation assignments, the drive to take risk appears unnecessary. This is, however, a dangerous perspective. If the profit margin on this regular work is deteriorating the only way out of the downward spiral of reducing profitability is to start taking some risks.

And there is another issue that arises from this prudent way of thinking, and its associated lack of self-esteem. Partners are very often frightened of losing clients. This fear drives them to reduce a fee at the first sign of the client mentioning the word 'expensive'. The negotiating skills of many technicians leave much to be desired. The confident marketeer will always maintain their fee on the basis that they understand their value, and if the client wishes to go elsewhere, then they will find a new client elsewhere. The partner who lacks confidence in their own marketing will find themselves with a reducing recovery rate, and this in turn increases the fear of losing the next client.

Many practices put in place the right structures, and train their partners in management, but fail to move away from a thought process which says that decisions cannot be made until all of the information required has been collected. Entrepreneurial businesses do not work like this. Sometimes you have to go with gut feeling, based on the maximum amount of information that can be acquired in a reasonable length of time, and with a reasonable cost attached. Yes, such decisions can be wrong, such projects can fail, but mistakes are valuable as long as you learn from them, and it is often better to make the wrong decision than to make no decision at all.

Implement

Within the profession, we believe that one of the biggest factors inhibiting the major change necessary is the inability of individuals to back their own judgement, take a risk, and manage the process of implementing a decision.

'Partners can always tell you how much you can lose if it goes wrong – they can always get that bit right...' Frustrated managing partner of 12 partner practice in the North

Risk is a vital area in today's business environment. You will need to conduct the same sort of risk assessments for your internal projects as you would in advising your clients. But remember, it is not only new projects and changes that create risk; you must also assess the risks of doing nothing. Ensuring a sensible approach to risk management and related professional indemnity matters is vital to the firm's profitability and sustainability.

Chartered Accountants are not risk takers, generally.

If the profit margin... is deteriorating the only way out of the downward spiral of reducing profitability is to start taking some risks.

Risk is a vital area in today's business environment.

To make a difference having established detailed plans, completed risk assessments and managed the team, there is no reason to hold back. The key to success is often just to do it.

Invest

...the major investment to be made is time.

You must invest to build a profitable and sustainable practice. Whilst some direct financial investment is essential, the major investment to be made is time.

Most practices seem to fail to distinguish between non-chargeable time which is wasted, and non-chargeable time that is invested back into the future of the practice. The result is the sort of discussion that is heard up and down the country in partners meetings:

Partner 1: 'The way to increase our bottom line is for partners to spend more chargeable hours – the higher the number of chargeable hours done by partners, the more fees will be generated, and therefore the most profit. Partner chargeable hours should be a key performance indicator'

Partner 2: 'But we have to run the business along more commercial lines, and I'm fed up working such long hours. I think we shouldn't worry about partner hours – we partners should be planning for the future and managing the practice to make it more efficient, that might mean less partner chargeable hours, but in the longer term we will be more profitable.'

Both are right, but both have failed to understand the dual role that partners play and have failed to measure the output from each. 'Investment time' can be marketing time invested in gaining new clients, it can be management time spent in making business processes more efficient, it can be development time spent in designing new methods of delivering service streams, or it can simply be training time learning new skills.

Identifying investment time is key to success in building an enterprising and profitable practice. You must also distinguish investment time from wasted time, and prioritise it against chargeable time. Increasing pressures in terms of speed of change in the business environment mean that you need more investment time. Firms that fail to recognize this are asking their teams to work longer hours for the same profit margins – they can say they are busy, they are still very profitable, but the profitability is creaking, and partner burnout is an increasing risk.

'What you do with your billable time determines your current income, but what you do with your non-billable time determines your future.' David H Maister *True Professionalism*

Increasing pressures in terms of speed of change in the business environment mean that you need more investment time.

Trust

...there is an increasing need to make strategic alliances...with other organisations who can supply expertise they don't have in-house, easily and efficiently.

As the world becomes more complex, there is an increasing need to make strategic alliances with partners. The natural arrogance of Chartered Accountants seems to make us reluctant to enter into these arrangements, and the result is that the pace of change in the profession is slower than it could otherwise be. There is simply no way in the current business environment that the sort of practices at which this report is aimed can afford to invest in all the areas of expertise to which they are going to need access.

One of the most difficult things for a newly qualified ACA entering general practice to learn is to say 'I don't know.' They have just spent three years or so being told they are the cream of the brightest and best in the country, and suddenly they are asked a relatively simple question to which they don't know the answer. Their pride drives them to pretend they do know, or re-direct the questioner into areas with which they feel more comfortable. The right answer, of course is, 'I don't know, but I'll find out, or I can put you in touch with someone who can help'. The general practitioner's network of contacts can be his or her biggest asset.

So an enterprising firm sets up partnerships with other organizations who can supply expertise they don't have in house, easily and efficiently, giving the client the seamless business advice they seek, and which underpins the relationship of the businessperson to the prime source of business advice, his or her accountant.

The most obvious and numerous examples of this phenomenon probably lies in the practices who successfully exploit the financial services areas, setting up separate divisions or companies to develop investment business commissions and fees. Similarly there are good examples of IT companies set up alongside firms to design and implement IT system solutions for clients.

Differentiate

To make more profit than the rest you must be different, and your clients and prospective clients must know that you are different. Your practice needs branding.

Many traditional practices misunderstand the meaning of branding, and underestimate brand values.

Branding is not about corporate identity, or how your website looks. It's not about logos and descriptions at the top of the notepad.

It has everything to do with the reputation and 'the client promise' of your firm. It is about positioning the firm in a unique area, in order to increase its value, and give greater market penetration. It is about putting a service in the marketplace at a higher value than your competitor. It is about differentiating yourself from the competition.

Every firm has a brand value, even if it is not sought. Even if you do nothing to enhance your brand, it exists in the marketplace as soon as you have clients, suppliers, a network of contacts, because they form a view of you, whether you like it or not. Clients are inherently lazy, but this is changing, and as they become more 'promiscuous', brand values become more important. Having the ICAEW 'kitemark' helps to position your brand, but is not a substitute for it, and given that you are competing at least in part against other Chartered Accountants, it is not a useful distinguishing factor. Whilst the ICAEW image stands for professionalism and core values of integrity and independence, values a client can rely upon, it does not help your practice stand out from other member firms exhibiting the same virtues.

Clients find it difficult to judge the quality of the advice given, or the quality of a set of accounts, or a tax return, so they base their judgement on different criteria. In the past this has often been the personality of the partner, the way the receptionist answers the phone, the design of your *Yellow Pages* advert, or what an existing client has told them. But if you want to leverage the brand of your firm, it has to be a firm wide brand, built into the culture of the firm, and everything you do – and only then does the business you are building begin to take on a value greater than the sum of its parts.

A firm's brand must be built around a single voice. Branding is as much about the people further down as it is about partners, it's about 'the way we do things around here'. An enterprising practice ensures that a client who has a good experience with a partner is going to have a good experience with every other member of staff that he or she comes into contact with. The value is added by consistent delivery of service at guaranteed service quality.

'The best defining characteristic of the common culture that pervades this firm is that every partner would be quite happy for any other partner speaking on behalf of all of us.' *Three partner practice in Middlesex*

Chartered Accountants are a paradox – inherently arrogant because they know they deliver a good service based on knowledge of an arcane science, but lacking confidence in their ability to sell.

In building your firm's brand, you must be aware of your audience, identify your customers and your marketplace (including your staff, potential customers, and suppliers). You must be realistic about what the firm can deliver and you must have a vision of where you want the firm to be in five years' time.

In building the brand, attention to detail is paramount, and you must be prepared to invest time and money in your business image.

Branding is not about corporate identity, or how your website looks.

Clients find it difficult to judge the quality of advice given...so they base their judgement on different criteria.

Focus

...a practice needs to re-engineer itself, and refocus service delivery in new areas.

...it is necessary to build on that solid base of recurring work, but shift the emphasis...aim for up to 60% of income to come from consultancy work or other value added services.

In order to remain profitable and sustainable, a practice needs to re-engineer itself and refocus service delivery in new areas. Typically, a traditional practice might have a turnover from non-recurring/special work of about 10% of total income, the remainder coming from repetitive compliance assignments, accounting, audit, and tax.

In order to address the needs of the marketplace in the 21st century, and retain profitability, it is necessary to build on that solid base of recurring work, but to shift the emphasis completely. You should aim for up to 60% of income to come from consultancy work or other value added services. Not many of the firms that we spoke to had reached that position; most said they were aiming for 40% at the moment, depending on whether tax planning comes into the category of value added or not, but all were confident that they had not yet fully developed all the services that their clients needed, and that 75% should be achievable.

That is not to say that accounting and audit is not an important component of an enterprising general practice. Indeed it is the bedrock, the methodology of selling confidence that the knowledge sold as consultants has been based on hard learning and experience of analyzing business performance at all levels, of demonstrating a real understanding of the clients business, and the trust that consultancy advice given can reap real rewards for the client in terms of increased profitability.

'The way of the future lies in specialist services – a view shared by all the mid-tier firms. They want to retain their roots with their existing client base and their sector of the market, but, at the same time, they want to be able to chase niche areas of business. To do this they must invest in technology and people, which sometimes means combining a complementary accountancy practice.' *Keynote Report on Accountancy 2001*

We must use our strengths to maximize our opportunities, clearly understand the market, how our services address that market, and sell to it intelligently. Our entrée to the market is our trusted advisor status allied with our ability with this arcane language of accounting, and we must take care not to sully that status with over enthusiastic marketing or shallow analysis. In everything we do, we must retain our adherence to our basic ethical code.

'At present 90% of our fees come from looking at historical information – the past – the other 10% comes from value added services. The average client spends less than 10% of his time thinking about the past, and 90% thinking about the present and future. What does that tell us?' Small practice advisor

Partners in traditional firms often say they are 'too busy'. Decreasing margins in 90% of the fee base requires extra hours to be spent in order to maintain partners' personal income levels. But the answer to these reducing margins is to work smarter, not harder. Partners and portfolio holders need to delegate more, need to free up time to market consultancy work. Systemisation is the key. Portfolio holders are good at following procedures, so systems have to be devised to address different work types, and those systems must be documented and shared.

Enterprising practices measure the amount of new project work sold, and reward special work as opposed to recurring fees. They analyse the business life cycle, and develop a strategy for advising their clients at different stages of that life cycle. Enterprising practices successfully cross sell, and understand the cost of losing opportunities to cross sell.

'You can't win business sitting in the office.'

An analysis of a number of small and medium-sized firms in the US (*Double digit growth – tools from top firms*, by Jean Marie Caragher, AICPA) identifies that 'without question, the development of niche markets is the most consistent marketing initiative among our featured firms... . Critical to niche marketing's success is identifying the champion and supporting him or her with investments in time and money.'

The common factors in each of the successful firms in this survey were:

- using a niche marketing strategy;

- exploring new service opportunities; and
- remaining committed to a marketing programme.

Enterprising practices treat people in the firm as an internal supply system, an internal marketplace, and ensure they are good at delivering services internally as well as to external clients. They build confidence in their staff and emphasize the need for quality standards in everything they do.

Know

All practices need to improve information technology (IT) skills throughout their organisation, and to ensure an effective understanding and knowledge at partner level of key IT trends and development.

The first thing to understand about IT is that you don't necessarily need detailed technical knowledge to be able to apply IT to the needs of your firm or its clients. IT is largely a collection of tools, the application of which should be governed by 'traditional' management and analytical skills. What you really need is enough confidence in IT to be able to manage internal and external IT expertise.

However, whilst you may not need to rush out and learn how to program, build databases or create e-commerce websites yourself, you should learn enough about the applications you use, or could use, to employ them effectively and efficiently, and to judge how well your colleagues and clients are using them.

Many of the practices contributing to this report could be classed as 'early adopters' of new technological advances, and they seem to have developed a system of having a sufficient number of 'power users' at various levels in the staff, for example, people who could champion the use of the new technologies and help to spread competencies throughout the organisation.

IT is also perhaps the most obvious differentiating factor between those practices who have maintained pace with the speed of change, and those who have been left behind. Covering all the potential threats and opportunities that IT unleashes would take a booklet all of its own, so here we concentrate on general principles and a few specific areas that demonstrate how important it is to understand IT and where it might lead.

The technological drivers of change that we believe will affect smaller practices most in the near future are the internet, knowledge management, automation of financial data handling and changes in the working environment.

Internet use and availability

The internet creates substantial opportunities and threats for us all. It gives us greater access to more clients, but also gives clients greater access to resources that they might previously have relied on us to provide. The internet also brings a wealth of security and management issues that we must address for our own firms, and help our clients to deal with. Many of these issues will require the application of our traditional financial and auditing skills to a different environment, and the most significant obstacle to success will be lack of confidence caused by lack of understanding, not lack of ability.

Practices need to promote effective use of the internet throughout their own organizations, and to help their clients do the same.

The essence of general practice has always been the ability of the practitioner to give solid common sense advice on a number of business topics and introduce the client to other suitable and trusted advisors, appropriate to the client. In internet terms, a site that points the 'surfer' towards further sources of advice is termed a 'portal' or gateway site. Accountancy could develop into the 'portal' profession that opens up, and qualifies, advice avenues to other professionals. This is the role that general practice carries out at the moment, but perhaps not in a sufficiently systematic way. By building their websites around this 'portal' approach, rather

All practices need to improve IT skills throughout their organisation....

The internet creates substantial opportunities and threats for us all.

than the all too common online brochure, we can provide valuable services to our clients at the same time as ourselves to existing clients and potential clients.

It seems clear that the large software companies have an eye on the traditional accountants' marketplace, collecting *data* and processing it into *information*, such as the financial statements; many are now seeking to tie in firms to user groups. However, it must be questionable whether these companies, once their systems have developed sufficiently, can effectively replace the accountant. It seems likely that they will be able to replace the data processing function currently undertaken by the majority of small firms, but not the interpretation, rationalisation, and advice about corrective action that is added by most Chartered Accountants. Another compelling reason to develop these skills and tools.

Knowledge management

As a profession, one of our key tasks is to deliver the right advice speedily and effectively. Much of the knowledge that underpins the advice we give exists in the minds of ourselves and our colleagues. This often prevents it being accessed efficiently, and can lead to it being lost altogether every time a member of staff or partner leaves a practice.

To be a really successful *enterprising practice* requires a knowledge management strategy that will maximise the availability of the knowledge and skills within a practice despite staff turnover, assist with individual learning skills, and maintain an efficient work process that allows the work to be delegated to the lowest (and therefore cheapest) level possible. Technology should facilitate internal publication of individual knowledge, and promote general, but controlled, access to it. This way, clients should get the advice they need more quickly, and practices will minimise the loss of their 'intellectual capital'.

To be truthful, not even the most successful practices that we spoke to had solved the knowledge management problem effectively yet. Most had developed intranet systems, but staff were finding it difficult to use these appropriately and effectively, often resorting to keeping lists on scraps of paper! There is clearly a cultural issue here that will require time to overcome. But all admitted that appropriately designed and priced solutions needed to be devised, and implemented.

Many practices had designed written systems for their processes, developed induction and mentoring processes for new staff to reduce learning times, and invested heavily in training and education. All of which they had found useful in retaining knowledge within the firm. But in terms of being able to capitalise the valuable asset that is the knowledge held by a retiring partner, most admitted that there was a long way to go. It seems that technology is the only provider of a solution but that the software market is yet to develop a suitable offering for these firms.

Software writers and companies have not served the profession well. The fragmented profession and poor co-ordination has meant that we have been pushed into using the software that has been produced for us, rather than dictating to the market, and expressing ours and the clients' needs. We should be pushing development in the areas that could increase our profitability and cut costs for the clients.

Automation of financial data handling

One of the key current developments in internet technology is the extension of the 'language' that is used to exchange information – XBRL (eXtensible Business Reporting Language). This will enable applications to process data without human intervention.

A simple practical example would be a sales invoice. Software packages aimed at all sizes of business will be able to generate an invoice in an electronic format that can be sent to the customer via email. On receipt, that invoice can either be printed and manually entered into the customer's sales ledger or, if the recipient sales ledger is suitably equipped, processed electronically with no need for printing or manual data entry.

In addition, a specific development of this extended language has been designed to allow financial information to be published electronically. This doesn't just mean that it will be able to be viewed online. Like our example sales invoice, it means it will be capable of being accessed and analysed with no manual intervention.

One of the key current developments in internet technology is the extension of the 'language' used to exchange information – XBRL.

XBRL is best described as a taxonomy of accounts. In an ideal world it will become an internal standard language for accounting, communicating financial data internally, and then communication directly to banks, credit agencies, regulatory authorities, and investment analysts externally. It works by attaching 'tags' to source data based on the taxonomy, which can then be used to identify every component of the data electronically, thus allowing it to be formatted, analysed, transferred and processed by suitable software applications.

Such technologies will reduce the costs of accountancy preparation work, increase the speed of handling and analysis of data, and eliminate the problems associated with translating the numbers. Indeed, it has the potential for cutting out the need for accountancy preparation work and this will be a significant challenge. It is by reason of our access to the accounting records, our skill at manipulating numbers to tell the accounting story and measure the company performance that we obtain our unique insight into the company's affairs, and which is the gateway to giving business advice and selling our business knowledge.

However, it may seem paradoxical, but it appears that the more accessible the data becomes, the more opportunities seem to appear for accountants! One can envisage a situation in which the basic initial input of data into the accounts drives a standard set of accounts, a standard tax computation, and the practitioner can then concentrate on the value added work – increasing profitability, dealing with financing arrangements, and liaising with the banks.

There is a serious marketing issue here as well. The client currently perceives they are paying for 15 or 20 pages of accounts, neatly formatted. But what if Companies House requires only a shortened, standard set of accounts, if the Revenue move to assessment based on accounting profit? Will the price of that service remain at its current levels, if it no longer requires such expert and academic input? Will we be able to provide additional services that make better use of our skills as Chartered Accountants?

And we need to envisage the effect on the structure of firms if this scenario comes to pass if we are to anticipate and adapt to the new environment. If accounting systems become more expert (i.e. uses more 'wizards' – sub-routines that give additional user information prompts and point out when you've done something stupid), we will need more knowledge management and less trainees, less clerk-type roles. The history of computing is about making complicated things easy, so why employ people to undertake routine tasks that can be computerized?

This is good news for the ICAEW. Smaller practices will have a greater need for knowledge workers and there will be a shift in the balance of staff numbers from processors to skilled Chartered Accountants, as long as ACA remains synonymous with the premier business financial advisor role.

However, there is a danger. IT will change the way people buy services. For example they will buy services more centrally (greater information availability implies more uniformity in decision-making about purchasing). Our relationship with the client will be under greater strain because not only will we no longer control the detail of the accounting records but also it will be easier for clients to move between advisors. Ultimately, clients are making an economic decision – do they do this processing themselves internally, or do they use an external source? At present the accountant is best positioned to give this advice, but perhaps not best skilled. Practices need to ensure that they invest in greater learning in this area. There is work to be done to build on the coveted position that we currently occupy.

Working environment

The issue of staff and recruitment crops up repeatedly throughout this report. We shouldn't ignore the ability that technology now gives us to shift employment patterns, for example greater opportunities for remote working. The ability to transfer electronic data anywhere in the world, almost instantly, gives practices access to resources that they could not otherwise utilise – whether it is employees or contractors working from home, or outsourcing to cheaper labour overseas.

These new ways of working are currently only in their infancy, but an enterprising small practice will need to ensure that their employment strategy is sufficiently flexible to scope with the demands of the staff it needs to employ.

XBRL is best described as a taxonomy of accounts.

an enterprising small practice will need to ensure that their employment strategy is sufficiently flexible to scope with the demands of the staff it needs to employ.

The ICAEW is there to help you achieve by:

- *training students*
- *promoting Chartered Accountants as leaders*
- *increasing public confidence in Chartered Accountants*
- *providing access to resources*
- *providing forums*

Recruitment and retention of staff is one of the profession's major issues.

Talk

Your membership of the ICAEW should be a crucial factor in helping you achieve your objectives. However, to ensure that the Institute plays an effective part you must talk to it, and even occasionally listen to it.

Key ways in which the Institute can help you develop your practice are by:

- Training students to be able to work effectively within general practice and so that they are best placed to be the succession for small practices in the future
- Promoting Chartered Accountants as leaders in the implementation of all kinds of business strategies, including effective use of IT
- Increasing public confidence in Chartered Accountants as being IT as well as financially literate
- Providing access to the resources you need to run your practice and advise your clients
- Providing forums for practitioners to discuss ideas and problems with each other.

However, do remember that much of what members perceive the Institute could do, it is in fact already doing! Ensure that you are aware of the resources at your disposal. We have included details of the most important of these on the website. Also remember that the Institute is made up of the members – the more you contribute constructively, the better it will be able to serve you.

Care

To succeed in the transition to an enterprising practice, the most important thing to take care of is not technology, not systems and processes, not financial investment, but people. The ability to carry out all the actions we have set out in this report will depend on the support, enthusiasm and ability of you and your team.

You can't always get what you want

Recruitment and retention of staff is one of the profession's major issues at the moment. Despite smaller firms recognising that staff are their biggest asset they appear to be appalling at looking after them. Enormous sums of money are poured into technical training in the profession but with very little investment in the 'soft skills' which are necessary to use the technical knowledge to make higher profits.

It may be, of course, that efficiencies are being found, but that these are being overshadowed by other cost increases, and the fact that profit margins on compliance work are being squeezed by a reduction in price rather than an excessive increase in wage inflation, high though that is.

But how many firms have a true alignment of the vision of the practice and the staff needed? There would appear to be a lot of fire fighting going on – 'let's fill the vacancy', without a real analysis of what the vacancy should be, or even, 'does the vacancy exist?'

Admittedly, there is a less than perfect market for accounting expertise. There are insufficient numbers of quality graduates and a small number of employment agencies have a stranglehold on the market for qualified staff. Staff turnover is therefore expensive, which in turn slows down the movement of staff.

Training

Training cost budgets in firms have increased with the increased complexity of the environment, despite the radical measures taken by the ICAEW in recent years in moving the footprint of the qualification, and reducing the amount of study leave from 33 weeks to 22. Ten years ago there were 4,500 students entering training, last year there were only 3,516 entrants, due to large firm mergers and a reduction in number of trainees within these firms.

However, small firm training of chartered students has increased in the same period, as smaller

firms seek the advantages of having technically up-to-date expertise within the business, and solving the succession issue by 'growing their own'. The recent introduction of a 'fast track' system for bringing on good AAT students is also particularly attractive to firms in this sector.

There was also an interesting development in 2001 in the graduate recruitment market. The dotcom phenomenon of the affluent late nineties led to graduates wanting to get into corporate finance and management consultancy directly, but in 2001 this appears to have changed, with more graduates making discriminating choices to move into Chartered Accountancy as a safer, longer-term career move.

Clearly, the ACA brand must continue to retain its currency and status if we are to continue to recruit the brightest and best graduates into the profession.

Small practices tend to focus their training resource on technical training, not on managerial training, and then are surprised when partners turn out to be poor managers. The result is a firm culture of providing technical output, not one of running a business. To an extent this must be driven by the CPE guidelines that are focused in technical training, particularly in the reserved areas, with quotas for such training driving the course planning in firms very much towards audit and tax courses. Every firm that wants to remain profitable and successful needs to carry out a clear training needs analysis.

Satisfaction

The work/life balance is a crucial job choice factor in the current environment. Brighter graduates are much more cynical, they understand job insecurities better, and they don't trust their employers to put their staff before profitability.

This is a crucial factor in attracting staff to a smaller practice. Recruitment and staff turnover is such a large expense that anything you can do to maintain your staff pays enormous dividends not only in cash terms, but also in maintaining knowledge and expertise within the firm. Smaller firms cannot pay the salaries paid by the big firms, but they can offer flexible working, a structured career path, a more varied or more specialized workload, and more client interaction.

It is still difficult for a Chartered Accountant to move back from a business career to practice, and this is an issue that the ICAEW needs to address in conjunction with its review of CPE and life-long training. We cannot afford to institutionally limit the numbers of people returning to practice, either from a sojourn in business or after a career break and need to make the process of returning easier. Over 50% of the student market is female, but this does not get reflected in the partner and employee in practice statistics. We need to move away from the binary (practice versus business) model of gaining accountancy experience and move towards one of responsibilities and work experience gained. There is little doubt that the ICAEW suffers a loss of membership because qualified members find it difficult to return after a career break.

Involvement

Organizations such as the John Lewis Partnership, which are renowned for the quality of their staff relations, identify that it is key to set time aside for communication, and to give regular information about the firm's progress and performance against external organisations. Profit sharing is key to a high retention rate, even in basic roles. Representations from every level from the management team to the shop floor should challenge management, and encourage a dialogue about the way the firm is going.

Departmental tribalism can be advantageous and some firms positively encourage internal competition. As one partner said:

'In our firm, you really don't want to be in last place. Everybody wants to be ahead of the next guy.'

But how many Chartered Accountancy practices have IIP (Investors in People), and in particular how many training organizations have IIP or a similar kitemark? Research by the CIPD (Chartered Institute of Personnel Development) shows that the 'best HR practice' firms are also the most profitable firms, (even though there is a difficulty in demonstrating causality that best HR practice of itself drives profitability, rather than being a common factor).

...small firm training of chartered students has increased...as smaller firms seek the advantages of having technically up-to-date expertise.

The work/life balance is a crucial job choice factor...

Organizations... renowned for the quality of their staff relations identify that it is key to set time aside for communication.

**people don't leave
firms, they leave bosses!**

Those firms that do provide management training to their staff often fall into the trap of doing so because it is perceived as 'a good thing'. As a result they don't allow the individual to apply the lessons learned within a reasonable timescale back in the real world, office environment. Training in these areas must be immediately relevant, and the trainee must be given the opportunity to apply it.

It appears to us that the enterprising firm of the future will have a staff structure that is dominated by knowledge workers to a far greater extent than in today's profession. Nevertheless, there will be an 'engine room' of staff producing technical work in a very efficient way; these people may not want the career structure envisaged by more ambitious and work-centric staff, but they will be just as important to the profitability of the firm, and 'John Lewis style' they will need to be involved in the business in a way that makes them feel valued. There is lots of anecdotal evidence that people don't leave firms, they leave bosses!

Summary findings from an ICAEW research project *Flexible Futures: Flexible working and work-life integration in the accountancy profession*, (October 2001) provides evidence of a growing awareness among firms of all sizes that the opportunity to control how time is allocated to work and personal life is good for the staff and therefore good for the practice.

Although we didn't spend time talking to the staff members of the successful practices to whom we spoke, the statistics that were reported to us appear to back the theory that many of these firms have a lower than average staff turnover. The result is lower costs of recruitment and induction training and an increase in the internal knowledge bank. This was one of the factors identified above as still waiting to be solved and even if the problem is not yet capable of being solved, these successful practices appear to have found ways of minimising the problem.

Conclusions

The 2005 – Added Value report by the ICAEW said:

‘Small firms will succeed in many cases by specializing, and by developing skills to provide added-value products, services and consultancy in areas such as strategic business advice and personal financial services.’

But practices are clearly not yet taking these messages to heart. Alternatively they may believe that the necessary changes can be dealt with on traditional timescales; only time will tell whether that is right.

We can hypothesise about the reasons for the reluctance on behalf of some firms to make the changes:

- The ‘end point’ may be ‘out of sight’ – practitioners find it difficult to envisage what their firm may look like at the end of the change process, so find it difficult to start out on the process
- It is a long process – hurdles appear insurmountable, and the rewards ephemeral until real progress has been made
- Resource constraints – time, money, and staff resources are in short supply

Clearly though, profitability in many firms has stagnated. Radical changes in thought processes are needed if a firm is to break out of the slow downward spiral in profit margins. Indeed, in many ways it may be the best thing for the profession as a whole if there was some radical external stimulus for change. For example, many in the legal profession had to change when the conveyancing monopoly was removed; surveyors and estate agents went through some painful readjustments as a result of the takeovers by PLCs wanting to access the financial services opportunities available at the point of a house sale. However, they returned to higher profitability more quickly as a result of recognising the issues early. Rapid readjustment can be painful, but may be beneficial in the long run.

There is generally always clients’ work on practitioners’ desks, and for many that seems to command more attention than running their own business.

For those who want to build a business of value, rather than develop a stream of personal income, a shift in thought processes needs to take place. Hopefully some of the thoughts in this report will assist firms to construct their own vision and business plan, and to make the necessary adjustment in work methods to build a sustainable and profitable practice.

For those who want to build a business of value, rather than a stream of personal income, a shift in thought process needs to take place.

Appendix 1 – Business plan example

General

Vision, where do you want to be in five years?
Marketplace
Management structure
Analysis of present position – an honest and objective SWOT analysis
Targets/objectives
Measurement
Monitoring arrangements for the plan – measurement
Services offered
Client base

The Partner Team

Partnership agreement/shareholder agreement
Succession
Rewards
Recruitment
Training/skills base
Image/brand
Specialisms/niches
Qualifications – ACAs versus outside qualifications
Attitude
Strengths and weaknesses
Role of each partner
Responsibilities

Services

Services to be offered and mechanisms for doing so. (Understand the difference between compliance work and value added work)
Categorisation of services currently offered
Systemisation of services
Client needs identification
Effect of rise in audit exemption limits
Effect of technology on service delivery
Pricing methods
Marketing and selling strategies for each service stream

Resources

Human resources –the staff team, the internal skills base
Technology
Time management
Reward and motivational structures
Team structures
Financial resources

Brand

Reputation
Culture
Service streams
Marketing – understand the value of cross selling and up selling
Client base

Appendix 2 – SWOT analysis

<i>Strengths</i>	<i>Weaknesses</i>
<ul style="list-style-type: none"> • Trusted relationship with clients • Personal selling • Statutory need for accounts • Base of recurring fees • Client inertia – it's difficult to move to another accountant • Independence/objectivity/integrity as ethical base • Experience of many businesses at different levels • Depth of knowledge • Consultancy based on detailed knowledge of clients' transactions • Intellectual quality of Chartered Accountants enhance the brand • Ability to deliver the 'hand holding' service – quasi finance director for small companies • Measurement skills 	<ul style="list-style-type: none"> • Lack of differentiation in the market and in the product • No unique selling point (USP) • Often perceived as knowing the cost of everything and the value of nothing • 'I didn't know you did that' – poor marketing skills • Don't break down the service to devise a system • Giving away advice • Partnership structures • Resistant to outside advice – arrogant • No written marketing plan • Little passion and enthusiasm demonstrated • Chargeable time as basis for billing culture • Poor communication within firms, poor sharing of knowledge leads to slow learning • Portfolio holders have a fear of losing control of clients, reluctant to let other partners touch their clients, see their fee base as their power base in the firm • Don't work as a team enough • Resistant to change and resistant to investment back in to the practice • Partners 'Too busy' • Don't analyse what they do for clients • Uncomfortable with selling • Don't really understand the business they're in

<i>Opportunities</i>	<i>Threats</i>
<ul style="list-style-type: none"> • Good core client base • Small business consultancy • Payroll services • Tax planning services (better packaged) • Assurance services • Probate, trusts and executorship services • 500 out of 15,000 firms sell financial services • Key product is business planning and strategy • Regulation brings opportunities • Technology • Competition don't market themselves well • The starting point is so low, anything would be an improvement! • Alliances with other consultants 	<ul style="list-style-type: none"> • Competition from other disciplines – sales, IT, law, MBAs • Ability of unregulated competition to take business • Less barriers to entry in non-regulated areas • Technology • Will audit threshold rise reduce fees? • Can't deliver audit and consultancy the same way • Difficulty in attracting good people • Polarisation of the profession • Succession • Poor employment practices • Lack of ability to exploit the marketplace • Lack of trust by public following audit failures • Consolidators • Dropping student numbers reduces mid tier management availability • Lack of resources/lack of investment • Leaking knowledge/information

Appendix 3 – The Practice Equation

$$\frac{\text{Staff \& Partners}}{\text{Partners}} \times \frac{\text{Chgble Hrs}}{\text{Staff \& Partners}} \times \frac{\text{Time Added}}{\text{Chgble Hrs}} \times \frac{\text{Fees}}{\text{Time Added}} \times \frac{\text{Net Profit}}{\text{Fees}} = \frac{\text{Net Profit}}{\text{Partners}}$$

	Partner:staff ratio		Chargeable hours per person		Average charge out rate		Recovery rate		Net profit % per partner	Net Profit
MODEL	5	x	1350	x	43	x	0.9	x	0.42	= 109,714.50
	7	x	1250	x	55	x	0.9	x	0.35	= 151,593.75

Appendix 4 – Reading material

Further resources for the enterprising practice can be found at www.icaew.co.uk/practicefocus.

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Chartered Accountants' Hall, PO Box 433, Moorgate Place, London EC2P 2BJ

Tel 020 7920 8100 Fax 020 7920 0547 www.icaew.co.uk