Back to the Future – Looking Back over Three Decades

Recently my clients, Tony Frabotta and Rick David of UHY Advisors, forwarded to me the Summer 1988 issue of *The PDI Report*. Tongue in cheek, they said to me they were surprised to see that there was another Allan Koltin who also did consulting to the accounting profession. (Needless to say, they were poking fun at me based on my 1988 photo versus how I appear today!)

This issue of *The PDI Report* was not just any issue; it was an issue in which we gathered together the country's leading consultants (similar to how I participate in The Advisory Board and New Horizons Group today) and aired their views on the profession and industry trends through what was then called the First Annual Consultants Roundtable.

I would urge you to click on the link to see the entire copy of the special report, as I know you will find it as fascinating a read as I did. It should be noted that some of the issues discussed almost three decades ago are still what we talk about today. Those items include industry specialization, quality service, the importance of great leadership and management, value billing, and the significance of having a firm vision, mission and core values.

It's also interesting to know that back then a mid-sized firm was defined as a firm with $1-$10 million in revenues, whereas today a mid-sized firm probably would start at $10 million and potentially go up to $36 million (the cutoff point for being a Top 100 firm).

That being said, the following are items that have completely changed since that time or weren't even on the table for discussion:

1. **Women's initiatives.** There was virtually no discussion of women's initiatives, leadership or increasing the number of women as partners within the profession.
2. **War on talent**. If the war on talent existed it sure wasn't talked about. As someone who was a staff accountant in the '80's, the biggest perk I recall was bagels on Saturday (only during tax season) and the "privilege" of keeping your job! I don't think anyone could have predicted that firms today would have professional leadership in charge of recruiting, retaining and growing its own talent. In those days it was all about servicing the client (at all costs). In today's world I think most firms have adopted the famous phrase from Southwest Airlines, which is "happy employees produce happy clients".
   It should be noted that words or phrases such as flex time, flex scheduling, unlimited vacation time (no need to track it – we trust you), millennial space, part-time partners, income versus equity partners and hoteling are all terms that we never could have imagined or visualized being used within our profession. The most ground-breaking thing back then was firms going to daily time reporting; in today's world, most firms couldn't even fathom a time-based business that wouldn't report time daily.

3. **Succession planning crisis.** Back then there was no mention at all of a succession planning crisis. My guess is the reason was that many, many first generation firms started in the 1970's and '80's and it is those same founders today that are now seeking retirement en masse. That is not to say there aren't new accounting firm start-ups going on presently, I just don't sense there are as many as used to take place. I'm not sure if this has something to do with the cost of entry and/or technology, but would welcome anyone else's thoughts on this issue.
4. **Technology.** Speaking of technology, you'll see that the only mention of it was in terms of recapturing basic technology and operating costs, and billing those back to the client. No one could have seen the advent of the microchip and how it would completely transform our profession, as well as the services we provide to clients.
5. **Merger mania.** The term 'merger mania' is mentioned in the report, but we never could have predicted the frenzy that is truly taking place in our profession today. Back then, merger mania was defined as a merger between Peat Marwick and Main Hurdman. Today, locals are becoming regionals, regionals are becoming mega-regionals, mega-regionals are becoming national firms and national firms are becoming global firms at a record pace. Of particular note is that in the year 2000, the 100th largest firm was approximately $6 million. That same Top 100 firm today trades at $36 million in revenues.
6. **Leadership development**. Back then, training to become a better managing partner, department head or service line leader was referred to as "the school of hard knocks". Today's firms, as well as the profession, provide leading edge training on how to become a more effective leader. Heck, the Harvard Business School even offers a specialized program for leaders of CPA firms. Today, upward evaluations, peer and 360-evaluations, and the like are a normal part of how partners and managers develop their leadership skills. In 1988 I dare say I didn't know of one firm that would engage in these types of measurements.
7. **Valuing leadership.** In terms of leadership, I think that today firms actually value great leadership and management equal to or greater than anything that any partner can do. Simply stated, firm leadership is now viewed to be more important than production, book of business, and most other areas. Back then, leadership not only wasn't valued, it was viewed as a necessary evil. At best, leaders were allowed to manage everything except for the partners!
8. **Product development**. Back then, product development meant going from unaudited and audited financial statements to compilations, reviews and audits. Today's world involves CPA firms investing millions of dollars in value-added services that they can provide directly or indirectly to clients. While it hasn't been said yet, I do believe we are quickly migrating to what the razor blade industry has known for a long time…that the razor is the giveaway and the razor blades are the annuity. Firms are finding that compliance services (whether they be audit or tax) may simply be the things we need to offer so that we can provide many other things that the client, in fact, wants us to offer.

9. **Consolidation.** The wave of consolidation that came and essentially left all in the same decade. It started with American Express, then H&R Block, then CBIZ, then Centerprise (today known as UHY Advisors). As we witnessed within a ten-year period, American Express and H&R Block were completely out of the business. The lone survivors, CBIZ and UHY, were able to figure out how to run a successful CPA firm with outside ownership. It will be interesting to see if over the next decade the next wave of outside investors are private equity groups and/or some other form of financial services company.
10. **Commissions and contingent fees.** As you can see in the special report, there was quite a bit of controversy over commissions and contingent fees and whether accepting fees in this manner would compromise the accountant's independence and integrity. If anything, the past couple of decades have proven that firms have thrived with alternative billing and fee arrangements and, at the end of the day, clients simply cared about whether you delivered value for them. In terms of trust, integrity and being the client's trusted advisor, I think many firms that have been involved in these alternative fee arrangements will tell you that they have actually developed a more intimate relationship with their clients than they had before.
11. **Mandatory retirement.** We probably could have reasonably predicted this trend if we'd asked the question about retirement three decades into the future. We would have known for sure that the average age a partner in a CPA firm lives would continue to increase (it is actually 86 years old today). What we couldn't have predicted, though, was the succession planning crisis and the mandatory retirement issue both hitting at the same time. Firms today are extending the work life of the average age of a partner, partially because partners are living longer and want to continue working, but also partially due to the succession crisis and not having the abundance of younger talent that the profession had back then.
12. **Diversity.** If the word 'diversity' existed back in 1988, I'm not quite sure it had found its way to the accounting profession. Today, diversity is as important a topic within the human capital equation as anything else we could talk about. It also should be noted that it's no longer all about just being a CPA and that over 20% of recruits coming out of universities today don't have accounting backgrounds. It should also be noted that the CGMA designation could potentially replace the CPA license over the next decade as the license of choice. As long as we are speaking about how CPAs look, it should be noted that in those days consultants and partners in CPA firms always wore suits and ties to business meetings. Today if you wear one to a business meeting there is an assumption you're either coming from a funeral or were at the bank trying to get a loan for your client!
13. **Values of CPA firms.** I don't know if back in 1988 CPA firms were really thought of as businesses, and even if they were, there was very little discussion about monetizing the value of your equity or ownership interest. Today we operate in an industry in which retiring partners, on average, typically see two and a half to three and a half times their average compensation as a retirement benefit, which is significantly more value than a retiring partner would have received then.

14. **Partner compensation.** It was interesting to note in the special report that the profession was already making positive strides in terms of figuring out performance-based compensation. That being said, billable hours and production were still king and I'm not sure that new business origination, firm leadership and client management had the same value as billable hours. Fortunately today, firms have evolved to not only realize that there isn't a one-size-fits-all model when it comes to partner compensation. But rather, they are looking at each partner individually, assessing their strengths and weaknesses and then developing an individual goals program for them that helps them and the firm be that much more successful. I seem to recall (although it wasn't captured in the special report) that a consultant at that meeting stated that it should be mandatory that all partners in a CPA firm should be required to have 1,400 charge hours per year. My guess is if that same consultant said that to a group of firms today, they'd probably be laughed out of the room!
15. **Practice growth.** In those days you could count on one hand the number of marketing directors and sales people that existed within the profession. Today there are hundreds (if not thousands) of professional marketing, sales, technology, HR, financial and administrative professionals within the firm. While I wouldn't say we went from being a profession to a business, I would like to believe we are still a profession, but we also have become a business.

My guess is I could quickly do a reread of the special report and come up with a couple other items I didn't mention above, but that's where you come in. Please read the 1988 Special Report and call (312-662-6003) or email (akoltin@koltin.com) me with any revelations or items that jumped out at you that I may not have captured. In my next post I will do an update to share your thoughts and ideas on the transformation of the industry over the last 30 years.

In closing, I would like to give special recognition here to an individual who potentially was one of the greatest visionaries and leaders of our time, Irwin Friedman, who was then the managing partner of FERS. He not only mentored myself, Marc Rosenberg and August Acquila to become successful consultants to the accounting profession, but also envisioned and created an accounting firm back then that would resemble many of the successful accounting firms that exist today.

So there you have it – 1988 to 2016. I can't wait to see what things will be like ten or twenty years from today, but I do know one thing for sure, and that's that we, as a profession, continue to get stronger and better when measured by both the value of service we deliver to our clients, as well as the type of talent we continue to recruit and grow.