

Where Is the Accounting Profession Heading?

Part 2

*What you need to be thinking about and doing now to be a serious
contender in the emerging competitive space ...*

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Will the Future Be An Extension of the Past? I Think Not.

I have suggested that the forces of change that have occurred to date have created a highly fragmented industry structure in which firms have fallen into a niche more or less defined by the size of the clients that they serve. Differences in profitability between firms also reflect this in that larger clients require more sophisticated services and are willing (and able) to pay higher prices. This is reflected in higher hourly realizations. Bigger firms are also better able to attract and retain talent and this is reflected in higher levels of leverage.

There are several forces of change now occurring that will forever change the environment in which accounting firms operate.

In the past several decades, the strategic and operational implications of this seem to be fairly clear: the keys to high levels of profitability are client selection, the offering of true value-added services, premium pricing (which are fundamentally marketing issues) and a willingness to invest in talent. Firms that have understood and implemented this have done well.

There are however, several forces of change that are now occurring that will forever change the environment in which accounting firms operate.

Technology

Technology is not simply the digital stuff that we hear about constantly. It is anything that changes the way we do things so that we are more productive or derive more satisfaction. Accounting firms are impacted by developments in technology in two ways. Firstly they utilize a variety of technologies the most visible of which are computers and communication devices for retrieving, processing and communicating information.

Secondly, they work with clients who have technology implementation requirements and who look to them for advice and assistance, particularly in relation to financial transaction processing and reporting. Many firms have built valuable niche services in IT consulting, implementation and support that extends beyond merely installing an accounting system.

Competitive pressures and the relatively low cost of technology have ensured that accountants have been reasonably fast adopters and as a result there has been a consequent effect on the nature of work they do and also on the structure of their business.

Productivity and Profitability

The accounting industry which, to a large extent, has traditionally been based on “number crunching”, standardized report generation and a wide range of routine tasks associated with compliance and audit functions, is well suited to experience significant productivity gains from the introduction of technology. That has happened. However, it has not been reflected in higher average firm profits.

The major effect of technology implementation has been to flatten organization structure. This has arisen because in the first instance, technology always tends to replace “brawn with brains” so we have seen a gradual decline in the number of people needed to support the work done in practices. However, while there has been an improvement in

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productivity measured by revenue per person (in real prices) there has also been an increase in cost because brains are more expensive than brawn and computers are more expensive than paper and ink. It also raises a profoundly important point, and that is that whereas in the past the number of people per owner has been a major profit driver, the flatter an organization gets, the quality of people becomes relatively more important than it has been.

Furthermore, there does not appear to have been any impact on productivity as measured by the proportion of hours charged to total hours available. Across-the-board productivity, by this measure seems to have been in the 60-70% range since the beginning of time. The inescapable conclusion is that restroom visits, water cooler chats, administration, marketing and the myriad of other so-called non-productive activities consume the same amount of time irrespective of whether a quill pen or a computer is used.

To put that another way, technology has not contributed to an increase in the average number of hours people spend working on engagements even though it has obviously increased their output. The question we should now ask, is there any evidence that it has contributed to an increase in the average yield achieved from those hours?

It is often asserted that technology has freed up time and allowed accountants to provide more valuable analytical and advisory services to their clients. I don't see much support for this assertion, at least amongst smaller practices. For example, when we look at the proportion of revenue that small firms generate from accounting and auditing and tax compliance services it remains in the 80-90% range and has not changed a great deal in the past 50 years.

It seems that to the extent that technology has freed up time for the average practitioner, that practitioner has gone out looking for more low level work and has been willing to bid prices down to win it. If technology adoption had in fact facilitated a shift towards more valuable analytical and advisory services, then we could expect to see higher net profit margins being earned and a smaller proportion of revenue coming from compliance services. Neither of those things appear to be happening.

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Fifty years ago, accounting firms would typically yield a net profit before owners' compensation of around 30-35% of revenue. It is much the same today and for some firms a good deal less. It would seem fairly clear therefore that technology implementation, while mandatory to maintain a level playing field, has not contributed to improving profitability, but rather it has benefited the end consumer in the form of lower real prices. With respect to technology, I think the future will be an extension of the past in that

technology alone will not be the source of improved firm profitability. On the other hand, firms that are not fast adopters of emerging technology will be left behind. In other words, new technology adoption will be, as it has always been, a necessary but not sufficient condition for survival.

Communication, Service Delivery and Competition

In the foreseeable future technology's greatest impact is going to be seen in communication. The explosive growth of the Internet and everything that goes with it is dramatically changing the way people communicate and consequently their lives and business models.

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In contrast with the past, when considerable cost, effort (and ability) had to be expended to find useful information from paper and ink sources, today information and experiential knowledge is highly accessible virtually in real time and can be distributed at close to zero cost.

This will have a profound impact on the knowledge industry. For example, it is already leading to a proliferation of information portals with both vertical and horizontal designs, there are many very good (and getting better) search engines now available (e.g. askjeeves.com, google.com), it is giving organizations that have developed competencies in information search, filtering and retrieval a competitive edge over those who do not have such competencies; and it is bringing the end-user of information closer to the source.

Put simply, technology is making it possible for organizations to look and act smarter. Those organizations that elect not to use knowledgebase technology will look and be dumber. In fact they will not survive.

It is also making it possible for large organizations to reach small customers cost-effectively and for all organizations to broaden the geographic boundaries of their market. For example, utilizing such technologies as video- or web-conferencing incorporating application sharing and other collaborative tools makes it possible for small or large groups to participate in virtual face-to-face meetings thus eliminating travel time and associated hard costs. As these technologies become even more feature rich, cheaper and bandwidth broadens, they will be as common as telephone conversations.

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I see a world in which accountants will communicate with their clients almost exclusively with this type of technology. Their clients will be members of their firm's extranet (or more likely, their firm's network's globalnet) and will have 24/7 access to the firm's knowledgebase (supplemented by incredibly rich third party knowledgebases delivered via Web services technology as discussed below) and smart search tools to find answers quickly without having to bother a real person. On the other side of the coin their "real person" accountant will know what information they have been looking for and will be able to add even more value by getting back to the client with additional support. This is

really what CRM systems will be all about: integrating knowledge transfer and the client relationship management process.

Clients will be able to track what stage their work is at in the same way you can track the process of your order with Dell Computer Corporation or a FedEx parcel, they will be automatically alerted to other information that may be required, they will be able to pay their bills, post questions and approve documents for filing without leaving their home or office.

While this may seem an exciting scenario (for some accountants at least), it also poses some threats. During the next few years we are going to be hearing a lot more about developments in Web services that is being aggressively promoted by the Microsoft's .Net strategy and others including Sun, IBM and Oracle.

The impact of this technology will shift the focus of software development towards web-based digital services rather than stand alone applications.

Web services are a set of industry standard protocols that will make it easy for disparate software applications to talk to each other. The problem with today's computing environment is that applications can effectively only talk to each other in a common programming environment. With Web services tools it is possible for applications to reach out to multiple applications simultaneously irrespective of the platform on which they are built.

The impact of this technology is likely to be profound, in that it will shift the focus of software development towards web-based digital services rather than stand-alone applications. This makes it possible for accounting (and most other business processes) to operate in a platform-independent web environment with much of the transaction recording and report generation happening seamlessly and automatically. Smart analytical, interpretative, solution systems will be simultaneously delivered (quite likely, though not necessarily, through wireless networks) as part of the accounting process. These services will be capable of monitoring events and activities in real time and give managers information they need to avoid problems, rather than information about problems after the fact.

In this particular scenario, personal intervention by an accountant will not be required and unless accountants find ways to add value beyond that which is made possible by technology, they run the real risk of being partially disintermediated. This may not happen in the next couple of years but something along these lines will be mainstream within a decade.

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During the past few years we have also seen how technology is giving consumers much greater power relative to suppliers because of their ability to find the lowest cost and best value solutions, and to be able to access other consumers' experiences with specific suppliers. This of course can be a fantastic marketing tool for firms that do an exceptional job at delighting their clients but it will be disastrous for firms that don't make the cut.

There has been a proliferation of sites that show listings of service providers (e.g. www.buyerzone.com or www.prosavvy.com) and give buyers the opportunity to obtain

competitive quotes. Clearly the competitive environment is changing in a very big way and Web services will take this to another level.

To get a sense of where this is going, visit www.youknowbest.com and see how this organization has used the .Net development environment to provide a shopping cart that spans multiple e-commerce sites (of the user's choice) and more importantly, notice how this is leading to an environment where manufacturers, distributors and customers will be seamlessly linked together with the manufacturer being in the strongest position.

For example, customers visit a manufacturer's site and seek information about a product they are interested in, the manufacturer offers a pathway to it distributors and continues to provide customer information support through the distributors' site as opposed to simply providing distributors with information that they have to continuously update on their own site.

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The manufacturer is therefore able to follow the customer through the buying process. The manufacturer can also monitor what prices and quantities its distributors are selling its products for and can maintain vigilance over inventory levels and automatically replenish as required. Manufacturers are able to retain channel integrity while getting very close to end users of its products but it also

serves to squeeze distributors because of the middle position they are in. This is totally consistent with the thesis outlined by Don Peppers and Martha Rogers in *Enterprise One to One : Tools for Competing in the Interactive Age*.

Now, let's look at this a little closer to home. Microsoft-Great Plains manufactures accounting software suites, one of which is called Small Business Manager and positioned an "easy-to-use financial and business management solution that helps you work more productively, access the information you need to make informed decisions, and effectively integrate with other business applications, including Microsoft Office and Microsoft bCentral™ Web services ..."

Note the reference to Web services and notice that the application does not carry a traditional application name but is positioned as a "Manager", implying that it offers more than just a means to systematically track, organize and report transaction data. This is a not-too-subtle sign of what's to come. Notice also that it integrates with other applications and notice who provides those applications and the underlying platform they are built on.

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If you visit their site (www.greatplains.com) and surf around you'll probably conclude that Small Business Manager is rather "clunky". The "management solution" that is promised in particular, falls far short of what I believe we'll see in the future. However, it is an illustration of what the future holds and more importantly, should alert accountants to who they will find themselves competing with in the future. It won't be the firm down the road but is much more likely to be the firm from Redmond, Washington.

In a fully blown web services environment not only will there be seamless application integration, there will be seamless knowledge integration, at least in relation to explicit (written, stored, generally available and easily communicated) knowledge as opposed to tacit (insights and judgments from experience) knowledge. What that means is that in real time, users of these applications will have access to a rich array of explicit

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information resources that will be contextually relevant to what is actually happening in the business as reflected by its various activity measures.

The activity measures will not be limited to traditional transactional accounting data but will also include non-financial data drawn from applications such as CRM and Project Management. On-demand training services and resources as well as solution providers with specific skills and experience in areas of the

business that require attention will also be drawn into the service web.

In the future, explicit knowledge about the functioning of a business, for example, as represented by its financial statements and other performance metrics will be readily available and inexpensive. This will not be where professional advisors can create the greatest value. The main value point is going to attach to applying tacit knowledge to help business people make better and faster decisions.

One wonders how accountants, who have traditionally been the first port of call for business managers, will fare in this environment. If you are not over what is happening now you are already one day behind anyone who is.

Taxation Regimes

A discussion of technology would be incomplete without reference to its possible effect on taxation regimes. In the B2B and B2C space there is practically nothing that cannot be researched, bought and supported through the Internet with 24/7 access, very low access cost and high levels of transaction security. This is going to become more prevalent in the future as bandwidth continues to broaden, Internet access costs (including the cost of devices used for access) continue to fall and on-line experiences continue to become richer.

The internet, perhaps more than the free flow of capital across national borders that has arisen from de-regulation in financial and trade markets by governments, has been and will continue to be the main driver of the globalization of business which is posing a serious taxation challenge for governments and one that they don't seem to be able to deal with. The traditional income tax model already poses difficulties in relation to transfer pricing and clearly determining the tax domicile for organizations with global activities and that will not get any easier. The difficulties in relation to sales tax and value-added tax are even greater.

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I believe it is inevitable that governments will have to do something to protect their revenue base, and the most likely scenario, in my view, is that there will be some form of

internet transaction tax payable by the purchaser. The big problem for governments is to find a way to have jurisdictional control over transactions which, given the way the internet works today, is almost impossible.

For this to be possible there will have to be regulatory intervention by governments in

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some aspects of the way the internet functions. How this might happen is anyone's guess but one possibility is that all browsers will be required to embody functionality that tracks transactions and automatically remits a tax payment, or perhaps it will happen at the telecom, or ISP level. The concept of digital wallets that come under government regulation is also a possibility.

Whatever the outcome of government deliberations on this issue, I believe three things are certain. First, there will need to be a high level of collaboration and cooperation between governments (at state, national and international levels) to protect their respective revenue sources; secondly, this will most likely be part of a total overhaul of traditional taxation systems that were designed for a totally different environment; and thirdly, it will involve some form of regulatory intervention in the operation of the internet.

These changes may or may not benefit the accounting profession although generally when a taxation system is changed, accountants do benefit especially when the government announces that it has "simplified" the system. This of course is why taxation has always represented a significant proportion of firm revenues in the past but because it has also been a commodity type of service, margins for most tax compliance work are relatively low.

Rate of Change and The Need for Collaboration

It is fair to say that humans adapt to change quite well and in fact thrive on it. What we do, how we live and our technological developments are an embodiment of change and a reflection of our willingness to accept it. However, what we have not had to experience in past centuries is a rate of change that is anywhere near as rapid as we are experiencing today. This, I believe, poses our greatest challenge.

The real challenge posed by rapid change (and consumer demands for instant gratification) is that no one organization can hope to go it alone.

In a rapidly changing environment it is far more difficult to make reasonable assumptions about the future. This in turn makes decision making so much harder and more open to the toss of a coin rather than a considered judgment. But it goes further than that. In a slower moving environment investment decisions can be made with a reasonable assurance (let's say a calculated risk) that in the "long haul" it is a lot easier to feel that returns will cover the investment. However, when change is rapid the probability of success is much lower and the risk is higher. The impact this may have on capital markets through its effect on equity returns relative to risk-free returns could be quite significant.

The real challenge posed by rapid change (and consumer demand for instant gratification) is that no one organization can hope to go it alone. The speed with which new products must get to market (together with the shortening of product lifecycles) is so short that it's impossible to continuously stay ahead. You no sooner bring your product to market and a competitor leapfrogs you before your research and development costs can be recovered. Clayton Christensen's book *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*, presents a fascinating analysis of this issue. You might also want to take a look at Jennings and Haughtons book, *It's Not the Big that Eat the Small, It's the Fast that Eat the Slow*.

Cooperation and collaboration (often with a competitor) is really the only choice. As more economic value attaches to knowledge, and because it is so hard to "own" knowledge (as compared to tangible property), the organizations that will be leaders in their industry will be those that are best able to collaborate and rapidly integrate new ideas, systems and third party components into their product and service offerings.

It's not the big that eat the small; it's the fast that eat the slow.

This has been happening in manufacturing industries for many years (e.g. Toshiba hard drives in Dell computers) but in the future we will also see it routinely happening within knowledge-based industries such as accounting firms. This will include personnel sharing as well as information and experience sharing through clusters of national, international and multi-disciplinary networks.

It will be a logical extension of the internal knowledge-sharing concept upon which large knowledge-based organizations have thrived for years. For example, the key strength of large consulting organizations is their ability to draw on an enormous bank of skill and experience and to use more or less standard methodologies that are customized at the point of delivery for each new engagement, the experience from each engagement gets retained to be used again so that the organization organically gets smarter and more valuable over time.

Developments in communication technology that we have already discussed will enable exactly the same collaborative business model to be adopted by small independent accounting firms that join a network that forms the backbone of their enterprise and a key part of their delivery system.

A critical difference between their past business model and what I'm advocating here is that accountants will participate as both buyers and sellers of competencies rather than as just sellers to end customers. They will focus on what they are best at, which for some firms may simply be managing client relationships and project management, and will outsource the delivery of services needed to achieve the outcomes expected by their clients.

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We are already seeing how technology is changing the focus, and facilitating collaboration in other industries. For example, the medical profession sees a future in which health care will increasingly move from a focus on illness management to illness

prevention. This makes sense economically and socially and exactly the same thing applies to business health care.

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profession to lay claim to the role of business illness prevention managers.

In the health care industry teleconsultations are now being used that allow physicians to remotely consult with their colleagues located in other hospitals. Using this technology they can not only view and manipulate 3-D images of a patient's internal organs but can actually direct operations.

This exact same model can be used in the business arena where remotely located expert business consultants with access to information about the inner workings of a business can collaborate with the owner's personal business physician to diagnose the source of problems and recommend corrective prescriptions. This represents an enormous opportunity for small accounting firms who have access to expert resources of this type. It also poses a big threat to small firms that do not see this as a valuable service.

The rate of change is also mandating that people re-train several times in their career. Gone are the days when you could graduate from college and expect your life to be a steady progression of promotion, greater responsibility, higher salary and security. Technology has flattened organizations and moved much greater decision-making responsibility to customer-facing employees. This, together with the fact that knowledge-intensive industries demand greater analytical skills, will continue to place a lot of pressure on firms and individuals to continue to learn if they are to remain competitive. There is no reason to expect this to change, which is why continuing adult education is generally considered to be one of the major growth industries of the future.

Multi Disciplinary Practices

In recent years there has been a lot of talk, and in some countries, a lot of action in relation to the issue of Multi Disciplinary Practices (MDPs). Deregulation in the accounting profession has opened the way for non-accountants with appropriate professional qualifications to have equity in accounting practices. In the U.S. the American Bar Association has placed a hurdle for the merging of accounting and law firms but in Europe and some other countries such as Australia, legal departments in the major firms are quite common.

There may be an argument for international and national accounting and law firms to merge but I find it hard to rationalize for local firms. These professions have worked together well in the past through cross referrals and I'm not sure how clients would really benefit by having just one firm

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to deal with, especially if the firm is still not large enough to cover all aspects of law. The cultures of the two industries are not the same and given the challenges that accounting practices (and probably also law firms) have in getting all their owners to share a common vision, I suspect that adding a bunch of lawyers to the fold could create the conditions for hand-to-hand combat.

To the extent that many accounting firms offer services other than those that fit neatly in the auditing, accounting and tax categories, they have been MDPs for a long time.

To the extent that many accounting firms offer services other than those that fit neatly in the auditing, accounting and tax categories they have been MDPs for a long time. Personal Financial Planning, Business Valuation and M&A, Information Technology VARs, Human Resource Consulting, Payroll Services and Business Consulting are just a few of the service

competencies that are commonly found in many accounting firms or offered by entities in which accountants have an equity stake. Most larger firms and many quite small firms are already MDPs.

Unrelenting Competitive Pressure

One characteristic of mature industries is that they offer a commodity product or service where price becomes the prime competitive variable used to win and/or retain market share. Firms that can do well in such industries are those that have a cost advantage and those who are able to effectively differentiate themselves in some other way so that price is not an issue because of the value they offer to their selected customers. Usually, this means finding a niche market that they serve exceptionally well and letting the rest of the industry battle it out for their share of the commodity product or service.

There is absolutely no reason to believe that the intensity of competition in public accounting will lessen in the foreseeable future for several reasons:

- Technology may lower costs through its effect on efficiency, however getting more done per hour with more expensive people may have only a marginal net effect. As already mentioned, the time freed up by technology has resulted in a search for more low-level work that adds to competition.
- Technology is enabling clients to do more “accounting and tax” work themselves. This is freeing up time for accountants but instead of using that time to do more valuable work, they seem to focus on looking for more clients and therefore adding to competition for traditional services.
- There will be increased competition from adjacent industries that will tend to hold the prices of core services down.
- Growth in the market for goods and services generally is driven by population growth and demographic structure. As we discuss later, there is good reason to

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believe that the world's population may be heading for decline and even in the U.S., it will just hold its own if it continues to allow immigration. If this is so, competition will intensify.

The War For Talent (is only just beginning)

The shortage of people entering the profession will further exacerbate the shortage of talent that exists today. Theoretically, this should cause an increase in prices for services, but I suspect that the rising cost of labor will more than consume that because in “commodity” type markets price competition is always severe. If comments about the

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“quality” of people entering the profession can be believed it would seem that firms will not only be paying more but they will be getting a lot less for their investment. This is not a pretty picture.

Everywhere I go in the world and talk to accountants I hear the same message: “We can't get good people.”

Why is that so? There are many reasons: bright young people who in the past may have been attracted to an accounting career are going into more sexier vocations such as computer science, communications and finance where the work seems to be more interesting, the compensation better, and the long term prospects brighter.

Also relevant is the 150-hour requirement adopted in some states. On a straight ROI calculation, why would someone want to take a four-year degree when s/he could take a three-year degree and earn the same (or probably more) money on graduation? It could be said that anyone whom is not smart enough to figure that out should not be allowed into the profession.

There also appears to be a general reluctance to totally re-think and re-engineer the traditional curriculum for accounting majors. The world, and the work that accountants do in that world, has changed dramatically in the past two decades. A casual perusal of curricula offered by Colleges is all that is needed to realize that there has been nowhere near enough attention given to offering courses that have contemporary relevance.

While the shortage of talent may be a fact, it is also being used to rationalize a more fundamental underlying issue and that is the lack of vision, excitement and opportunity reflected by many accounting firms.

While the shortage of talent may be a fact, it is also being used to rationalize a more fundamental underlying issue and that is the lack of vision, excitement and opportunity reflected by many accounting firms. It is certainly not my intention to insult my colleagues in the profession but telling people what they like to hear and ignoring the truth serves little useful purpose.

Attracting and retaining top quality people especially at manager level is essential to the success of any business. This is a truism and is talked about often in many forums but simply talking about it does not help. In their book *The War for Talent*, Michaels, Handfield-Jones and Axelrod report that their research revealed, “... a company must provide the core elements that managers look for—exciting work, a great company, attractive compensation, and opportunities to develop.”

They continue, “If you want to substantially strengthen your company’s employee value proposition, be prepared to change things as fundamental as the business strategy, the organization structure, the culture, and even the caliber of leaders in the organization.”

If your firm is having trouble hiring and retaining great people please take a moment to reflect deeply on how well you really score on the above issues. In particular, you might want to ask yourself the following questions:

- Is your firm an exciting place to work—have you ever even thought about that?
- Do you have a strong culture in which people feel part of a team and come to work with a volunteer, as opposed to a conscript, mindset?
- Do you offer excellent performance based compensation—this is possible when you charge the right clients, the right price for the right services?

Are you constantly re-evaluating your business strategy – do you even have a strategy that is consistent with your vision for your firm in the future?

- Do you monitor and reward behaviors that emphasize teamwork, coaching and mentoring or do you simply look at time-based measures of productivity and value contribution?
- Do you place personal development (not just skills training) of your people high on your list of priorities and make the appropriate investments?
- Does your organization structure and governance reflect a contemporary business model, or is it still driven by joint decision-making, no one to take ultimate responsibility (and with that having ultimate authority), lots of finger pointing, politics and power struggles? Do you really have a firm or is it a coalition of sole practitioners pursuing their own self-interests?
- Are you constantly re-evaluating your business strategy—do you even have a strategy that is consistent with your vision for your firm in the future?
- Do you really understand the difference between management and leadership and does your firm invest in leadership development—as David Maister noted in *True Professionalism*, most firms in the profession are over managed and under led?
- And finally, what is it about your firm that leads you to believe that your people owe you their total loyalty?

What is it about your firm that leads you to believe your people owe you their total loyalty?

Unless and until these issues are addressed, firms in this industry, and indeed the industry as a whole, will continue to fight a losing battle for talent. But there is some good news, firms that are considered to be the best places to work also exhibit the highest revenue growth and profit performance.

For example, in 2001, Hewitt Associates, in conjunction with the Australian Graduate School of Management, conducted a survey of 25,000 employees from 160 Australian companies, which revealed that the best employers achieved revenue growth that was twice as high as the other employers and profit growth that was three times higher than

the other employers. Table 5 shows their findings in relation to revenue and profit growth during the three-year period 1998-2000.

Table 5: Relationship Between Employment Environment and Business Performance

	Average Revenue Growth (%)	Average Profit Growth (%)
Best Employers	48%	62%
Others	25%	18%

Source: Hewitt Associates, 2001 www.bestemployersaustralia.com

Strategies in Adjacent Industries

Earlier in this paper I mentioned that the greatest competitive threat does not come from the firm down the road. It is going to come from firms in adjacent industries in the technology and financial services areas.

The greatest competitive threat does not come from the firm down the road - it's going to come from firms in adjacent industries in the technology and financial services areas.

The activities of technology companies have already been discussed at some length but they are worthy of a quick re-visit here. One of the most effective ways to make a judgment about the long run strategy of potential competitors is to observe their past moves.

Microsoft's attempt to acquire Intuit and its subsequent acquisition of Great Plains indicates its desire to strengthen its position in the business applications market. Microsoft knows better than most the critical importance of having a strong user base and distribution channel. Through its acquisition of Great Plains it got a solid foothold in the small to mid market and with its sheer financial power (and marketing savvy) is clearly attacking Intuit's dominance of the small business market. Its bCentral linked to Small Business Manager is the beginning of what's to come. In that context it's probably reasonable to assume that when Bill Gates wakes up in the morning he probably does not go to the office thinking what he can do for accountants today. On the other hand it's likely that he does occasionally contemplate what accountants may be able to do for him, which may have been the motivation for investing in CPA2BIZ.

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Now let's consider Intuit's development. Here we have a business that started life in 1984 as a software company that built a personal finance manager (Quicken). They found that many of their customers were using it for their small business accounting so they introduced Quickbooks (1992). They then added a lot more functionality to Quickbooks and released several versions to accommodate slightly different user categories, including a special version for accountants to better work with their clients' Quickbooks system.

Then they released TurboTax and subsequently special versions for different types of tax payers including a web enabled version. They also acquired Lacerte, a major tax preparation software company. Then they complemented their software products with

value-added services with such offerings as turnkey Web sites, HR tools, Credit checking, Merchant Accounts, Bill Paying and CRM applications. In conjunction with American Express Business Finance, they offer business loans. They also offer an Accounting Live Advice Center (supported by public accountants who earn a few pennies for the privilege to support Intuit's customers). Note how this is described on their web site (my emphasis added):

“From simple problems to complex accounting issues, our QuickBooks Professional Advisors can help.

- Get the accounting answers you need right now so you can save time to concentrate on growing your business.
- A rating system will help you get the best advice at the lowest price.
- Topic and geographical searches allow you to easily find a QuickBooks Professional Advisor that meets your needs.”

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It seems to me that Intuit is looking more and more like a one-stop Business Solution Center than a software business. You might even say it looks like a multi-service accounting business. There is little doubt that their strategy is to get as close to your clients as they possibly can and to do that with your help.

Many accountants are members of their Advisor Programs and while there is nothing wrong with that in itself, it is as well that we understand that there is a potential Trojan Horse strategy being played out here. There may well be a day when your clients come to the conclusion that Intuit can quite adequately meet all their requirements.

Intuit and Microsoft are not the only players in this space. There are others building a web based business solutions presence (based on the Application Service Provider model) including Oracle and Intacct. All of these organizations realize that SMEs offer huge market opportunities and their integrated solutions will not only become cheaper, they will become smarter. The danger for accountants is that they could end up being left as a mere distribution channel with limited opportunity to add value.

There is little doubt that their strategy is to get as close to your clients as they possibly can and to do that with your help.

On the other hand they have the potential to play an extremely valuable role—that of virtual CFO and general business advisor and management coach. However, only those accountants who are willing to acquire the analytical and business skills that role requires will have a place.

While technology companies are coming at your clients, so too are banks, insurance companies and brokerages. Deregulation in the financial services industry has allowed organizations to get into businesses not previously available to them. One of the outcomes of this has been a steady decline in the past 10 years in the net interest margin,

which has caused banks to seek non-interest revenue and to strengthen their customer relationship systems.

Online banking services have been growing rapidly and it is expected that between 16 to as many as 40 million customers will be using that facility by 2003. The banks see this as a huge opportunity to sell other services and are busy seeking out suitable partners to align with.

General business consultants have always competed with accountants for a share of the business wallet and by and large the consulting and accounting communities have co-existed quite well. But a new breed of consultant, “the business coach” is starting to appear on the radar.

The major significance of this development is that as online banking becomes mainstream and fully integrates with other business systems, finance providers and their business technology partners will become increasingly more visible and accessible to business owners.

Whereas in the past business owners would have typically sought advice from their accountant on matters such as lease vs. buy decisions, what type of finance they should be looking for or how to prepare a cash flow projection or business plan, they can get help with all of those, and many other, matters by visiting practically any bank website and clicking on a few links.

General business consultants have always competed with accountants for a share of the business wallet and by and large the consulting and accounting communities have co-existed quite well. But a new breed of consultant, “the business coach” is starting to appear on the radar. These people are investing in franchise-style systems that offer holistic profit improvement and value enhancement solutions. Many of these are very good systems and are backed by strong marketing support.

The providers of these services are not subject to strict ethical standards embraced by the accounting profession and while I’m not suggesting that they are in any way unethical, I submit that they often have a very effective, but aggressive, marketing and sales style that would not be tolerated by most accountants. Furthermore, these people are offering these services 12 months of the year not only during the non-tax season which is something accountants do need to be cognizant of.

The good news about this is that there is obviously a demand for services of this type and that people are willing to pay for advice and support. The bad news is that many accountants are missing out on revenue that they could be getting; revenue that is generally at a much higher rate per hour than is yielded from traditional services.

The opportunity for accountants to assert their position as the most qualified business coach is enormous. They already have a trusted relationship with business clients so their marketing costs should be low, they already have the office infrastructure in place, they are already familiar with the business so they are in a better position on the learning curve than an outsider, they should have a much better understanding of financial planning methodologies and the financial consequences of business decisions than a non-accountant, and they are

The opportunity for accountants to assert their position as the most qualified business coach is enormous.

professionally qualified by examination and on-going CPE rather than being trained and certified by a franchiser which gives them far more credibility. All that accountants really need to do to compete effectively in this space is invest in consulting tools, resources and training.

Population, Demographics and the World Economy

Population growth and demography is probably the most important long run driver of change and economic growth but because it seems to be so gradual it's easy to overlook

its effect. World population now stands at about 6.1 billion people and is growing at 80 million per year. By 2025, which is really not very far away, the population is expected to be 8 billion. That may seem to be a lot of people and on the one hand may cause some concern about the world's ability to feed, clothe, shelter, and employ and provide basic health care. On the other hand it may be looked at as an increasing source of intellectual capital and growth in future demand for goods and services.

However, there is considerable debate about whether the world is facing an over-population crisis or an under-population crisis and that perhaps the 8 billion projection is way over the mark.

In many countries today the replacement rate is below what's required to maintain their current population levels. If this continues (and it has been the situation for the past 25 years) the economic impact could be catastrophic even in the relatively short term in light of the other major demographic change, namely, global aging. Life expectancies in all but a small number of underdeveloped countries are rising while fertility rates are falling. For a thought provoking discussion of this issue refer to Tom Bethell, *Endangered Species: The Coming Crisis of Underpopulation*, The American Spectator, September/October 2001, pp. 61-67.

Given that people under eighteen can't vote, as the population ages, economic and political power shifts from those who work to those who used to work and those close to retirement. The latter group is likely to be much less tolerant of governments that allow inflation to get out of hand, they are much less tolerant of disorder and are more accepting of authority. Economically they represent a very large consumer cohort but unless new consumers replace them as they die, their economic impact will be short lived.

Global aging accompanied by the post war baby boom is yielding an interesting short-term economic dynamic, which may disguise an impending economic disaster. Goldman Sachs projects that in the eight major industrial countries, flows into financial assets by governments and baby boomers in the form of retirement savings will be in the order of \$65-140 trillion by the year 2010. This may be seen to be good

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news for capital markets but thereafter it will start to decline causing a decline in economic growth and equity returns.

It has been noted by Paul Hewitt, project director of the Global Aging Initiative at the Center for Strategic and International Studies in Washington, that in the next 25 years elderly populations in industrialized countries will rise by 120 million while those of working age will rise by 5 million. He predicts an “aging recession” based on his analysis of the situation and cites Japan as an example of a country that may already be in the throws of such a recession. Its population has leveled off and will soon start to fall, there has been a decline in consumer spending in the past 29 consecutive months and property values, which are largely driven by population growth, have collapsed.

The significance of these trends on business in the next 10-20 years is potentially quite serious.

The significance of these trends on business in the next 10-20 years is potentially quite serious. In the next ten years, at least in the U.S., it would seem that things will remain quite good but it will not be isolated from events in other parts of

the world, particularly in Japan and Europe where the outlook is much less optimistic.

The U.S. is holding its own with a fertility rate of about 2.1 but this is due in large measure to an immigration policy that is seeing 75% of immigrants come from Latin America and Asia. Mexican-Americans of childbearing age tend to have more children than the rest of the population and that is contributing to the fertility rate. A continuation of its immigration policy would seem to be required for it to avoid a population decline.

However, there are several implications of this. First, these people will inevitably be a drain on national resources (e.g. education, healthcare and infrastructure) until they begin to become net contributors. Secondly, the shift to knowledge based service industries and more blue-collar jobs being lost to other low cost countries (e.g. China) will cause higher levels of unemployment amongst less educated people, which will cause a widening of the wealth gap but also greater pressure to provide access to affordable education. Thirdly, these immigrants will add to the diversity of people, their cultures and thinking styles, language, personality traits, communication styles and of course, consumer demand preferences.

The ageing population also has immediate implications for accounting firms. In addition to thinking about what their plans are for accommodating the personal financial and taxation needs of their seniors client base during the next 10-20 years, firms need to be looking at service lines specifically designed to accommodate the needs of those industries that will prosper in an aging community. These would include amongst others, personal and household services, recreation, adult education, health care and eldercare generally, retirement communities, travel and so on.

In other words, the order of the day is: keep looking forward and be aware of what's happening in the world not just in your own backyard.

Having said that, firms also need to be mindful that these industries may have a relatively short period of prosperity if the previous analysis of population trends as accepted. In other words, the order of the day is: keep looking forward and be aware of what's happening in the world not just in your own back yard.

The immigration policy currently adopted by the U.S. is adding to the already diverse range of cultures. Accounting firms need to be aware of the increasing diversity in all its forms in their communities. This awareness should be reflected, for example, by employing people with different cultural backgrounds and language, not only to better service people with those backgrounds but to ensure that the firm accommodates their specific needs and preferences.

The accounting profession has for several years been a major beneficiary of women electing to enter the profession and is well represented by that gender. However, it is not so well represented when you look at the percentage of women in senior (managing partner) roles.

The increasingly important role that women are playing in the business world should be recognized as a very significant and welcome change. According to the Center for Women's Business Research, women in the U.S. own 6.2 million private enterprises (a number growing at twice the rate of all companies), which account for \$11 trillion in sales.

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This is sure to change over time as more and more women move up the career ladder but it is something that deserves attention. The question that firms need to be seriously thinking about, especially in light of the dearth of talent that we hear so much about, is ways in which women (and males with sole child care responsibility) can simultaneously raise a family if they wish and maintain their professional career growth and opportunity.

Some people may consider this to be a cost to the practice that it can't afford. I would contest that assertion. Women are exceptionally talented accountants and if you consider their long term value contribution to a practice and the fact that there are so many of them going into business, my guess is that investing in time off at critical times, in-house crèches, enabling telecommuting and teleservicing of clients as well as taking affirmative action in developing and nurturing their leadership skills, makes enormous economic sense.

Consumer Demand and Expectations

Consumer expectations are being reshaped by the Internet and by the pace of change generally. Service quality expectations are constantly rising and people are looking for instant gratification, low prices, high quality and outstanding service. This is placing pressure on businesses to dramatically improve their business processes. What was acceptable 5 years ago is unacceptable today. This applies as much to service firms as it does to any other industry sector and it offers an opportunity for innovative firms to differentiate themselves in a very crowded market.

Consumer expectations are being reshaped by the Internet and by the pace of change generally.

For example, typical complaints heard from clients of accounting firms include the time it takes for work to get done, the lack of communication as to the progress of work, the frequency with which errors occur (and are expected to be paid for by the client to fix) and the shock when the bill finally arrives. Technology offers an opportunity to support a value proposition that addresses all of these issues if management is willing to re-engineer its processes.

Suppose your client value proposition was framed as follows: “We get the job done right the first time, on time, all the time and you pay a fixed price known in advance.” Impossible, is the most common response I get to that proposition when I put it to accountants. But is it?

Suppose your client value proposition was framed as follows: “We get the job done right the first time, on time, all the time and you pay a fixed price known to you in advance.” “Impossible” is the most common response I get to that proposition when I put it to accountants. But is it?

Perhaps a more useful response might be: If we were able to find a way to achieve that, what might that do for our competitive standing, would our competitors be able to match what we have accomplished (or willing to make such a bold promise), would it enable us to charge premium prices for our services and what might that do to our bottom line? Then the key question then becomes: What would we need to have

in place to meet this service commitment?

First up, it’s important to realize that there will be some unavoidable circumstances that prevent you from delivering on the promise. That happens and the role of management is to deal with it by implementing a program of continuous improvement and, if necessary, compensating the customer for the failure to deliver.

Secondly, you need to know how you are performing against these criteria even now, which means you should be using a set of appropriate metrics to monitor your performance and manage the process. Mandatory metrics would include: on-time delivery and re-works as a percentage of completed jobs, jobs in progress pending client input as a percentage of total jobs in progress, and a composite client delight index reflecting delight with the value received.

Thirdly, you need to involve your team in the process and have them buy-in to the value proposition—this calls for leadership. These people are the ones who know where system failures occur and they also know how to fix them. Related to this is the need to tie performance bonuses to the accomplishment of the targets set for the metrics described previously rather than to focus (almost) sole attention on chargeable time which has very little to do with client delight.

Fourthly, you need to design standard operating procedures and implement technology solutions to accommodate the processes required, these would include a communication solution that may be as simple as standard automatic email templates that keep clients apprised of progress or as sophisticated as web-based tracking systems of the type used by FedEx.

The key question becomes: “what would we need to have in place to meet this service commitment?”

Finally, you need to select clients who will cooperate with you to make it possible. The fact is some clients are impossible to work with and they consume far more resources than they contribute in revenue.

Service expectations in the future are going to be framed against much higher standards than have been acceptable in the past. Firms that are taking steps now to raise their performance standards in all aspects of client service and particularly those firms that are incorporating technology based solutions will have a big start on the late adapters. This is a “time to market” issue in itself.

Trust, Independence and Regulation of the Profession: The Enron Scandal

The implications of the Enron scandal will, I think, be far reaching and have the potential to be a catalyst for a total reorganization of the profession. It is a sad day for the profession when a small number of individuals can cause so much trouble. However, it is also unfair to hold the profession at large responsible for what happened at Enron.

While Mr. Pitt may feel it is appropriate to stand on a soapbox and point fingers at the profession, it is quite obvious that the SEC must also share some responsibility for the state of financial reporting generally.

While Mr. Pitt, the Chairman of the SEC, may feel it is appropriate to stand on a soap box and point fingers at the profession, it is quite obvious that the SEC must also share some responsibility for the state of financial reporting generally given that Enron is not the only instance of a major corporation failing unexpectedly. The full story is yet

to be told, but let us also not forget, that a number of Enron’s senior management who took the decisions that ultimately led to its bankruptcy were the real villains.

Enron has raised the ongoing debate about independence, the issue of trust and the question of whether the profession should be allowed to self-discipline.

Let’s first address the issue of trust. While high profile scandals like Enron clearly create doubt in the mind of the public about the level of integrity that may be associated with the profession, I do not believe that individual CPAs who have been serving their clients honestly and well for many years would be bracketed with the few who were involved in Enron and other corporate failures.

The profession has, largely with good reason, been telling itself what a wonderful group of “trusted advisors” it represents. Obviously no one wants to be labeled as untrustworthy but I often wonder why trust seems to be positioned by the profession almost as though it is the only factor that defines and differentiates it. In my view, the trust CPAs have, arises because of their individual character not because they are CPAs. Do you trust your CPA? Of course you do otherwise you’d change, so if a poll was taken at any point in time I suspect you’d get close to 100% saying I do but, so what!

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Furthermore, while trust is an absolute (you do or you don’t) there are various trust contexts. For example a

person might say, “I trust my accountant not to steal from me. On the other hand, I’m not sure I trust his commercial judgment - I stay with him because of the former and don’t rely on him for the latter.”

In an exchange of emails I had on this matter with Ron Baker, author of *The Professional’s Guide To Value Pricing*, he succinctly summarized the essence of the issue:

“I’m not saying trust isn’t important, don’t get me wrong. I am arguing it is a table stake, much like quality. If you don’t have it, you’re not in the game. If you have it, you are by no means assured of winning the game. And yet, our profession touts trust like that is all it needs to win the game. They don’t seem to understand that almost any brand name—from United Airlines to McDonald’s to Starbucks—also has a huge element of trust. So what? Brands can fail even with trust. Trust is a characteristic, certainly not a core competency.”

The accounting profession has also placed a great deal of store on its independence and in particular, the independence of auditors. This issue has been simmering for many years especially as the proportion of revenue coming from non-attest services grew strongly. For example, we have already noted that about 90% of the growth in fees during the past 10 years for the top 100 firms came from management services and everyone is aware of the very significant revenues currently being generated by the Big 5 from consulting services.

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Allegations that audits were being priced competitively because of the opportunities to offer higher value consulting services abound. So too does the argument that auditors are more inclined to back down in disputes with management over the interpretation of GAAP when significant consulting fees are also being earned. And there is also the argument that audit firms have applied their creative accounting skills to pro-actively assist their corporate clients to manipulate the numbers. This is always difficult to prove, but whether it’s right or not, independence has as much to do with perception as it has with fact.

It may be hard to prove that independence has not been compromised where significant fees are generated from consulting services for audit clients, but it is likewise hard to establish that it has. However, the laws of natural justice should prevail and the burden of proof ought to be placed on those who lay claim to argument that independence can’t be achieved when a firm provides both audit and other services. In the final analysis, however, I suspect that “perception” will prevail over “fact”.

In the final analysis, however, I suspect that ‘perception’ will prevail over ‘fact’.

Enron has also brought into sharp focus the need to take a very close look at the state of financial reporting. While it is true that enterprises are far more complex than ever and this gives rise to complex transactions, it is also true that financial reports prepared today are almost impossible to understand. This is reflected in the following somewhat

amusing, but close to the truth, letter that I discovered on the AccountingWeb (UK) site (March 1, 2002).

Big bucks in the bull market

In case you were wondering how Enron came into so much trouble, here is an explanation reputedly given by a Texas A&M professor to explain it in terms his students could understand.

Capitalism

You have two cows.

You sell one and buy a bull.

Your herd multiplies, and the economy grows.

You sell them and retire on the income.

Enron Capitalism

You have two cows. You sell three of them to your publicly listed company, using letters of credit opened by your brother-in-law at the bank, then execute a debt/equity swap with an associated general offer so that you get all four cows back, with a tax exemption for five cows. The milk rights of the six cows are transferred via an intermediary to a Cayman Island company secretly owned by your CFO who sells the rights to all seven cows back to your listed company. The annual report says the company owns eight cows, with an option on six more.

Now do you see why a company with \$62 billion in assets is declaring bankruptcy?

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Given the importance of the quality of audits to the efficient operation of global financial markets and in particular U.S. markets, it is quite obvious that something not only needs to be done but will be done. In my view the most likely scenario will be along the following lines:

- Professional organizations will establish a separate faculty to represent auditors and their specific needs regarding certification, CPE, advocacy and discipline (but see below). It is distinctly possible that this faculty will evolve into a separate organization from the one that represents other members of today's accounting community. The challenge here is that auditors represent about 15% of the AICPA's 340,000 membership and this is not a lot of people to form a separate organization and the infrastructure that requires.
- Auditors and their firms will be regulated and subject to discipline by an independent body that will have representation from the professional organization representing them, but also significant representation from other stakeholder groups.
- A review of financial reporting standards as well as auditing standards will be undertaken as a matter of urgency. Included in this will be a review of the role, responsibility and power of audit committees vis-à-vis the Board of Directors and officers of corporations.

- Firms that offer audit services will not be permitted to offer consulting services to their audit clients. This raises many issues not the least of which is the concept of a value-added audit engagement and where auditing stops and consulting starts. It also raises the complex issue of what other specialized skills are needed in audit firms, other than straight auditing, to meet the needs of clients (especially major international clients). This latter issue would probably make it impossible for an audit-only firm to be a viable option.
- Audit fees will rise significantly to reflect not only the forces of supply and demand but also the level of expertise, the risk and the level responsibility placed on auditors.
- Firms that do non-SEC audits will be subject to the same general provisions and smaller ones may decide that it is not worth the effort. Having said that, a case could be made to have a less onerous set of provisions for small company audits. On the other hand, because the value that was once attached to having a Big 5 audit brand has been seriously undermined, it is quite possible that smaller companies will decide to save money and appoint second tier or even local firms as their auditors.
- Similarly, second tier firms that may have been passed over by large corporations in the past, may find opportunities to expand their audit practices for the same reason. In fact, if the market mechanism works as theory would predict, large corporations may see their long term interests best served by increasing the number of audit firm candidates and pull some second tier firms up into the ranks of the Big 4/5 by offering them significant engagements. To the extent that this may be seen to be good for competition, it is likely to have general support from governments and their regulatory agencies.

Given the relatively few people engaged in audit work I do not see much of an impact on most firms in the industry. They will continue to do what they do and society will forget about Enron soon enough.

Given the relatively few people engaged in audit work I do not see much of an impact on most firms in the industry. They will continue to do what they do and society will forget about Enron soon enough. I do not believe that the integrity of the people in the profession is at serious risk even today in the midst of the all the negative publicity.

Conclusions and The Firm of the Future

The present competitive landscape is characterized by rapid and disruptive change as the world transitions to an economic environment which has little regard for national boundaries, a world in which value is rapidly migrating to knowledge industries, where opportunities come and go quickly, where uncertainty prevails and ambiguity is the order of the day, a world in which businesses will have to collaborate or perish, a world in which industry boundaries will blur, a world characterized by diversity in all its forms, a world in which communication technology will link people together in ways never before contemplated, a world in which the balance of power will shift from producers to consumers, a world that will be increasing intolerant of incompetence and failure to deliver customer expectations.

As a corporate leader, Jack Welch will go down in history as one of the best. He knew what leadership style was required for the different stages GE was going through, he understood that what had made GE great in the past did not guarantee its success in the future and that this gigantic organization had to move from a revenue model based on hard core manufacturing to one in which value-added services would predominate, he understood that anticipating and adapting to change was a necessary condition for survival, he understood that as the CEO he had to take tough decisions (especially in relation to under-performing businesses and people were concerned) and was prepared to do that, he understood how to control his ego and always exhibited humility when it came to sharing the accolades of success

Change is what provides both threats and opportunities and unless an organization is changing at least at the same rate as its environment it has a bleak future.

but took full responsibility when things went wrong, he understood that great organizations are built on a foundation of great people working together in boundaryless teams and that investment in people is the most important investment an organization makes, and he knew that his ultimate responsibility was to leave the organization in the hands of people he had invested in who had both the ability and wisdom to carry on where he left off.

Time will tell whether the people who follow him have what it takes, he is a hard act to follow, but few people would dispute the fact that GE has been developed by Welch into a model organization and anyone in business would do well to learn from his leadership.

The two most important things that Welch understood and acted on were:

- (1) change is what provides both threats and opportunities and unless an organization is changing at least at the same rate as its environment, it has a bleak future, and
- (2) the difference between great organizations and mediocre ones can be tracked back to the quality of leadership and management.

The leaders of today's accounting firms should take particular note of this. Leadership is essentially about vision and vision is about the future. When we are talking about the firm of the future we must therefore be talking about leadership. The questions that you need to be asking include:

- What is the vision I have for my firm 10 years from now? In framing that vision I need to be thinking about the following issues.
- In what ways are my clients' businesses changing, and what does that mean for the services I should be offering now and in the future?
- Who are my future competitors from within and outside the industry going to be? What am I doing today that will help me really stand out from these competitors?
- What technologies should I be using now to better service my clients, in particular how well appraised am I of what initiatives are being introduced or offered by firms in adjacent industries?

The difference between great organizations and mediocre ones can be tracked back to the quality of leadership and management.

- What process or product innovations have we introduced in the past three years to better service clients and offer a more valuable business value proposition? Do we lead or follow the pack when it comes to introducing new ideas?
- To what extent am I really adding value to my clients, by that I mean, is their business performing better as a direct result of my firm's involvement or are we simply providing a service that any CPA could do for them?
- To what extent am I being held captive by some of my clients who, for their own reasons, do not see any need to change their service requirements but who I allow to consume my valuable resources for fear of losing some short term revenue that has little or no growth potential?

What process or product innovations have we introduced in the past three years to better service clients and offer a more valuable business value proposition? Do we lead or follow the pack when it comes to introducing new ideas?

- In what ways am I attempting to change the culture of my organization to better accommodate the work preferences and environment needed to attract and retain talented people?

- What am I doing now to implement re-training of my people to equip them with the skills that are going to be needed in the future?
- What are my plans to align with a network that will be able to provide back office research and development support, global reach and a source of colleagues I can collaborate with to quickly and effectively offer affordable solutions to my clients without risking them being lured away from my firm?
- How adaptive is my firm to change? Specifically, based on our past behavior, have we been willing to cast aside legacy ideas and systems so that we are better equipped to accommodate new opportunities?
- And the final but critical question: what resources in the form of time and money am I willing to invest to ensure that my firm not only transitions successfully to a new service model but takes rank with the top performers in the industry?

As you think about the above questions it might be useful to reflect on what Charles Darwin concluded in relation to species generally: "It's not the strongest nor most intelligent of the species that survive; it is the one most adaptable to change."

The firm of the future will be willing to let go its legacy systems and professional paradigm in the knowledge that the future is not going to look like the past.

Let me attempt to summarize what I believe the successful firm of the future will look like.

- It will be willing to let go its legacy systems and professional paradigm in the knowledge that the future is not going to look like the past.
- It will be structured and run like a "real" business rather than as a partnership based on consensus decision-making.

- It will be a firm where the owners' compensation model will encourage collaboration and the long-term development (and value) of the business as a whole rather than internal competition for resources and clients.

It will be a firm where the owners' compensation model will encourage collaboration and the long-term development (and value) of the business as a whole rather than internal competition for resources and clients.

- Leadership development will be given top priority. It will realize that it must create a culture built on the pursuit of excellence and opportunity in a rapidly changing environment and defined by a clear vision that is understood and shared by all its stakeholders (including its clients).

- This will call for a continuous re-alignment of its business strategy and operating model. It will be willing to take the risk of first mover advantage because it realizes that opportunity comes from change not from inertia. It will invest in its future success rather than gloat over its past success.
- It will realize that talented accountants will continue to be in short supply and highly priced. It will therefore implement service offerings that add value to its clients but which do not require qualified accountants to deliver. It will realize that business consulting and management coaching services offer enormous opportunities and have a perfect fit with its other competencies. Instead of having a single focus on attempting to increase its share of the traditional accounting services market it will expand and attack the business consulting market that is already significant and growing.
- It will create and support an environment that is conducive to the encouragement of innovative thinking (and action), and one in which employees are rewarded on the basis of results they get for clients, their contribution to team development and innovation rather than on the basis of how many hours they sell.
- It will place a high value on the development of its people in the broadest sense not just their technical skills growth. It will understand that its value to clients will be determined by how smart it is relative to its competitors and how loyal its

It will place high value on the development of its people in the broadest sense, not just their technical skills growth.

It will understand that competitive advantage for all businesses will be found in how rapidly they apply performance enhancing knowledge and experience.

- people are relative to those of its competitors.
- It will be a firm that constantly looks beyond the numbers for ways to add value to its clients. It will not be afraid to "sell" solutions that add value and it will position itself as its clients'

business partner rather than as a mere service provider. It will seek a position of indispensability to its clients because it realizes that its one core strength, now and in the future, will be the strength of the relationship it has with its clients. This will be the only thing it can rely on to defend attacks from outside and inside its industry.

- It will understand that competitive advantage for all businesses will be found in how rapidly they apply performance enhancing knowledge and experience. It will therefore play a significant role as coach, mentor and educator of its business clients.

It will collaborate with other firms inside and outside the industry in order to deliver the best possible service to its clients.

- It will collaborate with other firms inside and outside the industry in order to deliver the best possible service to its clients. It will not adopt a fortress

mentality in the belief that to protect its revenue base it must shield its clients from other service providers.

- It will be willing to leverage its competencies and experience by making them available to other firms. It will do that by being an active member of a global network of like-minded firms that, in addition to giving it the benefit of global positioning so that it can look big but act small, will give it the capability of a large organization to better service its clients.
- It will not invest resources in activities that are not core to its client-facing service delivery and which it will not be able to amortize the cost of over its client base. For example, it will rely on its network to build solutions for it to utilize in its client service offering knowing that those solutions can be leveraged over the whole network at far lower cost than it would incur if it were to do it on its own.
- It will carefully select the clients it works with and will always focus on those for whom it can create most value in the long run. It will price its services accordingly and it will be innovative in its pricing policy; specifically, it will not generally price on the basis of time involved but will use fixed pricing wherever possible. This will mandate that it gives more attention to service design and specification, enterprise resource planning and client selection.
- It will rid itself of clients (and team members) who are not a good fit with its service model and desired culture. This will ensure that it is highly profitable and able to invest in top quality people, knowledge resources, infrastructure and technology.

It will be willing to leverage its competencies and experience by making them available to other firms.

It will embrace technology aggressively.

- It will embrace technology aggressively. This will not simply be technology that is designed to improve productivity, but more importantly, communication technology that will bring it closer to its clients and enable it to work effectively with its network collaborators.

I believe that firms that reflect the characteristics described above will become the leaders of the profession going forward. These characteristics will be reflected by firms that can apply the lessons of the past to the opportunities of the future. In that context it

is instructive to take note of the following observation made by Sheth and Sobel in *Clients For Life: How Great Professionals Develop Breakthrough Relationships*:

“Think back for a moment to the analogy of the craftsman and the factory worker. When craftsmen were reduced to commodities and their work automated during the industrial revolution, it was the artists among them—those individuals whose work transcended mere skill at working iron or wood—who continued to thrive. Similarly, in the twenty-first century the knowledge workers who excel will be those who transcend simple expertise and are able to provide insights to their clients in the context of a collaborative, learning relationship.”

We have a profession that has a rich tradition of service to the community extending back over 100 years but it is a profession that is under attack and is at risk of self-destruction. It is not possible for member organizations to change the profession. These organizations can provide leadership and direction but change has to come from the collective efforts of members. These are the people who are at the coalface servicing clients or their employers. These are the people who, at the end of the day, win the trust of their clients and who drive the profession’s relevance, the value it creates and its ultimate stature.

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I would urge all accountants to support their member organizations. This is not a time for infighting and finger pointing. If we’re not happy with the state of our own profession we must take collective responsibility. It’s a time for mature reflection and positive action focused on a clear vision. Such a vision has already been developed by the Vision Taskforce that provides a foundation for a strong profession that is sensitive to the needs of both its members and their clients in the 21st century.

One way to view the events of recent months is to acknowledge that the profession has been censured and to recall the words of the German poet Goethe, “Encouragement after censure is as the sun after a shower.” It’s time for encouragement so that the sun will shine for another hundred years ensuring that in 2102, someone will write: “The accounting profession has a rich tradition of service extending back over 200 years.”

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If you have any questions on the content of this White Paper or if you would like to pass on some personal comment to the author, please submit your queries or views to: support@principa.net

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