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Flocking Together: Newest Game for Accountants

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Newest Game for Accountants

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Editor's Comment: The article which follows has been developed with the collaboration of staff members of The Woman CPA.

The doctor who had a general medical practice, and who made house calls, is dying out. Why? Because medical science has grown so extensively that the individual practitioner cannot be knowledgeable in all, or even in several, areas. So, of necessity, specialists have evolved and have gradually become the dominant factors in the medical profession.

Specialization is profitable for the physician, and practical as long as patients have problems that are true-to-type. Consider, however, the chagrin of the eye-ear-nose-throat doctor whose predictable routine is demolished when a patient in advanced pregnancy slips on the rug of the eye-examining room, breaks her ankle, and goes into labor from the pain and shock. Which medical procedure comes first? Or, if our doctor is very rigidly specialized, the question may be more crucial. What procedure?

A general practitioner would handle the emergency with aplomb but would scarcely have enough sophistication to treat the esoterica of a variety of eye maladies. Anyway, the general practitioner has been, or is being, transmogrified and before long the doorways that carried the shingles of family doctors shall know them no more.

Certified public accountants not affiliated with a national firm, the local practitioners, are facing the same threat of extinction. Few Americans expect to find an ophthalmologist, a specialist in osteology, and an obstetrician embodied in the same person. Yet the client approaches the accountant's office fully confident of expertise in taxes, auditing, business mergers and SEC regulations, plus familiarity with the client's special industry situation.

When one headful of accounting knowledge is insufficient to the need, the partnership of complementing skills is a survival tactic. If two or three heads can be better than one, then a carefully selected group of many heads may be better still. The age of the association is at hand for local, non-national CPA firms. The flocks are forming.

The Problem

In 1953 the first forty-two accounting research bulletins issued by committees of the American Institute of Accountants were restated to amend, supercede or withdraw earlier provisions as changing conditions had altered their usefulness. In the twenty-five years since that time a proliferating stream of accounting pronouncements has reached a floodtide of complex rules that has practitioners grasping for any available support to keep heads above the tide. During this same twenty-five year period the computer age has evolved, from the mammoth marvels that were affordable only by industrial giants, to a computer in every store front — or at least to some computer service available to virtually any business enterprise at a reasonable cost.

And each year Congress, in its infinite wisdom, increases, decreases, revises, restructures, reforms, rebates, or rejiggers the federal taxation system of the country. ERISA, enacted in 1974, and the more recently enacted changes in the carry-over bases of inherited property are just two examples of the lawmakers' contributions to change.

The Securities and Exchange Commission and the Financial Accounting Standards Board have added replacement costs and segmented reporting among other items to their increasing demands for investor information.

A laundry list of the elements that are increasing the complexity of public practice would be incomplete without mention of the drubbing handed the profession by the public press and the courts a la Equity Funding, National Student Marketing and other of the accounting profession's less than laudable performances. This adverse publicity has in turn generated the spectre of impending accounting principles and procedures by government fiat courtesy of the Metcalf and the Moss Reports. The American Institute of Certified Public Accountants, in an effort to respond positively to criticisms by governmental officials, has created its firms division which is to be made up of the SEC practice section and the private companies practice section.

The complexity of public practice can only be further aggravated by growth of the public practice. The sole practitioner has to be a general practitioner because he or she is all there is in the practice unit. The practice grows — two or three partners — larger clients — and larger,

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more difficult problems are generated. More growth — seven, eight, nine partners — an average of possibly $150,000 gross billings per partner — and the firm becomes deeply immersed in need for means to cope with the full-blown problems of the profession. The real concern for the practitioner is fear of failure to adequately serve the clients who depend upon the professional abilities of the accountant who serves them; that apprehension transcends the concomitant fear of competition from larger, and possibly better equipped, firms.

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Alternative Solutions

At least four possible courses of action suggest themselves as possible pathways out of the dilemma that the practitioner encounters. These are:

a) Do nothing
b) Do it yourself — upgrade and update as much as possible by using AICPA and state CPA society continuing education courses
c) Merge with a larger firm
d) Join an association of CPA firms

*Editorial Note: For a detailed presentation of the Institute's progress on improvements in the accounting profession the reader is invited to explore the article immediately following this one, entitled "In Different Branches: Duality in the Profession."

Do Nothing

The "do nothing" solution predictably will result in a creeping decrease in the value of services rendered to a client. As time wears on, the failure to keep current will result in substandard work which can result in real hardship to the client and will diminish the professional image of the practitioner. Predictably, also, the "do nothing" practitioner stands in danger of joining the dying class of medical general practitioners.

Do it Yourself

The "do-it-yourself" solution has merit and for some firms may offer sufficient support to allow them to cope with their added professional responsibilities at least on an interim basis. However the resources of the AICPA and the state CPA societies are, of necessity, designed to meet the broad needs of a wide range of practice units. And a frequently voiced comment is that the courses are attended by those of such diverse levels of experience and from such diverse sizes of firms that much of the value of peer discussion is lost. The adequate development and continuous updating of materials, programs and check lists is an expensive undertaking often beyond time constraints and the financial capabilities of the "do it yourself" firm regardless of a conscientious, sincere, well intentioned endeavor.

Merger

The "merger' route is nearly always open to any firm that desires it and this course can be an instant solution in many cases. Very often, however, the practitioner who has had the fortitude to build a practice is also a fiercely independent entrepreneur who is not at all interested in being gobbled up by one of the giants of the accounting profession. Typically, the close association with and service to clients is sufficiently rewarding both professionally and financially so that merger holds little appeal if there is a reasonable way to maintain and improve the ability to provide first class professional accounting services.

The Association

Joining an association of CPA firms may be the most palatable solution for the aggressive, forward-looking practitioner who wants to remain independent by who recognizes the paramount obligation to maintain professional competence. The situation is well summarized in the lead paragraph from the January 1978 issue of *The CPA-Practitioner,* and AICPA publication for the local firm: "A number of firms have found that by joining an association of CPA firms they are provided with many of the advantages of national firms, yet are still able to operate as independent units and preserve close relationships with their clients." Among practitioners the merits of firm associations are succinctly summarized as "the benefits of a national firm without the high overhead."

As may be surmised, the purpose for which a group of CPA firms voluntarily joins themselves together in an association is to do collectively certain things that they cannot feasibly do as separate practice units. The CPA associations fall into three categories, (a) the geographically restricted (regional or intrastate), (b) the special interests (MAS, data processing, etc.) and (c) the full service group. The geographically restricted groups include The Indiana Group of CPAs, (acronym — TIGERS), organized in 1964, the Southern and Western Accounting Group (SWAG) organized in 1969, and the Ohio Mutual Assistance Group (OMAG). The special interests groups are largely self explanatory.

As the name implies, the full service group is specifically designed to help its member practice units by providing a full program of services which could minimumly include:

(1) Practice management support via:
   a) Managing partner conferences
   b) Firm management audits
   c) Firm operational audits
   d) Goals programs
   e) New business development programs
   f) Partner-in-training development guidance
   g) Firm administration counseling

(2) EDP support via:
   a) Experience exchange/clearinghouse
   b) Hardware/software consulting — exchange

(3) MAS and MCS engagement support for clients

(4) Administrative support via:
   a) Development of or acquiring and providing continuing update service for:

      Staff manuals
      Personnel manuals

Audited financial statement manuals
Unaudited financial statement manuals
Tax manuals
Audit programs, internal control questionnaires and unaudited check lists

b) Industry specialization talent bank
   Consultations
   Referrals
c) Merger and acquisition support
   Counseling
   Advice
d) Executive search
   Firm administrators
   Client needs
e) Staff training
   Staff level I, II, III
   Advanced courses tailored to specific staff level needs
f) Partner training
   Management techniques
   Management responsibilities
g) Peer review
h) Nationwide referral capability
i) Personnel exchange

Anticipated Benefits

The full service liaison contemplates a wide geographic dispersion of members to obviate overlapping practice areas. Freed of the fear of aid and comfort to the competition there is a stimulation of a free flow of management and financial information. A partner in a Cincinnati, Ohio firm has little reserve in discussing fees, compensation and other management-sensitive subjects with a partner in a similar firm in Duluth, Minnesota but is distinctly uncomfortable discussing these same subjects with partners of a firm in nearby Dayton.

Geographic diversity also provides the capability for the practitioner in Little Rock, Arkansas to contact a member firm in Seattle, Washington, to arrange economically for a physical inventory observation at the lumber producing facility in that area just acquired by a Little Rock client.

Typically firms in the group will be of like size which should mean problems of a like kind. The over $1 million gross billings firm with eight partners and five offices is likely to encounter problems of management and of practice similar to a like sized firm but problems somewhat different from those the $300,000 gross billings firm with one office and three partners.

Similarly separate staff training programs for these two firms, tailored with precision to the size of clients served and the level of experience of personnel, will more sharply focus the peer idea interchanges on practical, useful problem solutions at the appropriate level.

Another area of need which the collective resources of a group can handle reasonably but which is costly to a single practice unit is the development of the technical manuals, audit program guides, internal control questionnaires and unaudited check lists which are vital to a quality practice. And, beyond the costs of original preparation, there is the ongoing problem of keeping all of these practice tools updated and current with the unending changes in accounting pronouncements referred to earlier. An association can be organized to provide the needed update service on a timely basis and at an affordable cost to member practice unit.

New interest in the association concept has also been triggered by practitioners' concern with participation in the newly established AICPA sections of CPA firms. Although membership is not mandatory per se, many practitioners see participation as a necessary exercise to demonstrate their dedication to quality work and quality control of that work. When a firm elects to become a member of the SEC practice section, or of the private companies practice section, or of both sections, it becomes a participant in the Voluntary Quality Control Review Program for CPA firms. This program requires that participating firms have documented quality control policies and procedures and agree to undergo periodic compliance reviews to assure that policies and procedures conform to professional standards, are adequately documented and are being complied with. Practitioners see an association as a source of help in developing quality control documents and as a potential source of the peer review of firms which will be mandatory every three years.

A further "big firm" benefit which can accrue to members of an association is the availability of expertise in specific industry problems, and in highly technical accounting and tax areas which a local firm may not have "in house". Such service is easily provided through cataloguing, in a central talent bank, the industries served by the various members of the association and the peculiar skills of their respective professional members. Availability of supplemental talent would perceptibly enhance a firm's capability of undertaking, with confidence, engagements that it might otherwise refuse for lack of experience with the particular industry or problem.

Joining an association may be the most palatable solution for the aggressive, forward-looking practitioner who wants to remain independent but who recognizes the paramount obligation to maintain professional competence.

The Association

The typical association is organized along usual lines, generally with each member firm having representation on a board of directors with the office of president rotated among firms from time to time. The number of firms linked together appears to vary from approximately twenty minimum to about sixty maximum, dependent upon the philosophy of the organizers as to a comfortable number. Basic policy is set by the board, and various committees are appointed to handle specific areas of endeavor. Committees might include, among others, an auditing and accounting standards committee, tax committee, continuing professional education committee, practice management committee, and a membership committee. Paid employees in a centrally located headquarters office would include an executive director and the necessary secretarial, clerical and technical personnel consistent with the amount of internal research and creation of technical material that is planned for the group.

Basic annual cost of membership in an association is, naturally, related to the services that are provided. However, the fee range most frequently quoted is from one-half to three-quarters of one percent of a firm's gross annual billings, with some reduction in rate as the gross billings increase. Practitioners recognize the association to be an exercise in synergy and those queried are quick to express their view that the cost is modest when measured against the expected benefits of membership.

Associations In Existence

The August, 1971, issue of the Journal of Accountancy described six groups, and since that time several other associations have been formed or are in their formative stages. The September, 1977, issue of the Journal of Accountancy carried an advertisement in its classfied section soliciting inquiry from firms in the $1 million to $4 million fee range who were interested in participation in a nationwide, full-service association then forming. From twenty-five to thirty prospects responded. Nine established associations are listed below, with acronyms for some:

Associated Accounting Firms International (AAFI)
Associated Regional Accounting Firms (ARAF)
CPA Associates
National CPA Group
Ohio Mutual Assistance Group (OMAG)
Southern and Western Accounting Group (SWAG)
The American Group of CPA Firms (TAG)
The Continental Association of CPA Firms, Inc. (CACPA)
The Indiana Group of CPAs (TIGERS)

Based upon available information, a firm looking for a beneficial affiliation may be hard pressed to find a slot in a presently organized group that fits its particular needs. However, in the help-one-another climate that appears to prevail among associations, inquiry of one of the executive directors will likely lead to referral to a group with membership openings, or to other unaffiliated firms interested in forming their own flock.

Whether guided to a group with an available space or to other interested firms, the local firm in need of help will want to look at several aspects of the situation before making a commitment. By inquiry or observation there must be some assurance of:

Similarity of size of firms
Practice of top quality in each firm
Compatibility of partners, and commitment by partners to maintenance of high quality practice.
Willingness of each participating firm to contribute service on boards and committees for the good of the whole group

With the overriding prescription for competent professional handling of client needs, firms with the foregoing attributes in common can utilize their collective resources to perform professional services beyond the capabilities of any individual participating firm.

Louis H. Pilie, CPA, a past president of the American Institute of Certified Public Accountants and founder of Atlanta-based Associated Regional Accounting Firms (ARAF) is quoted from the October, 1974, issue of the Journal of Accountancy: "Associations of CPA firms are not only here to stay; they will also proliferate." Mr. Pilie's prediction appears to be holding true. Flocking together with firms of similar coloration and configuration may be the preferred alternative for the non-national CPA entity. An association can provide resources to handle the complexities and problems facing the local practitioner, now and in the future.

The Accounting Association

An Association with complementing groups provides accounting firms with effective means to an end but it is important that the ends be valid if the association is to survive and flourish. Objectives that lead to a virtual consolidation under the dominance of the strongest firm will, in the long run, be a disservice and nothing more than a strategy to gain control. The ultimate result will be regulation and uniformity for all members of the association.

However, if the association is formed with the positive objectives of sharing knowledge, pooling special skills, and of mutual growth through systematic updating and quality control then that association has every reason for survival because it means a bettering of service to clients.

Even so, from time to time a client may so expand geographically and in activity that is is possible that one of the giants of our profession will have staff and resources that will better serve the client's complex accounting needs. Any firm or association will do well to adopt the philosophy that it is impossible to retain each and every client; it is much more important to concentrate on superior performance in areas where the firm is well qualified to serve.

Comments by Marshall S. Armstrong in a discussion with students and faculty at the University of Cincinnati, March 7, 1978. Mr. Armstrong is Chairman Emeritus of the Financial Accounting Standards Board, and one of the founders and the first Chairman of The American Group of CPA Firms.