Industry Trends

What Best Practices Are Used in Managing a Multi-Office Firm?

By Allan D. Koltin

Q: Recently, you conducted a best-practices survey of Top 100 firms in terms of how they are managed in a multi-office environment. What surprises or take-aways can you share with the group?

A: I learned that the often-used phrase "there is no one right way" to manage a multi-office firm is quite true and was actually surprised by what I observed.

Q: Could you share with us some of the key issues you dealt with in your study?

A: The three key components I studied were:

1. How firms are governed

2. The variables that affect their structure

3. The obvious and not so obvious dynamics affecting the situation

Let me begin by sharing what I observed in terms of how these firms are managed. Clearly, some form of relationship exists between the Chief Executive Officer (CEO) (also referred to as Managing Partner), Board of Directors and Management Committee. The CEO may or may not have a high-level Chief Operating Officer (COO) and/or Firm Administrator to assist in running the firm. This is predicated somewhat on the skill set of the CEO (great rainmaker, visionary, book of business, *etc.*) and where additional support is needed. The Board of Directors (also known as the Executive Committee) generally acts as a high-level policy-setting group and, in some instances, also may serve as the Compensation Committee. The Management Committee is typically comprised of the firm's Partners-in-Charge (PICs) of the various geographies, service and niche lines, along with the firm's internal management heads (*i.e.*, human resources, marketing, IT and administration). The PICs probably had the biggest range of duties. Some simply acted as local office coordinators while others were, for the most part, setting partner goals and carrying a "big stick" in terms of determining partner compensation in their office/region.

What I also found fascinating were the differences between first-generation firms and second- or third-generation firms that had already experienced changes in firm leadership. Not surprisingly, it seemed that there was much more power sitting with the CEOs of first-generation firms. Some of the best run second- or third-generation firms had strong CEOs too, but they also had influential Boards of Directors that served as advisory committees.

If I had to pinpoint one best practice in the "best-of-best" firms, it would be that they have strong CEOs who lean on the Board of Directors for input and counsel, but at the end of the day are clearly running the ship. In these best-of-best firms, it is also clear that the day-to-day management of the partners resides with the PICs of the regions/

offices. The PICs work closely with local office partners to help them develop goals, hold them accountable and, ultimately, determine their compensation. This structure essentially frees up the CEO to be the firm's chief strategist and allows him or her to work with the Board of Directors on more strategic matters, such as mergers, recruitment of high-level lateral talent, new products and services, and the overall growth and profitability of the firm.

Q: You mentioned earlier that there is no one right way to manage the multi-office firm. Having said that, what are the most prevalent ways of doing it?

A: Various models emerged from our survey. The #1 choice was clear: managing the firm by geography and/or region. Firms that are managed along service lines (A&A and tax) and/or industry/functional niches were a distant second. In firms that were managed by geography and/or region, the heads of audit and tax were responsible for conveying current technical information, focusing on quality control, scheduling and improving systems and efficiencies within their departments, as well as coordinating things between departments. It should be noted that occasionally an industry or niche team grew *so* significantly that, in essence, it either became its own business (one with its own policies and systems) or, due to some legal or ethical requirements, was managed as a totally separate entity with its own unique operating structure (*e.g.*, wealth management). Probably the biggest challenge I observed under this scenario was how these large industry teams went about recruiting and/or growing their own people *vis- à-vis* drawing on various audit and tax people at different parts of the year.

Q: You mentioned that there were some obvious and some not so obvious things that affected the governance of the firm. Can you share with me what some of those are?

A: I believe the existing level of management talent, along with the firm's culture, dictate the process. Some firms talked about a "blank sheet of paper" approach, whereby they asked who within the firm had management talent and/or would want to give up their book of business to make this their day job. Other firms started with a structure where they had leadership in each of their offices, but, over a period of time, offices became regions, and the "less-is-more" approach took over, whereby a handful of talented leaders each began to manage a bigger geography within the firm.

The firm's culture (including the level of accountability that exists within the firm) is the other critical factor. Some call this the partnership ("I'm a partner, so leave me alone! I'll do what I want, when I want.") model vs. the corporate model (individual partner goal-setting with accountability for performance) approach to managing the firm. In the partnership model, there is a bias that partners are to some degree self-governing and, at the end of the day, determine their own goals. In a way, they act almost like tenured professors at colleges and universities.

If there was a best practice, it was found in firms that had moved to a corporate management model simply because the corporate structure calls for the partners to be managed. The silo mentality that is present in partnership structures—and sometimes is a barrier to their success—has no place in this model. Instead, partners work with leadership to develop individual goals that not only focus on the partner's strengths, but also reconcile with accomplishing the firm's strategic and local-office goals. Leaders in these high-performing firms spend quite a bit of time managing the key drivers of the firm (*i.e.*, the partners) rather than managing things (*i.e.*, the firm's day-to-day administrative functions). Partners seemed to accomplish quite a bit more in this environment and definitely earned a lot more money!

The last item in the mix was the reward structure that existed with compensation. Every firm I interviewed said that the firm came first, the office second and the individual third. But, truth be known, some of these firms clearly live in an "eat what you kill" environment and/or clearly put the office well ahead of the firm. Again, not surprisingly, the best-run and most-profitable firms put the firm first, but also put some significant weight in the success of the lo-

cal office/region and the partner individual goals.

This is how I would summarize this best practice: "The firm always comes first, but at the end of the day achieving individual partner goals is of the utmost importance, provided that they are consist with the firm's and offices' strategic plan!"

Q: In terms of the CEO position, were there any big exceptions to the rule?

A: Yes. Even though it was talked about a lot, the use of high-level, non-CPA management was rare. I could count those instances on one hand. It was also rare to find the use of co-managing partners, although some of it may be semantics. In the bigger firms, there were strong synergies between a high-level CEO and COO (although this doesn't imply they were equal). Only a few firms were run by committee, and even fewer used outside, independent directors as part of their Board of Directors.

Q: What other takeaways might you have?

A: Believe it or not, there is still more to say! First, it is fairly obvious that single-office firms have significantly fewer problems and conflicts managing the business. I dare say the perfect and easiest structure to manage among the Top 100 firms is a single-office firm whose biggest challenge is managing two floors in a building where they feel there is a cultural divide between the floors!

Next—and perhaps the biggest surprise—was the leadership-selection processes that went on at most firms in terms of how the Managing Partner/CEO, Board of Directors and key management positions were selected, structured and what their roles and responsibilities were. At some firms, the entire partnership voted democratically in a one partner-one vote approach. At other firms, key partners were appointed to their positions; the partners did not vote. At other firms, they voted "one partner, one vote," but only one vote actually counted! Lastly at other firms they voted "until they got it right"! At the majority of firms, the partners voted on a new CEO. Having said that, however, most of the time the vote was a rubber stamp of the incumbent CEO's wishes. Formal approval by the partners was a formality. That said, such votes are not a given. In at least one instance I am aware of, the CEO's selection was overturned by the executive committee, which wanted to move in a direction that was different than the outgoing CEO envisioned.

The third issue that emerged was term limits. Some firms have very long and significant term limits (three to five years) on these positions, while others simply say that they have the right to call a partner meeting and make a "pitching change" if they feel things aren't working.

Finally, if there was one area that caused an "Advil headache," it was the handful of firms that were multi-office in different markets and still, for some crazy reason, had an open partner-compensation process. Virtually every firm I've talked to in the Top 100 survey has moved to closed compensation and said it was the absolute best thing they ever did. The handful of firms that still used open compensation talked about it being an agenda item and were hopeful they could at least move to quasi-open or quasi-closed in the next couple of years. A word of advice to firms in the Top 100 with open compensation: set up a specific billing code to track all of the time (at standard partner rates) partners spend thinking, talking and sulking about the whole issue of "relative" partner compensation!

Q: Was there anything you observed that had you shaking your head, either in surprise or disbelief, as it relates to firm governance?

A: In a couple of firms, the Managing Partner was not the Chairman of the Board. I lovingly refer to this as "transparency overkill" and would remind these firms that Sarbanes-Oxley was created to protect and preserve public company financial reporting and is not necessarily the best way to run a CPA firm.

Two other questions sparked a lot of debate. The first was: "How do you use local office financial results in measuring partner compensation (and who actually sees them)?" Generally, the managing partner has to take a strong stand and pretty much say "I don't care about individual office profits. We're one firm."

The second question is even more intriguing: "How do you handle the revenue or fee splits on billable time

for receiving or accepting work from another office?" Here, too, a strong stand by the managing partner was the rule. At some firms, they paid 70 percent of the standard billing rate for the people they used from other offices, while at other firms they simply let the service provider keep all of the revenue (billable time) for their own office. There appears to be a magical lever that at some point got firms to actually welcome the use of outside office talent, even if it meant "corporate" eating the loss or corporate forcing the local office leadership to work together with the other offices.

Q: If you had to summarize in a couple of sentences how multi-office firms are managed, what would you tell our readers?

A: I would say that they use a "3-D" approach to managing the firm, whereby, at the end of the day, a partner could have a dotted or direct line to a geographic leader, service line leader and a niche leader. The takeaway, however, is that top-performing firms seem to excel at individual partner goal setting (*i.e.*, matching partner strengths with the needs of the firm) and then tying compensation to each partner's level of performance.

Editor's note: If you have any questions about this article or any other issues facing your firm, please feel free to contact Allan D. Koltin, CPA, CEO of PDI Global, Inc. and a founding member of The Advisory Board at *AKoltin@pdiglobal.com* or 312-245-1930 and *Marsha.Leest@WoltersKluwer.com*. We welcome your input and ideas and we hope you will continue to look to CPA PRACTICE MANAGEMENT FORUM for guidance and best practices. ✦

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