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OPPORTUNITIES AND CHALLENGES FOR PUBLIC PRACTICES

CPA AUSTRALIA

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OPPORTUNITIES AND CHALLENGES FOR PUBLIC PRACTICES

A report of CPA Australia's Board Public Practice Committee

CPA Australia Ltd ("CPA Australia") is the largest professional organisation in Australia with more than 112,000 members of the financial, accounting and business profession in Australia and overseas.

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INTRODUCTION

This report is the culmination of the work of CPA Australia's Board Public Practice Committee (BPPC) task force, which was established to assess what public practice may look like in the future and to develop a strategy to prepare our members for the challenges ahead. The BPPC is a committee of the Board of CPA Australia charged with the responsibility of providing advice and recommendations to the Board of Directors and exercising strategic oversight of issues impacting on CPA Australia's members within the public practice sector.

In this report, the BPPC taps into extensive research and member representative groups throughout Australia and overseas to identify the obstacles and opportunities facing firms. The views of some of the nation's leading accounting and business commentators are also canvassed to get a snapshot of the future of public practice for small- and medium-sized firms.

The BPPC believes it is crucial to examine what forces may be influencing accounting firms in the future and their responsibility to engage with the industry and provide members with detailed insights into the challenges and opportunities that await the profession.

This report is a significant tool as accountants seek solutions to some of the profession's most pressing issues. Views from a cross-section of business commentators provide a fascinating insight into the future. It is important to note that while the BPPC may not support all the opinions expressed in this report, the emphasis is on openly discussing disparate views. Such transparency can only benefit the sector.

Nor does the report pretend to have all the solutions to what are, in some cases, complicated scenarios. However, the BPPC encourages members to read this report and to think about its content and key messages/challenges identified in the concluding pages.

We trust that this report will be illuminating and informative – and provide a map for firms as they plot their path in the years to come.

It's your future.

John Mann FCPA

Chair, CPA Firm of the Future task force

EXECUTIVE SUMMARY

The challenges and opportunities for public practice accounting firms have never been greater – and they can expect more upheavals during the next 10 to 15 years as management structures, staff issues, business processes, technology developments and clientele undergo continuing transformation.

Firms can count on an ever-more fierce battle for talent; greater management tests as they try to balance the needs of Baby Boomer and Generation Y staff; more technology churn; additional focus on gender and diversity issues; and increased complexity around succession planning and selling the business. The best firms will meet these challenges head on, and those that ignore these issues may fail to reach their potential or fold.

Beyond tomorrow

During the next decade and beyond, smaller firms will struggle in a market of enormous legislative change and increasing demands from clients for better service. Mergers will be on the cards for some firms as they try to bolster resources, while specialisation will thrive as boutique firms offer outstanding service in a narrow slice of the market. Experts advise smaller firms to play to their strengths. The key will be to clearly define your firm, adapt to change and inspire staff. The collegiate-style partnership model, despite past strengths, may not survive because of inherent inefficiencies.

CPA Australia identifies some key trends in public practice:

Specialisation

This will be an important weapon for successful firms of the future as accountants choose what they want to do and set about doing it well. Some will build significant firms based on expertise and efficiency in traditional areas such as tax and compliance, while others will hone in on value-added services such as business planning, coaching, financial planning and mentoring at the expense of traditional accounting work. However, Peter Knight, general manager of PKF Australia, a consultant to accounting firms, has a warning: "The firms that are trying to do both aren't doing either very well."

Technology

Hi-tech drivers of change that are expected to have the most impact on smaller firms in the near future are the internet, knowledge management, automation of financial data handling and changes in the working environment. Many firms are yet to fully grasp and exploit technology tools. Moving forward, the smarter firms will appreciate that an investment in technology can reduce the cost of doing low-margin work. The advantages will be far more sophisticated that just cutting costs, though. In-house IT specialists will ensure businesses run more smoothly internally, and be a viable resource to contract out to clients. This will improve revenue flow while delivering business benefits to firms and clients.

Mobility

Superior technology will allow more staff to work from home, but rising numbers of remote workers will test the social fabric – and therefore the management skills – of a firm. Michelle Knights, a principal at Rob Knights & Co, an adviser to accounting and financial planning firms, says new mobile technology solutions will challenge the rhetoric of firms that claim to have a culture that supports staff, adding "it's a lot of … lip movement for some and not a lot of doing".

Succession

Succession planning can only occur if and when there are enough people willing to step into the roles occupied by today's partners. As Generation X and Y seek more personal and professional flexibility, they will be less willing to buy into a firm. Consequently, existing partners will work more years in their firm to delay the final resolution of the firm's future, and more practitioners will die before attending fully to the firm's succession or sale.

Consolidation

Consolidation of firms will continue in the future, either through listed companies or through existing firms buying more of the available firms. Selling a firm will not be done lightly or easily. Principals should take steps in coming years to position for sale. Even if a sale does not eventuate, the firm will then be in good shape operationally and delivering sound profits and cash flow as a result of the management attention it has received.

People power

Recruiting and retaining staff will continue to be a major issue for the foreseeable future in public practice. Suzanne Baldry, a director of the Baldry Financial Group, an independent financial planning and accounting firm, says as the pool of talent diminishes the task of managing staff becomes increasingly difficult. "If you can't replace them, you can't lose them," she says. "So managing conflicts, managing people, sharing the success financially with your team is important."

Other finance-based actions to attract or retain staff will include higher pay rates, bonuses for higher production levels and fee-earners being paid a percentage of their billings. Firms will also have to embrace other 'softer' motivators to provide a work environment in which social interests and community service goals can be achieved.

> **"Business owners want advisers who can cover accounting, tax, finance and business issues"**

Generations X and Y

Firms will have to balance the needs of their baby boomer staff and clients, while at the same time dealing effectively with employees from Generations X and Y. Members of Generation Y will relate more to their profession than to an employer, so firms will have to satisfy a broad range of employment requirements if they hope to retain young staff.

Research reveals that Generation Y employees want to see strong and focused leadership within organisations for which they work. Principa's Ric Payne comments that older practitioners will have to get used to meeting the needs of a younger generation. "It's all very well for senior members of the profession to say these people need to change because when I was 30 I did this and so on," he says. "That's just falling on deaf ears."

Training

Accountants will have to ramp up their technical skills, be able to market their firm more effectively and have the skills to offer financial planning. There may even be a need to offer units at university in interpersonal skills, with a greater importance placed on the soft skills of business. In all likelihood there will be a unit of public practice offered to students in coming years.

The client

It appears certain that the requirement for accountancy work will be strong over the next decade and beyond. The consensus among experts is that customer demands for tax and compliance work – at the very least – are not about to dry up. In this environment, clients are becoming increasingly sophisticated and forward-looking and have higher expectations. Business owners want advisers who can cover accounting, tax, finance and business issues. They want value-for-money services, value-added services and accountants with business nous.The client of the future will have a sharper understanding of finances and be more demanding of quality service at value-for-money rates.

Gender

Female business owners will also change the nature of clients. Women now account for a third of all small business operators in NSW, according to that state's Department of State and Regional Development, and numbers are also rising in other states. Many of them run home-based operations, so accountants must gain a greater understanding of micro-businesses and how to support them.

Money matters

Profit margins will continue to be the focus of public practice accounting firms. However, a squeeze on finances will result in a strong focus on cost-cutting to maintain profits because of three elementary factors: relatively low hourly charge rates; principals

"The best firms will meet these challenges head-on, and those that ignore these issues may fail to reach their potential or fold"

expecting a high level of personal fee-generation; and most firms not looking to expand their service range. The outlook for productivity is troubling. Staff shortages will constrain growth and, in an age when work-life balance is vital, staff working-hours are not likely to jump. One offset could be governments extending the retirement age towards 70. And more incentives will be implemented through the taxation system to encourage workers to remain employed for longer.

Cash flow

Funding a firm will remain a high priority for practitioners. Clients are unlikely to alter their approach to the payment of fees without a significant change of emphasis from public accounting firms. Alternative methods of fee-setting are seen as an option for the future: for example, an agreed fixed sum for a certain level of work and service is likely to become more prevalent.

Capital

Another key area will be capital investment in a firm. In the early 1980s, computer costs were a significant drain on firm resources because of the capital cost of the equipment. IT costs are here to stay: more screens per person, integrated and higher-specification printers and photocopiers, more computer-based applications requiring not only software licences but hardware upgrades, more demand on memory and storage to hold larger and more complex computerised applications. These factors will drive up costs.

Outsourcing

As firms try to reign in costs, outsourcing will continue to be a much-debated topic. Different models will emerge to the current 'send it to India' mentality. More domestic outsourcing is likely using para-professionals.

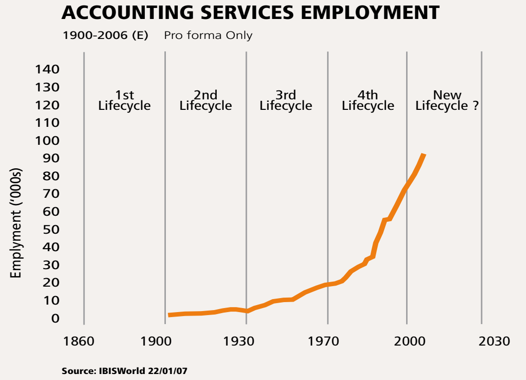
Conclusion

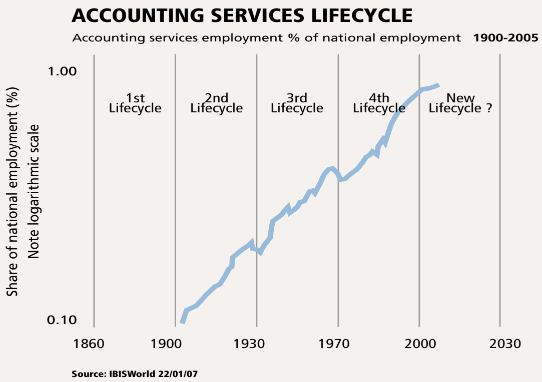
Workforce constraints will have a significant impact on the future delivery of accounting services. Attending to recruitment and retention needs will be imperative. Firms of the future will attempt to adopt innovations in pursuit of stronger profits and liquidity. This will allow progressive firms to share some of those benefits with staff and permit investment in vital and competition-enhancing computer-based applications, as well as staff training. There will be challenges, but accountants and their clients will win.

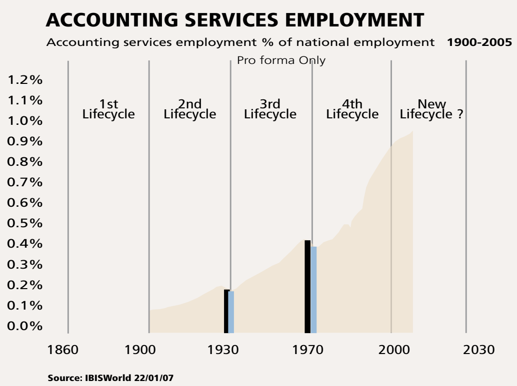
PAST REFLECTIONS: THE WAY WE WERE

Before fast-forwarding to the future, it is important to understand an objective view of the accounting firm of the past

"Research supports the belief that more staff per principal results in more profits per principal"







Profitability

Average profitability of firms has headed in the right direction from 1985 to 2005. The average profit per principal – in 1985 dollar terms – was $67,999 and after 20 years had risen to $99,844.

Principals would no doubt like to think that their personal productivity has been responsible for the profit spike, but a benchmarking team from business consulting firm FMRC suggests the impact of this factor has been modest. Overheads remained similar during the period, which means the net profit margin before accounting for principals' remuneration also looks similar. So what is the standout reason for more profit per partner? More staff per partner.

Staffing

Research supports the belief that more staff per principal results in more profits per principal. In 1985, a typical firm had four employees supporting a principal. By 2005, this had risen to 5.75 employees per principal. CPA principal Greg Hayes, in the *CPA Public Practice Benchmark Survey 2004*, suggests the desired target is for firms to have seven employees per principal.

Another objective measure of the impact of more staff per principal is the dollar figure supervised per principal. In 1985, the typical figure was $200,000. Two decades on, this has ballooned to $306,000 in equivalent dollar terms. FMRC says this "puts more pressure on a principal to keep abreast of technical issues associated with more and/or larger clients".

During the 20-year period, public practices have welcomed more fee-earning or accounting-qualified staff and cut a significant proportion of support staff. Fee earners represented 64 per cent of personnel on average in 1985, which jumped to 77 per cent by 2005. Support staff bore the brunt of that change.

Why? The simple answer is that the work performed in a firm has changed. Fewer hours are spent transcribing client transactions for basic reports, while computer operators have been victims of the age of new software that delivers template documents and reduces the need for secretarial staff.

GST and computers

The year 2000 was a benchmark that led to substantial change in the client-firm relationship and, in part, explains new staffing arrangements in firms. Fewer and fewer clients were seen carrying the shoebox and cashbook to their accountant after the introduction of the GST in 2000. A cash subsidy from the Federal Government for software purchases helped clients switch to electronic cashbook output and management financial statements.

Suddenly, MYOB and Quicken software packages and tools such as BankLink eliminated some of the work of support staff. The prevalence of computers should not be ignored, either. In 1990, there were 0.55 computer screens for every person in an accounting firm. Within 15 years it had risen to 1.43 per person, facilitating the electronic accounting age.

Personnel productivity

The raw figures in surveys of fees per person between 1985 and 2005 can be misleading. In nominal terms, the fees per person rocketed from $40,990 to $96,830. However, when inflation is netted out the real fee increase is a not-so-spectacular rise from $40,990 to $45,480 – an 11 per cent improvement. This may be an anomaly. If fee earners are now more prevalent, why has personnel productivity not increased much? The answer may lie in accountants' use of time.

Chargeable time

The revelation is that chargeable time, or CT, for accounting firms has fallen during the 20 years from 60 per cent to 51 per cent. CT calculates the chargeable hours performed by all people in a firm divided by available hours. Available hours exclude holidays, public holidays, sick leave and other absences.

So, how do we explain the scenario of having more fee chargers on staff but only a marginal increase in real fees? There are two obvious reasons. First, excessive amounts of new legislation have created more reasons for client enquiries, which are increasingly more difficult to charge for. High hourly rates may be absorbing some of the impact, but the jury is still out. Second, while financial planning is becoming more prevalent in firms and is quite lucrative, many of the associated hours are not captured effectively on timesheets as chargeable hours.

The salary share

The salary share or non-principals' wages of firm revenue has increased only slowly, a result that surprises experts. One view suggests that the salary-to-fees ratio was just under 33 per cent between 1985 and 1995, lifting to 35 per cent by 2005. A number of conflicting salary developments may explain the marginal movement in this ratio:

- more employees per principal increases the total outlay on salaries, meaning salaries are higher as a percentage of revenue
- more highly qualified fee earners and fewer support staff should push up the salary-to-fees ratio
- more computers should increase personnel efficiency and cut the ratio, but the computer age brings with it training requirements, time-consuming repairs and wasted operator time that stalls fee-earning activities
- better-qualified staff should push up revenue per staff member, thereby reducing the ratio
- lower chargeable time raises the ratio as the fee levels are not helped by fewer chargeable hours.

Advice fees

Management advice fees have become more significant during the past two decades. One clear trend stood out: financial planning is generating relatively more fees for accounting firms than at any other time in the profession's history.

Income from financial planning may once have come largely from referral or other commissions paid by other organisations to the firm. The share of fees from this source was relatively small, but now many firms carry a separate division, with dedicated principals and employees. Hayes suggests those firms ignoring this source of revenue risk lagging behind rivals.

The constants

Non-salary overheads have hovered around 31 per cent over the 20-year period. That is not to say that all overheads have remained constant: communication costs, interest rates, travel and accommodation costs have fallen, while professional indemnity insurance and superannuation costs have soared.

Firm fees derived from wage-earner tax returns have also been constant, remaining an average 9 per cent of overall fees. Online lodgment of tax returns and the Federal Government's promotion of the Tax Pack have not affected this source of revenue.

Write-downs as a percentage of firm fees have oscillated between 8.6 per cent in 1985 to 11.3 per cent in 1995 but have fallen slightly since then. Staff shortages may explain why some firms have refused write-downs despite a potential loss of clients.

The public practice story of the past 20 years is about constancy. The share of wages and overheads coming out of revenue has barely changed, which means the principals' percentage take from revenue is little changed. However, more staff and more business per firm are pushing up the profit per principal.

Recruiting worries

Staff recruitment concerns are the number one issue for one-in-two SME firms. What is the problem? Research suggests the marketing of tax accounting is not sexy, while audit services are not a staff magnet. The fear is that a tax and compliance overload is undermining accountants' job satisfaction and making recruitment and retention tougher. Staff turnover hovers at 15 per cent of personnel a year. The fact that young accountants no longer rate a partnership offer very highly also hurts the cause, while the lure of high salaries in commerce is lowering the appeal of public practice.

‘So much has happened to public practice in the past 20 years – the challenge now is to picture a typical CPA firm in 10 to 15 years’

Forecasting is complicated, yet many of the answers are in front of us. We are living in an era of significant social upheaval and great business competitiveness that will shape the future. It is vital to heed these signs to prepare for life in an accounting firm where management structures, staff, processes, technology and clientele will undergo continuing transformation.

We know that there are lower overall numbers lining up for accountancy degrees, which means talent will be in even shorter supply. Be aware that Generations X and Y may be less interested in investing in an accounting firm. Their desire for flexibility and career switches, it is thought, will clash with the need for an investment of time, cash and commitment as a principal of an accounting firm. This means that more accountants are likely to come from graduate backgrounds other than the traditional Bachelor of Commerce or Bachelor of Accounting.

Baby boomer firm principals will have to hone their management skills so they can keep meeting the needs of their present staff and clients while dealing effectively with Generations X and Y. Accounting firms will need to satisfy a broad range of employment needs to retain young staff.

There are myriad other challenges facing accounting firms including salary and billing strategies; technology churn; financial literacy; outsourcing; work-life balance; gender issues; succession planning – you name it. The best firms will meet these challenges head on and with clarity – and thrive. Those that ignore these issues may fail to reach their potential.

A. BEYOND TOMORROW

The shape of things to come

Let us consider a snapshot of a CPA firm in, say, 2020.

It is likely that no single style of accounting firm will prevail. Technological advances will help accountants deal with the complexity of legislation and change, but there will be a key constraint: the time available for senior practitioners to actually absorb, and then apply, this content.

Technological advances will also change the IT sophistication of clients and, in turn, change the services sought by those clients. We have already seen the fundamentals of this change in the increasing functionality of business accounting software solutions offered directly to clients by software providers.

Clients are demanding higher standards of advice and are often seeking a one-stop shop for advice. These demands will become much harder for a small firm to meet, and the pace of change in coming years will exacerbate the dilemma for small practitioners, in particular.

So, what can be done? Mergers will suit some firms, allowing individuals within the expanded firm to focus on specific technical areas while practising among a larger group of clients. This has the advantage of maintaining the one-stop shop service model and maximising a firm's total 'share of wallet' for a particular client. Mergers will occur, either directly or indirectly, through networks. Remember, though, that a multi-disciplinary firm will have cross-referral issues with which to deal.

A second possible response is for a firm to specialise: accountants within the firm will focus on a particular field of work and maintain a full and current knowledge of that field. To make this approach work effectively, firms should create networks or alliances with other specialists. Such alliances will prove essential because firms cannot afford to invest in all the areas of expertise to which they will need access.

So, a tax firm may refer some work to an audit firm and a separate financial planner to provide the range of services and integrated advice that a client demands. A suitable 'no-poaching' agreement would be negotiated to safeguard the referring firm, and clients should be asked to give consent to the two accounting firms sharing pertinent information in order to expedite a sound professional outcome.

Ric Payne, the CEO of international business consulting firm Principa, advises smaller firms looking to survive and thrive in a competitive market to play to their strengths. "A small business person feels more comfortable working within a small accounting firm, and no matter how much consolidation you start having there will always be more accounting firms popping up to meet that latent demand for firms of a smaller size," he says.

The key will be to clearly define your firm. Payne explains: "So they may be a very small niche firm that just focuses on business, consulting, high-level tax work or whatever, or they may be a very small generalist firm but with a very clear franchise."

A number of CPA member groups share the view that 'interdependence' will be the way forward for many firms: "The public practice sector will become more specialised ... (leading) to greater interdependence (and allowing) practitioners to offer a more full service to their clients. Firms will form alliances and referral networks with other firms."

Specialists: what can you offer?

Specialisation is likely to be an important weapon for successful firms of the future. Accountants will choose what they want to do; and be required to carry out that work exceedingly well. In Britain, there is a view that about 60 per cent of fees should come from non-recurring or special work, with the rest made up of traditional tax, compliance or auditing work.

Peter Knight, general manager of PKF Australia, a consultant to accounting firms, is confident that even firms that specialise in a non-sexy area such as compliance can prosper. "They're doing their job so well and so efficiently (that) they're making money out of it – making serious money," he notes.

Others are honing in on value-added services such as business planning, coaching and mentoring at the expense of traditional accounting work. Knight has a warning: "The firms that are trying to do both aren't doing either very well." While they may be technically proficient at compliance work, for example, they may not have had suitable training to carry out a business valuation, a business plan or a strategic plan.

Knight proposes a model for specialists more commonly associated with the manufacturing sector: "Get it in, get it done, get it out, turn it around as quick as you can." He advises setting up a venture whereby the accounting and financial planning businesses, for example, are separate, but shareholding is held in a unit trust and the proceeds are shared.

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"More accountants are likely to come from backgrounds other than the traditional commerce or accounting"

No pain, no gain

Michelle Knights claims ‘average’ firms will have to take more risks if they hope to prosper in years to come

Looking into her crystal ball, Michelle Knights has a clear view of what entrepreneurial accounting firms will look like in future – and she likes what she sees.

While not necessarily risk-takers, these firms will have low staff turnover, in-house succession options, very happy clients, an absence of complaints about bills, a proactive management approach and satisfied partners.

“And therefore they’re generally also better performers,” says Knights, a veteran consultant to accounting and financial planning firms and a principal at Rob Knights & Co.

As for the rest, Knights believes they run the risk of becoming ‘average’.

“They won’t change unless the hurt is bad enough. As a whole, everyone’s quite happy being average. Practitioners won’t go through the pain structure of change unless the remuneration that they take home is not to their liking.”

The catch may come for some partners as they head into retirement and try to sell their firms.

Practitioners tend to note what other accounting and financial planning services sell for and assume that they will get the same or similar. What drives value, though? What is the proposal? Are you selling the firm? Are you bringing a partner in? Is a partner going out? Are you merging? Location, size, services, clientele – these factors and more determine the value of a business.

Knights says a present trend is for vendors to talk about market value, as a rule of thumb, being so many cents in the dollar. Purchasers, though, are focussing on performance issues.

“Interestingly, though, people who are selling equity still have a price in their mind and either way they manipulate whatever methodology we use to come up with that price … So it’s interesting, and I think those aspects in itself form the bigger issue of how we move forward and how we, if you like, transition the equity out of firms for the baby boomers, which is going to be very much something in the next five years, if not 10 years.”

Salary ratios also present an issue for firms. Knights notes that most have typically worked on the so-called three-times multiple – with a third of total income covering salaries, a third going to overheads and a third being profit. While the proportion of profit has stayed flat, the fight to get good accountants is putting pressure on salaries. Knight estimates they are now eating up closer to 40 per cent or 45 per cent of income.

“So at the moment we’re counter-balancing this by controlling our other overhead costs … Well, the next big cost is rent for accounting firms, so depending on when their leases come up, if we have a boom in commercial property, it’ll be interesting to see how that impacts.”

The skills shortage represents a dilemma: it is difficult to get staff, and many of the talented young accountants are heading overseas to get big pay packets. As a consequence, there is a continual review of remuneration and it is difficult for small firms, in particular, to recover costs.

Knights says: “If that balance doesn’t change in some way, we’re going to find it’s going to start eating into the profitability of practices.”

Knights on … alliances

“Accountants don’t do alliances well because they don’t trust people with their clients. Maybe there’s an opportunity to develop those specialist skills in house – whether you bring someone in who has them, or whether you have one particular partner who’s able to offer those particular types of skills.”

Traditional firms

In this world of increased specialisation, traditional accounting and tax firms will come under pressure. The BPPC believes that those firms which continue to rely on compliance work may decline in profitability as technology and regulation force change.

With this change, firms that can pick trends and forecast business futures will be in demand. Clients are placing less emphasis on historical business developments and more on trends. As traditional tax work becomes less important, the emphasis will shift to what clients really want: accountants who can provide forward-looking advice.

This future direction of individuals’ tax returns was articulated in the 2007/08 Federal Budget when the Government announced the pre-filling of tax returns for individuals with simple affairs. The definition of simple affairs included dividend and interest income and distributions from managed funds; payments from Centrelink, the Department of Education, Science and Technology and the Department of Veterans’ Affairs; Medicare out-of-pocket expenses and private health insurance information; Higher Education Contribution Scheme and Higher Education Loan Programme details.

> There is a sentiment among fast-growing businesses that their accountants could do more for them

Of course, tax work and the like will still have to be completed, but progressive firms still handling this low-margin business will turn to automation, systems and workflow tools that are managed by employees on relatively low salaries. According to figures from researcher NFO WorldGroup, the profession still has a way to go on this front, with more than 70 per cent of some compliance work still performed by principals and senior professionals. The BPPC encourages practitioners to consider the use of non-graduates or para-professionals who can be trained to do the work at a much lower cost.

Clients are also becoming more e-savvy and increasingly process their transactions internally. They then forward files to their accountant, who reviews business areas of high risk. This trend will continue to grow in an online world: it is worth noting that online tax lodgements or e-returns by individuals rose from 113,164 in 2000 to more than one million in 2004. Further growth is certain. Practitioners will have to invest in technology tools to further reduce the cost of delivering such a service.

Compliance opportunities

The way compliance work is managed will undergo significant changes, but those expecting less compliance work in the future should think again. Expect to see more specialists in this space.

Compliance work will still exist and is emerging as a specialisation on its own. Firms may even specialise further into different compliance areas. Compliance will remain a base from which firms can branch into other areas.

Yet Ric Payne, at Principa, says firms are going to have to address the need to think beyond tax and compliance-based accounting and the fact that "they are too busy doing BAS returns for a thousand people". There is a sentiment among fast-growing businesses, he says, that their accountants could do more for them – that is, become more proactive and better understand their business.

Payne adds: "Smaller firms do need to confront the brutal reality that when their clients get to a certain stage they probably want to move on to a larger firm that can provide them with a broader range of services."

Audit streams

Specialist auditing firms are expected to emerge in future, with auditing revenue constituting on average only 4 per cent of firm revenue.

Greg Hayes, senior partner at the Hayes Knight business advisory group, states his case in the *CPA Public Practice Benchmark Survey 2004* to license specialist audit firms, so firms could either focus more extensively on audit work or sub-contract audits to a specialised firm.

Other commentators have identified possible new streams of work under the label of 'assurance' audits. Auditors could well ply their trade to growing demand for healthcare related audit services.

Auditors could perform web trust reviews, performance measurements and risk assessment. The growth of small business and e-commerce points to a steady stream of work.

Balanced scorecard

According to a CPA Australia missive last year, 21 per cent of companies across the nation now use a balanced scorecard approach to determine the drivers of present and future business success. In the US and many European countries, however, the proportion is closer to 50 per cent.

This points to a likely trend: demands for social responsibility and environmental reports from larger clients, which will require auditing or verification, could see public practices seeking

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Taking the lead

As a new era of accounting unfolds, the pressure will be on firm leaders to adapt to change and inspire their staff.

Greg Hayes, senior partner at the Hayes Knight business advisory group, argues that the collegiate-style partnership model, despite past strengths, is unlikely to survive because of its lack of decision-making efficiency and accountability.

"To some extent the present model has been a very patient model, and in some cases a reasonably forgiving model," says Hayes, who predicts the emergence of a more commercial style of management.

The BPPC supports the views of many commentators that a move away from the collegiality of partnership to a more corporatised approach to running an accounting firm will be a reality. New operating structures will support increased activities in the areas of firm mergers, acquisitions and consolidation.

Accounting firms will embrace different operating and shareholder investor models to capitalise on their investment and develop growth strategies. New challenges will emerge as firms actively address succession planning, implement recruitment and retention strategies and minimise risk. There are likely to be a range of shareholders in future: principals, staff, financial institutions, financial planners and publicly listed companies.

The objective will be to achieve good performance, with growth a priority for shareholders. The challenge for CPA Australia will be to recognise and approve new operating structures that balance the need for integrity, independence and the public interest with business reality.

Planning for succession

Greg Hayes says small business owners will look to their accountants for succession assistance – but accountants need to get their own plans in order

Succession planning is an issue not just for the future firm, but also for its clients.

Senior partner of the Hayes Knight business advisory consultancy, Greg Hayes, says while most accountants are comfortable in the areas of tax and financial planning advice, their clients are also going to need help with issues such as succession planning.

"The reality is that most small to medium businesses, even if they've been around for 15, 20, 30 years, they've never had to succession their business in the past, they've never been involved in it," he says.

"They actually need somebody who can hold their hand and take them through the process of how to get a business ready for succession, whether it's sale, generational succession or employee buy-out. For many of those clients … who say, 'My business is my superannuation', it's a question of how to make the payout the best possible payout.

"Now, that's an area that a lot of accountants don't do work in, but they're absolutely the best person to be working with the client, to be walking them through it and helping them achieve those results, and then, yes, doing the tax."

Estate planning, valuation work and financial planning will be other areas of strong client demand. It is not just the clients who will be looking at succession planning.

"The baby boomer bubble is rolling through and the next 10 years will see, probably, the most significant demographic change that we've had in the profession in the last 50 to 100 years," Hayes says.

"The surveys we've seen suggest 30 to 40 per cent of firms will experience a retirement, resignation, sale or succession issue of some form or other. So that means that there's a lot of practices that are going to change, and a number that are going to disappear."

The number of practice units will contract by about 2000 over the next five years, from about 9500 to about 7500, much of that through merger activity.

"We'll probably see a very significant movement and shift of clients over that sort of period of time. So the period we're entering now, while a very interesting period, it's also quite a destablising period for the accounting profession as a whole because there is going to be a lot of change coming through."

Hayes says the underlying business model for accountants is also changing.

"The business model for accountants has been incredibly stable. It really was, to some extent, following the bouncing ball. You didn't have to work hard to acquire new business."

Most firms did not have active marketing areas, and so a practitioner would go out, build up a portfolio of clients or buy into a practice.

"For the past 25 or 30 years, you've been just simply able to rely on government. They keep changing the legislation sufficiently in the tax area, that they were the greatest cause of increased business. So between the changes brought on by government and the growth in clients in small business itself over the past 25 years, you didn't have to be all that focused on client acquisition to grow a practice."

It is not expected that such widescale change will occur in the next decade, "but where the difference will be is that the average practice in Australia is going to lose 40 per cent of their client base in the next five years". Hayes explains: "Because 40 per cent have already flagged that they're either going to sell their business, retire their business or transition their business in some form or other."

The next five to 10 years will also see the abolition of individual tax returns, Hayes warns, further reducing business for firms and leading to small tax shops extending their reach to the SME marketplace and competing for clients.

"Firms wanting to maintain their level or grow, they're actually going to have to be out there finding ways to market their practice and to be out there hunting for business. That's something the profession hasn't had to do as much in the past."

Hayes on … strategic planning

"From a strategic point of view, it's quite possible for a practitioner to be in practice five, 10, 15 years and never, to any large extent, contemplate the strategy of the practice at all … Those firms are probably the ones that are at greatest risk because if you're not doing any strategic planning and the landscape changes from underneath you, then all of a sudden you come in one day and something's very, very difficult."

outside assistance. Specialist input from the likes of engineers and occupational health and safety consultants could change the staff composition of a firm or increase the need for outsourcing. Accountants will play a coordinating role with this kind of work.

Sourcing finance

This area of management advisory work will feature prominently in the years to come. The aim of this work is to create a bigger market for each client – such clients will in turn demand more complex tax advice.

This should also produce more profit and cash flow, so the owners are advised to make sound decisions about where and how to harness the higher profit: by developing the business or perhaps creating an investment plan outside of the business.

Practitioners now prepare cash flow forecasts in support of lending applications and to help a client through the application, negotiation and evaluation of debt finance. This makes finance broking a logical extension.

Financial planning

Financial planning is set to become a core offering, as management advisory work is seen as a logical extension to the construction of financial statements.

It is not an easy road to hoe, however. Greg Hayes, at Hayes Knight, warns of low average levels of revenue from financial planning – he argues that legislative changes and the need to continually research and identify 'preferred investments' involves costly research. Size and economies of scale will have to be considered. Specialists working with some firms could be more appropriate for smaller firms.

CPA Australia has no doubt that financial planning will become an increasingly important arm of accounting firms.

Kath Bowler, the financial planning adviser at CPA Australia, says clients are seeking a one-stop shop for their financial advice. "If you tell someone all your financial details it's quite a personal thing, and you want to do that with as few people as possible," she says.

In this environment, smaller firms are likely to have an edge over their larger rivals "because the bigger firms offer something more generic and they are not going to be able to provide that personal advice".

Bowler says the biggest issue will be to ensure a cultural fit between accountants and financial planners. The former have traditionally been client focused, while the latter can be subject to more sales pressure depending on the licensee. "And, therefore, the fit may not be the same," she says.

The BPPC stongly recommends all members consider being PS 146 compliant: training around this qualification is the minimum standard for people providing financial product advice.

Business coaching

Business coaching is another profit centre that the firm of the future should consider, but professional staff need to be exposed to broad business issues. To perform a coaching role effectively, accountants need diagnostic skills to interpret financial statements along with a range of 'soft' skills.

Some accounting firms are affiliated with coaching networks: the firm pays a licence fee to access the diagnostic and coaching tools. However, not all coaches will have the breadth of commercial knowledge, and perhaps not the ethical underpinning, that CPA firms offer.

Advisory services

The firm of the future has a range of other advisory areas where fees could be generated. They include:

- business valuations such as involvement with mergers and acquisitions, due diligence
- succession planning
- business broking opportunities for the ageing baby boomers
- forensic accounting, a reasonably specialised area of work that is in demand
- human resources, recruitment and staff retention. HR personnel are now a key part of accounting firms, but they can also perform a fee-earning role working with clients.

Technology: how to make it pay

Accounting firms of the future will demand a substantial ongoing investment in equipment and software, not to mention 'people ware'.

Technological drivers of change that are expected to have most impact on smaller firms in the near future are the internet, knowledge management, automation of financial data handling and changes in the working environment. It can be argued that drivers such as knowledge management, workplace changes and the integration of data flows into transactions between different organisations are yet to be fully grasped and exploited.

Although software companies are tipped to replace the data processing function that small firms presently handle, accountants will still interpret, rationalise and provide advice about corrective action.

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"The biggest issue will be to ensure a cultural fit between accountants and financial planners"

How technology can save you

Ron Drost says the wonders of technology can help firms deliver more for their clients … and pity help those that don't do it

Using technology to its full capacity will help firms manage their client base effectively and drive more revenue, says Best Practice Solutions director Ron Drost.

"In the accounting profession, we see the extremes," he says. "Some firms have embraced technology and forward-thinking and they're developing the value-added services for their clients but lack a few of the back-end systems.

"Most firms have access to the products to put in front of their clients, but they lack the system to actually monitor it. [They ask] 'Which clients have we spoken to about reviewing their insurance? When did we do that? When are leases coming up for our clients and should we contact them three months before those leases come up?'"

Drost says firms providing service backed by effective technology can help deliver a complete offering for clients, as well as monitor where that offering is at.

"The gap between those that are thinking that way and those that aren't is going to get bigger. The successful firms are thinking about that holistic approach to the clients and saying, 'We're not here to push product down your throat. We're here to make sure you're being looked after'.

"If firms use technology properly it's a very simple process that doesn't involve a lot of overheads. Going forward firms will get more focused on those sorts of things and not so much about having the brochures out the front, but developing a strategy using technology that says, 'Let's manage it. Let's work out who we've touched and who we haven't'."

Growing their client knowledge this way will lead to increased demand for services, according to Drost.

"A lot of firms spend a lot of time trying to get new clients, but it's eight times easier to look after an existing client than find a new one and that's where the opportunities for the switched-on firms are going to come from.

"If you get really efficient at compliance matters then you can actually spend more time doing the things that clients do value, which might be a phone call every three months to just say, 'The partner of the firm has asked me to call you to make sure you're happy with everything'. That's why the real opportunity for accounting firms is to say, 'Let's put our resources into the right areas'."

Under-utilising technology is enormous in the accounting profession, and has a link to staff shortages, Drost says.

"Sit in a room with eight accountants and ask them how they do a set of accounts or a letter for a client and you will get eight different answers, varying from someone doing it in three minutes to someone doing it in 15 minutes.

"So when we talk about this shortage of staff it's actually a vicious cycle a lot of firms are in. They don't have the time to leverage off someone that's doing it in three minutes and say, 'Why don't we get all the accountants doing this core process in three minutes'?"

Drost says firms need to stop being too busy chasing their tail to break this cycle.

"When you get really busy you drop the little things, but sometimes it's the little things that save you a lot of time," he says.

"Staff shortage is absolutely legitimate, but a lot of firms are using that as an excuse not to improve what they're doing."

Drost on … flexible firms

"There are still firms out there that say you must be at your desk at 9 o'clock and you must be at your desk at 5 o'clock and don't come and ask for time off because that impacts on your charge. Some of the more profitable firms, you know, are a lot more flexible."

The financial numbers stack up for having an in-house IT specialist if there are 10 employees or more in a firm. This ensures applications run effectively and operator support is always close at hand. Investment in technology will also reduce the cost of doing low-margin compliance work.

Principa's Ric Payne says accountants must start using technology to make their firms more profitable, not just to better service clients. He cites figures that over a 30-year period – an era of monumental IT advances – the accounting profession has managed to increase its net profit per partner by just one percentage point.

"In other words, all of the value that they have created through the implementation of technology has been passed on to the customer – to the clients. And so as a profession it's going nowhere," Payne says.

There are 'pockets of brilliance' from firms showing how it can be done. These firms have identified the clients they want to serve. They then market to them exclusively, offering high service levels and great technology at a price. Payne says: "They charge premium prices for what they do and they produce premium services for those clients, and they are doing their banking in corn sacks."

Firms that offer a small amount of a wide range of services will be more professionally vulnerable

As clients have similar needs, the firm of the future can also contract out its IT specialist to clients. This improves revenue flow, and bulking up an IT service to internal and external users allows a firm to employ people with a range of expertise. Clients also benefit by keeping IT support costs at a modest level.

One concern is that the understanding of technology applications often rests with too few people, which leads to inefficiencies and an over-reliance on one or two employees. Firms must develop better approaches when implementing and using technology and software. The 'people' component is now the most expensive, but neglected, aspect of a new application.

One approach is to designate an internal specialist for each piece of software. That person can then attend a range of training events, read texts or become involved with user groups, for example. The challenge is to then pass on the practical tips to a wide range of users.

The IT pipeline: riding the wave

Paperless offices represent the future. While it may be impossible at this time to eliminate all paper, it should be the goal for all firms.

More e-communication lies ahead. For example, clients will be able to download documents on demand by accessing firms' servers, providing clients with broader electronic access to information and even their own files. Critics offer a warning, however: the problem for the general practitioner could be the integrity of the information in such a world.

Better technology means more staff can work from home, or data can be transmitted to outsourcing partners either locally or overseas. This enables work to be performed outside regular hours. It also means, though, that remote workers have to be involved in the social fabric of a firm, leading to potential personnel management issues.

Michelle Knights, a principal at Rob Knights & Co, an adviser to accounting and financial planning firms, says there is no doubt that the technology exists for staff to work effectively from home. In so doing it provides an avenue for parents – mostly mothers – to work part-time and still contribute to the firm.

She warns, however, that such technology solutions test the rhetoric of firms that claim to have a culture that supports staff. "Practitioners are very tangible in terms of their understanding of the firm, but they're not really good on non-tangible aspects, such as culture and values," Knights says. "It's a lot of perhaps lip movement for some and not a lot of doing."

Risk: don't take chances

Risk management involves everything from personal health, finances and insurance to record-keeping and other activities within a public practice.

Professional principals need to ask the "What would happen if …" question and consider injury, illness, cost increases, fraud and even death within the firm. The retirement or resignation of a partner, or the absence of a partner for more than two months, exposes a firm to considerable risk.

Greg Hayes, in the *CPA Public Practice Benchmark Survey 2004*, says: "The dependence of firms on one or two key people represents a major risk, and one that is not being addressed. Outsourcing is an option to guard against these risks, but the downside is that practitioners using this route will be less likely to spend time, effort or money on the training of new entrants to our industry, hence causing further shortages in the future."

Sole-principal firms are clearly more exposed to some key risks than a partnership. Similarly, firms that offer a small amount of a wide range of services will be more professionally vulnerable. Larger firms are better placed to implement formal systems that streamline and standardise processing and capture the organisation's knowledge.

The independence of accountants and other professionals will continue to be under the spotlight. In Australia and internationally there is an ongoing and passionate debate on the issue of independence, with particular focus on alliances and networks. The concept of perceived independence is as important as true independence. This is an area in which accounting firm should follow the advice and guidance of their professional standard setters and accounting bodies.

Succession: who will take over?

Succession planning can only occur if and when there are enough people willing to step into the roles occupied by today's partners.

The baby boomer phenomenon raises a number of issues:

- partners or staff may find that they have not accumulated sufficient superannuation or other savings to fund their desired standard of living, and rising life expectancy exacerbates the issue
- if '60 is the new 40', we will be mentally sharp for longer, prompting some baby boomers to continue working beyond the age of 65
- personnel shortages are already pressuring public accounting services to become flexible in their employment firms to accommodate the needs of older workers. This will be the hallmark of smarter firms in the future, and a more valid approach given members of Generations X and Y seek more personal and professional flexibility and seem less willing to buy into a firm.

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Outsourcing? Get used to it

Ric Payne says futuristic firms should look to India, more women and a corporate business model

Some firms may fight the trend, but Ric Payne says the momentum to outsource accounting work to offshore locations such as India is irreversible. In fact, he says, it will only become more prevalent.

"Work going to places such as India is as inevitable as the fact that most people are going to buy a car made in Japan or Korea," says Payne, the CEO of international business consulting firm Principa. "It's just the way it's going to be."

More important, Payne believes, will be how firms go about outsourcing: they should send low-value work to India and redeploy Australian staff members into value-added roles.

"Firms that go to India in order to lower their cost structure will be sadly disappointed because the only way you'll lower cost structure in an accounting practice is to get rid of labour."

For those in the profession who are comfortable "filling out boxes", Payne has bad news. The outsource companies will handle that work and individuals who cannot adjust will have to exit the industry.

"There will be no room for them in a profession that says we need to re-skill you; we need to deploy you at higher value work so that you can command $200 an hour instead of the $100 an hour that we get for doing a tax return."

Payne concedes that the outsourcing trend may threaten older workers who do not want to change, but he has little sympathy.

"It's older people who have got into a rut, and remember the only difference in a rut and a grave is the depth."

Payne is an advocate of law firms moving with the times – that means outsourcing, it means accommodating the needs of working mothers, and it means seeking out better managers.

Firms that neglect to better utilise the talent of women will suffer, and it is only a matter of time before the high number of female accounting graduates translates into senior management in firms.

Payne adds a caveat, however: it will still be up to men to initiate the change. "It will only change, I believe, when the male dominant participants in the profession make it possible for women to … raise a family, continue to work and then come back and assume leadership and management roles with accounting practices.

"Firms that don't do that will suffer significantly because there is a massive amount of talent that's just being wasted."

Technology will be a woman's friend, according to Payne. Already, software programs are being developed that help accountants "whether they're in India or in Ferntree Gully to effectively work from home without necessarily having to go into the office".

All these possible advances will require genuine leadership from managers. "There is a very serious lack of leadership in this profession. Many partners have never had any formal training in management or in leadership," Payne says.

The challenge to lure the cream of university graduates into accounting firms will become harder as high-paying merchant banks wave cheque-books in their faces.

Payne laments: "Accounting is not seen as being a very sexy profession. You have to work very hard, fill in timesheets and so on."

He believes the partnership model is also "failing" and notes that companies such as General Electric or BHP Billiton "are not run by a dozen people" – there is a CEO who reports to a board of directors.

"The firm of the future is going to be based on the corporate model with a CEO and chairman of the board."

Payne suggests a change of mindset is required for firms to become truly progressive, "but if you look at the history of the world there has never been any major change, whether it's nation states or businesses or in industries until such time there's been a paradigm shift".

> **"The firm of the future is going to be based on the corporate model with a CEO and chairman of the board"**

Payne on … employee wages

"Pay them a fair wage, in fact above fair wages. But they don't need $300,000 or $400,000 to start off with. What they do need is (incentive to say) 'I will stay here because there's some big bucks at the end of the day'. That's what's going to get them to stay and that will improve your productivity."

Ron Drost, a director of Best Practice Solutions, a consultant to accounting firms, confirms that succession planning is a "real issue".

"A lot of partners are getting to retirement age and maybe have put all their eggs in one basket with one particular person who then suddenly goes and leaves and suddenly there's no one," he says. "The younger generation are uninterested in being partners. It probably will lead to a more corporate view or approach to accounting firms."

Generations X and Y's need for flexibility and different careers throughout their life will clash with the need for an investment of time, cash and commitment as a principal of a public practice. Consequently, existing partners will work more years in their firm to delay the final resolution of the firm's future.

The value of firms may also decline because of the presence of more sellers and a limited number of buyers. Payments to vendors may even take the form of 'pension' arrangements, rather than lump-sum payouts for goodwill. The problem is that this would turn much of the 'capital' receipt into taxable income and reduce the net amount received by the vendor.

Some principals may have a number of key personnel each holding less than 10 per cent of the equity initially. When it comes time for a senior partner to retire, the investment required from each individual will be smaller.

A concern may be that an average quality firm cannot be sold and, therefore, it simply closes, and existing firms become even less willing to pay for goodwill or a client base, instead preferring to take on some of the 'freed-up' clients.

Finally, consolidation of firms will continue in the future, either through listed companies or through existing firms buying more of the available firms. Financial institutions are unlikely to feature heavily in the ownership of public accounting firms, with commentators arguing such a step would severely compromise the independence of practitioners. In any case, many small firms would simply be too small to appeal to financial institutions. Listed companies, especially, need to acquire substantial business units, which have a noticeable impact on profitability.

IBISWorld chairman Phil Ruthven, a respected business consultant to major corporations, says the move to consolidate started about five years ago, "but we also saw how they did it wrong". Nevertheless, he expects the trend to continue, with the emphasis being on developing a firm that can better service clients. "Consolidation is probably more important in terms of what comes out the other side as a product for customers really," he says.

Selling a firm will not be done lightly or easily. Generally, maximising the value and price of a firm requires some time. The firm's client base must be seen as desirable to a buyer. Its systems and reputation must be of high quality. The personnel must be well trained and known to clients. Firm infrastructure must be operational, current and fit for the purpose, without requiring substantial upgrading.

The knowledge tree

Knowledge management is one of the big emerging application issues. Enterprising practices need a knowledge management strategy that maximises the availability of smarts and skills within a business despite staff turnover. It should help individual learning skills and maintain an efficient process that allows the work to be delegated to the lowest – and therefore cheapest – level possible. A sound knowledge management system can short-cut the learning time for new staff, in particular, and give principals greater confidence in the quality of work being performed within the firm.

Louise White, in the book *A Simple Plan*, suggests firms may be heavily in demand at present but firm brokers suggest that may not be the case in five to 10 years. Principals should take steps in coming years to position for sale. Even if a sale is not on the short term agenda, the firm will then be in good shape operationally and delivering sound profits and cash flow as a result of all the management attention it has received.

B. PEOPLE POWER

Staffing the future firm

Recruiting and retaining staff is the top concern for one in two public practices, and will continue to be a major issue for the foreseeable future. A CPA Australia report, titled *Looking Into The Future*, points to a fall in the number of students opting to do accountancy degrees, indicating that recruits will be thinner on the ground in years to come.

So how should the sector sell the appeal of working in public practice? Firms should give staff what they need and what they want, and tailor jobs to particular generations. According to NGO WorldGroup, progressive firms will implement staff plans that plot out career paths, and the range of motivators and rewards should be customised to suit individual employees. For example, some staff may want financial rewards while others could prefer time off.

Suzanne Baldry, a director of the Baldry Financial Group, an independent financial planning and accounting firm, says as the pool of talent diminishes the task of managing staff becomes increasingly difficult. "There's an inverse relationship because the need to retain and keep your people happy is very important," she says. "If you can't replace them, you can't lose them. So managing conflicts, managing people, sharing the success financially with your team is important."

Baldry says firms must become "good employers". "If you truly don't like dealing with people, then you can be a sole practitioner and you do the referred work, the end work, the tail work. If you want to be at the top of the pops in public practice, the firm of the future and survive profitably, then you bring

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Taking on the financial planners

Phil Ruthven says accounting firms have a chance to reclaim financial planning work lost to the industry

Negative headlines plaguing the financial planning sector provide an opportunity for accountants to claw back some lost business, according to Phil Ruthven, chairman of the IBISWorld business consulting group.

Ruthven says the financial planning sector – which handles the work that once was largely the domain of accountants – is now a $6bn-a-year business. This realisation forces public practice to consider future strategies.

"The question here, I suppose, is in one sense – having lost financial planning to a new industry – are they going to fight to get it back? In other words, do public practitioners at the small-to medium-sized level say 'That's mine'?"

Ruthven admits he does not know the answer, but when pressed to answer what factors may help public practice win back some of that business, he is forthright.

"Well probably, sadly, the patchy reputation the financial planning industry has got is because, try as they may, you are still getting a bad example being highlighted from time to time."

Asked if the public has a higher regard for a public practice accountants than they do for financial planners in general, he says, "the answer is probably overall they do".

Ruthven says the question is often asked as to whether the public practice area is a "spawning ground" for other new industries. "I think the short answer is it has been."

Ruthven notes that much of the consulting work that is now handled by the likes of the Boston Consulting Group and other international and Australian firms used to be in the hands of accountants before World War II.

With the management consulting industry turning over some $1.1bn in business a year and the financial planning sector worth $6bn, Ruthven says "there is at least $7bn you could say [that has been] lost" by the accounting sector.

"Is that a good or bad thing? Well that's almost a silly question, but it is an interesting question to ask in terms of will they lose more or are they going to keep spawning other industries and say that is now identifiably separate."

Despite obvious challenges, Ruthven is upbeat about the future of accounting sector.

"In the early '90s, we had a good look at the accounting profession as distinct from just public practice," he says. "We were fairly bullish about the long-term future of accounting, and I remain bullish today."

Ruthven on … accounting product mixes

"All I'm saying is the product mix is going to keep shifting and it's going to redefine the industry over the next 20, 25 years."

it all together with advice, with great staff and good referral networks. But overall you've got to have fun."

Other possible actions to attract or retain staff will include higher pay rates, bonuses for higher production levels and fee-earners being paid a percentage of their billings. These strategies, however, will only be relevant to highly motivated, financially inclined employees.

Different motivation factors mean firms will have to provide a work environment in which social interests, including community service goals, can be pursued. The firm itself, for example, may create a social club or staff could work with a charity group.

In non-urban areas, strategies to overcome chronic staffing problems could include establishing alliances where staff could experience both country and city work experience, higher pay or creating a 'processing factory' in a capital city. Data could be sent to the city while employees stay in the regions to do the face-to-face work. On the other hand, some regional and rural areas are likely to attract employees who are seeking a better work-life balance, access to affordable housing and a sense of community.

The upward trend of female employment in public accounting firms is significant: put simply, firms must cater better for women. Sixty per cent of students enrolling in university accounting programs are women.

In addition, staff gearing ratios (the number of employees per partner) will continue to rise beyond the present level of about 6:1 to 10:1 or more. Some highly geared firms already have 15 or more employees per partner. This structure will become more prevalent. Increasing the staff-partner ratio carries some additional professional risk: firms in this situation will have to develop strong systems and discipline to minimise this risk.

Generations: the X (and Y) factor

Baby boomer principals of firms are advised to hone their people skills – and quickly. They will need to juggle the needs of their boomer staff and clients, while at the same time dealing effectively with employees from Generations X and Y.

With fewer university students opting for accounting degrees, the supply of staff will become tighter and tighter. In fact, accountants of the future could come from less traditional graduate backgrounds than a Bachelor of Commerce or a Bachelor of Business.

Members of Generation Y tend to relate more to their profession than to an employer, and they like to explore their job options. Firms must satisfy a broad range of employment requirements if they hope to retain young staff. Thought and flexibility will be necessary to manage young employees.

PKF Australia's Peter Knight believes firms have been coming at the issue of recruiting and retaining younger workers from the wrong angle. He is adamant that many young practitioners are happy to stay at a firm and build a career, and says there is too much gnashing of teeth over graduates who want to stay in a firm for only 10 months to two years. "We resist it, we don't go with it. Why don't we adopt it? If this is the way they're going to be, why don't we build our firm to incorporate that!"

Knight says firms should be upfront at job interviews and let candidates know that they will be exposed to intensive experience in targeted areas such as tax, superannuation or investment units. "Just say, look, you might only want to be here for two years but while you're here, how about we get you really good in X, Y or Z." The firm wins, and the employee builds his or her CV.

Ron Drost, of Best Practice Solutions, understands that the issue with Generation Y for many smaller firms "is a lot of them have been burnt. Firms get young people, teach them their way and cross their fingers that they hang around. They put the time and effort in and suddenly – it's the old story. They've lost them and spent the hard yards and written off the time to get them up to speed and they've gone somewhere else for an extra $10,000 or $15,000."

Drost says some firms will just have to abandon their pride and offer younger workers more cash to stay.

Life cycles in a spin

It is not just the young accountant who will need to be won as firms battle a skills crisis. Business development firm FMRC proposes a new approach to the life cycle of accountants through strategies that aid personnel retention and recruitment outcomes. These phases take an accountant from 'meteor' to 'mentor' over the course of their career:

- **age 22-28** (post-university degree; early phase of professional work): develop technical skills and gain exposure to working with staff and clients. Complete initial CPA qualifications (CPA Program and Public Practice Program)
- **age 28-38** (broaden experience within the commercial environment): perform roles working in a corporate or small business environment to gain broad-based commercial and business experience
- **age 38-50 or 55** (prime fee-earning phase): return to public practice in key adviser role with high fee-earning focus. Supervise a number of other technical personnel and mentor them in accounting and business
- **age 55+** (mentor role): reduce the fee-earning component of work, possibly by covering direct 'employment cost'. Revert to a mentoring role for staff and become involved in practice management, work-flow management, 'rain-making' and practice strategy.

While some accountants will be happy and willing to devote their entire career to public practice without interruption, this approach does not suit everyone. The above phases offer substantial scope to deliver a different type of contribution later in the career cycle, without a need to step down from the practice altogether.

A new mindset

Research from two experts on Generation Y – Avril Henry and Mark McCrindle – reveals that Generation Y employees want to see strong and focused leadership within organisations for which they work.

Generation Y recoils from insincerity or a lack of leadership. Leadership is distinct from management, and is inextricably linked to the culture of an organisation. Firms of the future will have to enshrine such attributes into their culture. The pay-offs include a better chance to retain staff, ethical dealings with clients and potentially faster growth.

The firms that have made the biggest advances in recent years have consistent characteristics: they are open to new ways of thinking about service delivery mechanisms, they are willing to change quickly, they are not afraid to make mistakes and they are willing to work hard to implement change.

Part of that change must revolve around the mindset of senior partners towards Generation Y, according to Principa's Ric Payne. He believes successful firms of the future will provide the right services to the right clients at the right price – which, in turn, will attract smart, technically savvy young accountants.

Payne has little time for those who argue that brash Gen Yers should pull in their collective heads. "It's all very well for senior members of the profession to say these people need to change because when I was 30 I did this and so on," he says. "That's just falling on deaf ears. The choice will be you either are able to hire and attract these people or you will go out of business (and) you'll have to find someone to buy your firm."

Small- to medium-sized firms will have to focus on planning and executing strategies and adopting a mix of financial and non-financial indicators to monitor the firm in the future. Firms may also need to start running along 'corporate' lines, driven by the strong leadership of managing partners. They will also require a professional HR focus and a sympathetic ear for issues around work-life balance.

Firms can certainly survive without these cultural traits, but successful firms tend to have them and are strong role models for firms of the future.

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"Generation Y employees want to see strong and focused leadership"

Get on the wealth bus

Paul Clitheroe predicts a bright future for accountants – if financial literacy improves and the tax system is simplified

Consumers are becoming wealthier and more financially literate – and that, according to Consumer and Financial Literacy Task force chair Paul Clitheroe – is going to change the playing field for accountants.

"Accountants, financial advisers, financial literacy enthusiasts actually don't drive consumers," he says. "We tend to follow where consumers are going. It's just amazing that 100 years ago the word retirement didn't exist. It wasn't in the *Oxford Dictionary*. You worked and you died. In 25 years the word retirement won't exist either.

"We baby boomers don't like that [word] and few of us are going to retire. We're going to dabble and do part-time projects."

Clitheroe says the phrase 'financial literacy' is now in the vernacular and the level of consumer knowledge is rising. "We have money skills rolling out to every Australian child aged eight years old at the start of 2008 and with the agreement of every state and territory, it's now part of every curriculum.

"Our first big longitudinal survey, which was the most significant survey ever done of 7500 people, looked at attitudes to money, barriers to money, barriers to entry in the financial system and so on. In five years' time we'll find Australia has improved."

This is good news for the future of accounting, Clitheroe says, because a wealth creation process is happening and this will continue.

"If you look at the average wealth of the average Australian household over the last couple of years it's extraordinary how much wealth is increasing and that is going to need to be looked after. The accountant is going to be in a much better place in 10 years' time."

The bad news is if people have a third better understanding of money in five years' time, but the system is twice as complex, it will be a losing battle, Clitheroe warns.

"Australians are better with money today than they were 10 years ago, it's just the system's incredibly complex. So one side is raising the bar of knowledge, the other is lowering the bar of complexity."

A 'big step' in lowering complexity has occurred in superannuation, Clitheroe says.

"Basically with the new superannuation system, you can stick money in. None of these aged-based limits any more. So for most Australians, you stick your money in, get a tax deduction, you take it out when you're 60, tax free. That helps financial literacy enormously. I can teach that."

He says the next big fix is the tax system. "I need this for the financial literacy push to really succeed. The idea is to improve people's knowledge but at least make the system no more complex.

"Maybe it can't just be as simple as do away with all deductions and just make it 30 per cent flat tax.

"A lot of working Australians are paying 40 plus per cent tax and pretty much anyone who's got either investment capital or funds coming from different sources pay 30 per cent tax … It actually isn't Australian.

"And it doesn't make sense that people like myself who have multiple jobs can therefore legitimately run company structures to make huge superannuation contributions. It makes no sense that I can legitimately pay less than 30 per cent tax totally legally. And yet some of my staff pay 46. How can that be Australian?"

Clitheroe says his hope is that reforming the tax system will free up accountants to become advisers, rather than bookkeepers. He predicts that in a decade accountants will become advice givers, making the industry more enticing to young people.

"A couple of CPAs who race [a yacht] with me run suburban firms, and they say, 'Look, we can't get staff. If we do get staff, they're doing mum-and-dad work, 150-buck tax returns, that sort of stuff'.

"If they do get a bright young staff member, after a few years the bright young staff member says, 'There's got to be more to life than this'. They want to add value to people's lives."

Clitheroe says he cannot see how accountants can change unless the tax system changes to become simpler, but he is confident it will.

"It's just amazing that 100 years ago the word retirement didn't exist ... In 25 years the word won't exist either"

Clitheroe on … Generations X and Y

"You're going to have this world where advice and mentoring are going to be really important. Not all accountants can do that. I know what I'd be doing if I was starting up an accounting firm: I'd be really focusing in on looking at my demographics."

HR: we're just big softies

Principals of the future will take the lead from path-finding firms today that have developed HR policies and other so-called 'soft' credentials.

There is a paradox emerging that, as the accounting profession becomes more competitive, it is becoming kinder to its employees. Staff are also more willing to display emotion and more demanding of services such as therapy or counselling. As a result, HR skills will be in demand in the future.

HR staff may also have the potential to be on-sold to clients and will be another source of fees for the firm. British research outlines some other kinds of soft skills that will be needed for principals in the future:

- communication to convert financial analysis into well-received client recommendations
- decision-making to ensure best results for the firm and clients
- negotiating skills
- risk management.

The need for such skills places an emphasis on training. The NFO WorldGroup report, Research With New Tax Agents, says four key areas will require training programs:

- analytical and problem-solving skills, including converting accounting jargon to laypersons' language and learning how to get the right information from clients during the tax preparation phase to ensure maximum services can be offered
- ethical matters
- effective marketing skills
- firm management extending to recruitment, maintaining, reviewing and mentoring staff supported by a range of training tools to improve practitioners' skills.

Training: the more the better

Accountants will have to maintain and develop their technical and 'soft' skills to meet the challenges of the future firm. In keeping with the demands of the business community, we are witnessing an international trend – supported by Melbourne University's recent changes to degree structures – towards the development of more general degree programs that form part of the foundations of education for future professionals.

Such changes recognise that employers and clients want to work with professionals who have great communication and analytical skills that will be complemented by conversion courses for technical areas of specialisation such as accounting.

Professionalism: upping the ante

Professional development requirements have been made more stringent over the past 20 years and this trend will continue. A world of increasingly complex legislation with a better-educated client base means accountants will need to continually up-skill themselves. Technology will make this easier. CD or web-based products and downloadable videos and video conferencing will become more prevalent. This style of delivery will help remote operations provide necessary training upgrades without incurring too high a cost. As accountants move in and out of public practice, future firms will have to be adept at recognising where skills are lacking and what refresher courses should be offered.

'Accountants will have to maintain and develop their technical and 'soft' skills to meet the challenges of the future firm'

C. THE CLIENT

Demanding nothing but the best

This report has so far tackled issues concerning the future firm and the supply side. It is time to turn the focus to clients and their demands.

It appears certain that the requirement for accountancy work will be strong over the next decade and beyond. The consensus among experts is that customer demands for tax and compliance work – at the very least – is not about to dry up.

How can we be so sure? For example, the Australian Taxation Office wants to relieve pensioners who are 60 and above of having to file tax returns. Baby boomers will, in theory, love this development but many are deeply committed to investment properties and shares, so those financial transactions and income flows will still need to be accounted for. As a result, they will be dragged back into the tax net.

Even making tax returns simpler for most employees will have a minimal impact on firms of the future. On the other hand, it is unlikely that governments of any ilk will remove capital gains tax, so many taxpayers will still need to calculate those liabilities.

Even more relevant is the conclusion that the lodgement of statements about a company – basic financial information plus a statement of solvency – is not likely to change. And demand for higher standards in the financial planning area is likely to increase regulation in the future.

A new level of statutory disclosure may emerge for solvency statements for any business venture but especially trusts. The proliferation of trading entities operating through unit trusts or discretionary trusts will maintain work flow for accountants.

And given Generation Y's desire for higher standards of accountability – that might surprise bosses and parents – the trend to further regulation is likely to gain momentum in coming years.

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All things to all people

Suzanne Baldry says public practices that become innovative, enthusiastic, advice-givers are on their way to success

Firms will move beyond the humble tax return to become multi-disciplined advisors, according to Suzanne Baldry, managing director of the Baldry Financial Group.

She says firms in public practice will need to offer a range of advice services, including some sort of FSR or financial planning solution. That means either referring clients out, getting specialists in or becoming licensed themselves. Firms may also specialise in areas such as business growth.

"It's got to move more to advice rather than just recording events," Baldry says. "And the legislation is making that advice arena very complex to move around in. [For] a public practice, being able to have their public practice certificate, their CPA membership and give some broad-based advice is going to be very tricky.

"The firm of the future will have more legislative hurdles than we do today, and we consider what we already have as being onerous, but if you're innovative and enthusiastic and a go-getter, you will deal with those. You either embrace the change, up-skill, become licensed in the relevant areas, or to me you'll be taken over."

Accountants traditionally have concerns about the quality of referring outside, according to Baldry, but through networking and developing very close referral relationships with people they trust, they can ensure their clients see them as valuable problem-solvers.

Baldry notes there will, however, still be many practitioners who will be very happy "just doing their income tax returns and bookkeeping".

"And you know what? That's fine. But in 10 or 15 years, for those individuals who want to be highly profitable and successful, they need to develop an advice offering that gives their clients financial solutions."

Another change in firm structure in the next 10 to 15 years will be the demise of the partnership model, Baldry predicts.

"In a loose form it will still be here because you always have people at different levels. So whatever you choose to call them, it doesn't matter. It's not necessary for all senior people to be shareholders but it is necessary for you to give them options to be so.

"Para-professionals are also a way to groom people who might want to move through to the top ranks. People who have been assisting on professional teams say, 'Right, I'm going to go back to uni and I'm going to up-skill, I'm going to move through and get my CPA qualification' or whatever the case may be.

"So para-professionals have an important role. And they also enhance your profitability. They will increase as we try to offer a wider range of services and use the partners' time as efficiently as we can."

Overall, though, Baldry cautions that too much change may not necessarily be a good thing.

"We're all selling something and as a professional I still sell my time and my expertise to clients. But we don't want to change too much because being able to say you're a CPA invokes a whole range of things and one of those things is that we're ethical. We don't have to be the life of the party. It's trying to bring those more sexier characteristics while still retaining our base attractiveness from a confidence and trustworthy perspective."

Baldry on … workplace flexibility

"Flexible work firms are needed for gender issues, age issues. We could sell public practice as the way to be your own boss, the way to work your own hours, the way to control your destiny, the way not to be retrenched because you are the business owner."

Customers: they mean business

Clients are becoming increasingly sophisticated and forward-looking and have higher expectations.

Business owners want advisers who can cover accounting, tax, finance and business issues. They want value-for-money services, value-added services and accountants with business nous. The client of the future will have a sharper understanding of finances and be more demanding of quality service at value-for-money rates.

This opens the way for accountants to become the de facto CFOs of small businesses. Positioning the accounting sector to provide specialised financial advice to SMEs will strengthen the relationship between the two parties and deliver better business outcomes for both sides. Accountants should be more proactive in pursuing this role to ensure they are 'partners' with business rather than mere 'onlookers'.

PKF Australia's Peter Knight says: "At the end of the day it's all about the client, and if the client is getting good service they'll stay … if they think the guy on the other side of the desk understands their situation and has the skills to either answer the question, or put them in contact with somebody who can answer their question."

Best Practice Solutions' Ron Drost agrees that the benchmark for firms in coming years will be whether their focus is on clients. "In the [successful] future firm you can talk to any of their clients and they would say, 'I feel comfortable about my tax position, tax-effective investments or my retirement, my business structure'," he says. "They would sit there and say, 'I feel really comfortable about all of those things and that they're being done the best possible way they could'." In short, clients want to feel safe and secure.

Some clients will also demand extensive amounts of support from a commercial adviser, opening the way for the further growth of business coaches. However, there will still be a segment of individual and business clients with comparatively low levels of financial skills.

The issue then is not the fee per se, but the benefit accountants deliver to the client. Customers will be very comfortable communicating electronically, especially as Generations X and Y fill more and more positions as business owners. Telecommunications companies expect substantially higher volumes of 'data' traffic than 'voice' traffic. Some of this data flow will be between clients and their accountant.

Canadian studies indicate the possible make-up of future clients: public companies will focus on assurance and require high-level specialists, CFOs and financial experts; medium-sized public and private companies are seeking decision-makers with solid training in finance and accounting; small businesses require highly skilled generalists in accounting and finance; and individuals want tax and financial advice.

Above all, perhaps, clients will seek out advisors who they trust. On this score, accountants have some PR work to do, according to Paul Clitheroe, a leading media financial commentator and chairman of the Financial Literacy Foundation. In an FLF survey asking people who they most trusted for financial advice, mothers and fathers topped the list.

Clitheroe says: "Now, mum and dad may have no skills whatsoever, (but) accountants and financial planners are so far down on any piece of research. If you and I were to go out in the street now and grab 20 ordinary people off the street and say, 'Who do you trust with your money?' you're not going to hear accountants or financial planners or bank managers very often."

The implication is clear: that has to change.

Gender: homing in on women

The higher percentage of female to total graduates means women are taking up more and more decision-making roles both in business and accounting firms.

The growing number of female business owners in the SME sector will also change the nature of the accountant-client role.

An enterprising lot

The client of the future will continue to fall within the broad categories of:

- large corporations (listed or unlisted businesses) or government bodies
- not-for-profit bodies with a community-service focus
- mid-sized commercial enterprises with the capacity to employ sophisticated internal accounting personnel
- growth-oriented smaller businesses aiming to become a mid-sized or larger business over time
- lifestyle and self-employment businesses whose main aim is to generate a living for owners through providing reasonably localised services. These businesses may have up to 10 staff in total, but 'growth' is not a key strategy
- private individuals, either working or retired.

Women now account for a third of all small business operators in NSW, according to that state's Department of State and Regional Development, and numbers are also rising in other states.

Many of them run home-based operations, so accountants must gain a greater understanding of micro-businesses and how to support them. A Rural Industries Research and Development Corporation report confirms the trend: "Home-based businesses are the fastest-growing part of the small business sector – and while two-thirds of these are run by men, the number of women-run home-based businesses grew by 17 per cent between late 1999 and mid-2001 compared with 13 per cent for those run by men."

It is logical to assume that a proportion of female SME owners will prefer to work with female accountants. This factor and the very real skills crisis facing many industries across Australia should lead to a change of mindset about women accountants in the workforce.

With females representing well over 50 per cent of accounting graduates, an emphasis on flexible working arrangements to better cater for women will separate the progressive firms from the rest. As a profession we need to support this change and recognise that embracing female-friendly work firms can lead to positive outcomes for a business.

In addition, the changing racial composition of Australia's population and the export focus of the nation's businesses will change the client base of future accounting firms, placing an increasing emphasis on language skills other than English within firms. Language-focused recruitment policies and special training for staff will be preferred options for many firms.

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"Accountants should be more proactive ... to ensure they are 'partners' with business rather than mere 'onlookers'"

On the outside looking in

Andrew Geddes says fewer clients but deeper relationships and higher fees will be the hallmarks of a successful future firm

The firm of the future will act as an "external CFO" for its clients to form deeper relationships and reap the benefits, according to the chairman of FMRC Business Development, Andrew Geddes.

He says the trend is occurring already, and it means firms may have fewer clients but provide a wider range of services – some of which may be subcontracted in, such as production IT or marketing – to the clients with whom they work.

"The firms we're working with have fewer clients and they have a deeper relationship with them and a higher average fee," he says.

"You move into proactive tax planning and planning for money to be available. Then you move into giving wealth advice."

Geddes says any accountant who is not PS146-accredited (the award program for financial service employees who provide general or personal advice to retail clients) "is mad".

"We've got to be able to speak with our clients about the money made in the business after we've planned for tax.

"So you sit down with your client and you go, 'how's your business going, what are we doing for tax, what are we doing for wealth, what are we doing for risk', and you project manage the client into the hands of specialist advisers. If they're located in your firm it's even better.

"After a while the client will have a relationship not only with you but with those other specialists as well. So the client becomes bonded to the firm and its brand name, rather than an individual, which helps in the firm's succession."

Geddes says SMEs, in particular, are very time poor, and are looking for a preferred adviser they can trust in this way, and who can assist them across a spectrum of need areas.

"It's almost as if a set of accounts and a tax return is now a by-product, it drops out of that."

Sole practitioners will continue to survive in the future, Geddes says, but he advises them to do PS146 as well, and form a strategic alliance with other specialist advisers.

Another trend to improving client service is that firms are installing "much better" client databases to run their firm management, he says.

"Traditional accounting compliance work is being done more quickly than it used to be because the software is much better," Geddes says.

Technology is also allowing paperless systems that provide complete views of all client matters.

"I've got firms that are totally paperless who have knowledge management systems and they are going to become very powerful advisers and they will attract the better clients who are prepared to pay for good advice."

More value-adds for clients that Geddes has witnessed include firm websites with an educational component where clients can buy books, videos and DVDs for training and motivation purposes, and boardrooms with a catering capability that can be used not only by the firm and its clients to run events.

"So I'm seeing firms position themselves very differently from compliance accounting of tax to a preferred adviser that can help you with your business, your tax, your wealth, your risk, your estate and succession, perhaps your IT, perhaps your elder care."

Geddes says the profession needs to sell this vision to young people about being a preferred adviser and helping clients right across the spectrum of their needs.

"Change from marketing yourself as an accountant to marketing yourself as a business adviser or a wealth adviser or a life adviser," he says.

"The final risk is a competitive one. If we don't become preferred employers and seen as such, if we don't embrace what IT can deliver in terms of knowledge management and giving people more interesting work, if we don't go and learn and be a broader based adviser, the banks or your health insurance fund or the corporates will do it and we will be seen as irrelevant if we're just doing a tax return and a set of accounts.

"The major risk could be the fact that we're locked in doing that now and we're not saying, 'I should have less clients, charge more. I should spend time learning to embrace technology'."

"Change from marketing yourself as an accountant ... to a business adviser"

Geddes on … accountants' own retirement

"All practitioners should take their own advice and go to a good financial planner and develop a wealth creation plan, particularly using the attractiveness of superannuation these days. So create wealth outside of the firm and don't rely on the sale of it for your retirement because you might have to keep working."

D. MONEY MATTERS

What will drive profitability?

Profit margins will continue to be the focus of public practice accounting firms. That is no surprise.

Hayes Knight's Greg Hayes says, however, that a squeeze on finances will result in a strong focus on cost-cutting to maintain profits because of three elementary factors: relatively low hourly charge rates, principals expecting a high level of personal fee-generation; and 73 per cent of firms not looking to expand their service range.

Hayes says this siege mentality will lead to below-optimal resourcing of firms. At the same time, principals are unlikely to dramatically raise hourly rates for fear of losing clients. In this respect, firms share much in common with small business owners generally, who have a tendency to under-price services.

A 20-year review of financial performance in firms reveals little fundamental change in personnel productivity. The CPI-adjusted level of revenue generated per person in public accounting firms has increased only slightly since 1985, and not at all since 1995. This performance flies in the face of productivity enhancements claimed or achieved elsewhere in the economy. Any higher profits per principal were the result of higher levels of staff per partner.

The outlook for productivity is troubling. Staff shortages will constrain growth and, in an age when work-life balance is vital, staff working hours are not likely to jump. One offset could be governments extending the retirement age towards 70. And more incentives will be implemented through the taxation system to encourage workers to remain employed for longer.

However, the increasing use of 'systems' and standardised processes should help the speed, consistency and quality of accounting work in future. It is also likely to have a secondary effect on the supply of labour by changing the skill requirements needed, and therefore widening the pool of potential people capable of using an automated system in an accounting firm.

Yet the need for effective training will take staff away from their day-to-day work, while the trend of non-chargeable research is unlikely to change. A common message from commentators is that most firms fail to distinguish between non-chargeable time that is wasted and non-chargeable time that is invested back into the future of the firm.

Cash flow: funding the firm

Cash flow is, and will remain, a high priority for practitioners. Research shows that despite an increased range of payment methods – from cheque to credit card to direct deposit or BPAY – it takes on average 62 days for debtor accounts to be paid. At the same time, the level of WIP – work that is complete but not yet billed – remains high.

Outsourcing: you ain't seen nothing yet

The debate over outsourcing is far from over, according to Hayes Knight consultant Greg Hayes.

"Outsourcing models are starting to present themselves," he says. "[But] it's at least another five years before those models are established, prudent and viable. None of the suppliers have a perfect model at this stage."

Hayes has no doubt that outsourcing "will be a part of the solution" for CPA firms looking to streamline their business. "Whether it's outsourcing to overseas or whether it's outsourcing in a domestic market is another question."

With domestic outsourcing, using para-professionals is an option, as is using the resource capability of another firm or a specialist business that has the scale that allows them to deliver.

"At the present time the whole argument about outsourcing is 'we can deliver it cheaper'. And if the pressure on staffing gets worse, as you'd expect it to do, the issue may not simply be 'We can deliver it cheaper'. The issue may be 'We can deliver it'. It may be that the reluctance some firms have today for outsourcing work on the basis that it could be going to India or China or Malaysia or wherever, may be less so if they said, 'Well we're outsourcing it to Sydney or Melbourne or Brisbane or wherever'. Because the reality is that accounting firms today outsource work all the time."

Clients are unlikely to alter their approach to the payment of fees without a significant change of emphasis from public accounting firms. Alternative methods of fee-setting are seen as an option for the future: for example, an agreed fixed sum for an certain level of work and service is likely to become more prevalent.

A fixed fee is commonly linked to a monthly payment system, which has a secondary benefit of smoothing out the cash flow for firm and client. The secret to this type of work is to accurately forecast the total time required – and it clearly comes with the pitfall of possible miscalculations.

Smart firms will arrange engagement letters with pre-signed bank authorities in which the client consents for the firm to seek payment direct from a bank once agreed milestones are completed. Pay by the month arrangements could also be adopted with more clients, even without a fixed-fee arrangement.

For example, a client may agree to pay $X per month by direct deposit, with that payment expected to cover 80 to 90 per cent of the likely final fee. The balance could be billed in the normal way, after recognising the pre-paid instalments. Importantly, accountants will need to drive any change in their commercial arrangements with clients.

Another key area will be capital investment in a firm. In the early 1980s, computer costs were a significant drain on firm resources because of the capital cost of the equipment. IT

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The internet: a friend, not a foe

Peter Knight argues it's about time accounting firms became serious about the internet

Clients are leaving their accountants for dead when it comes to utilising the internet, according to Peter Knight, general manager of the PKF Australia consulting firm.

"The profession is very slow coming to terms with the internet and what that means for clients' interaction," he says. "Some firms are into it, most firms are not."

Knight says while accounting firms debate the role of the internet, clients are using it to improve their businesses.

"Our clients check their bank balances every day on the net," he says. "They check their supply-chain management systems on the internet so that if you're producing or making mattresses, you can see how many Harvey Norman has sold of your mattresses."

Most firms fear letting staff access the net "because they think they're wasting time and looking at things they shouldn't be looking at".

The reality, he says, is that firms are wasting their own time if they neglect technology. Consider the following scenario. A client rings up, but the accountant is busy. A string of messages is left over the next 24 hours and – finally – you realise that all the client wanted was a copy of a financial statement. That then has to be retrieved from a library and couriered to the client.

Knight says: "And there's another hour that we've mucked around, that we're not going to bill for … Why don't we stick them on the website and they can download their own … We're idiots if we don't."

The message is clear: it is time that accountants started using technology cleverly to make their business more efficient and profitable.

Knight also argues that firms need to start other substantial shifts – to their marketing and the way they bill.

On the marketing front, he suggests a shift from the old model whereby an accounting firm had financial planning as a sideline business. Why not have a financial planning firm that promotes its ability to also do tax returns?

One of Knight's colleagues has done just that. He explains: "So rather than the accountants promoting financial services, this fellow was actually promoting the financial services, and one of the services that he did was tax."

Suddenly the financial services business – a highly profitable practice – is driving the firm's marketing while tax "comes out the end as a bit of a by-product, which it probably is".

With billing, Knight is adamant that technology will force a change to the traditional time-based model. With IT tools allowing accountants to do jobs faster and faster, there is a logical argument that fees should also come down. "But who's going to advocate that, so it means the cost model has to go – or the time-based model comes unstuck in a scenario like that."

Firms that continue to focus on hours billed run the risk of losing out on the recruitment front, according to Knight, who notes that firms around the country are grappling with skills shortages.

"You kind of wonder why (candidates) would choose to go to your firm, and if all you're going to talk about is your productivity rate and your hours billed … they will then choose something that's got a different focus or a broader focus."

Knight on … accounting product options

"For 20 years we've been hearing that clients want more than just accounting from their accountant. Why don't we give them more than that? We know that they've wanted it for 20 years (and) we still don't do it."

costs are here to stay: more screens per person, integrated and higher-specification printers and photocopiers, more computer-based applications requiring not only software licences but hardware upgrades, more demand on memory and storage to hold larger and more complex computerised applications. These factors will drive up costs.

The rise of electronic communication with clients, and a wider adoption of integrated e-commerce applications, will maintain pressure on investments in technology. And the rapid rate of technological obsolescence, even if equipment is rented rather than purchased, means this issue is unlikely to go away.

On ownership of buildings, the present practice of making it happen through an investment trust or partnership – a separate legal entity from the firm – is expected to continue.

Baby boomer principals looking for high payout ratios will demand a high and rapid distribution of cash from the firm, which will put pressure on the firm to generate high cash flow and profits. Considerable tensions will emerge over this issue if individual partners take differing perspectives. Giving in to these demands will transfer the pressure to managing partners or firm managers, who have to maintain healthy cash flows for good business health.

Write-downs could help some firms because they represent one means of achieving a 'price rise' without actually increasing advertised rates. On average, write-downs in the order of 9 per cent are widespread in public accounting. Firms may respond to a tightening labour market by being firmer on the fee charged to a client. If this rate of write-down can be halved, it would deliver a substantial level of additional revenue, which partners could share with staff for mutual benefit.

Overall, however, existing firm models are likely to continue for many accountants, with some tinkering at the margins. Future profit increases should be a direct result of increases in the staff per partner ratio, and this will be caused by a combination of ageing of the present partner base within the profession and the unwillingness by younger practitioners to commit to buying a share of a firm. This raises partners' professional risk and funding demands of future firms.

Personnel: crunching the numbers

The real pressure on the present commercial model will come from a lack of personnel. Possible responses include:

• outsourcing, especially to countries such as India. Outsourcing could also be achieved domestically, perhaps by linking with mobile bookkeeping services whose staff travel to client firms to process transactions and provide status reports

• increasing the hourly rates or other fees charged by accountants. This may reduce the demand for accounting services somewhat by forcing clients to take a do-it-yourself approach to some of the less-challenging accounting tasks. Higher hourly charge rates could raise the supply of labour by enabling firms to pay higher wages within the traditional 3 to 3.5 times salary multiple. While better remuneration methods should feature in the future in more firms to attract and retain people in public practice, offers of equity will only enthuse a small number of personnel

• widening the range of graduates trained to CPA status

• meeting clients' transactional needs and providing more commercial exposure for staff by embedding them within client-firms. The firm would charge a cost plus fee structure, in the same way as engineering firms charge for long-term contract personnel. This structure would keep a firm linked very closely to a client-firm, and enable principals to play mentoring roles with the embedded staff

• adopting a more incentive-based pay structure to directly link an employee's remuneration to the amount of work they perform. In effect, this turns employees into sub-contractors. Each employee regulates their own level of work and is paid accordingly. This approach enables a senior, qualified person to become a quasi-partner, capable of earning significant income in return for a substantial time commitment to the firm

• implementing a 'factory model' for the transactional based services of an accounting firm (for example, low-end tax returns and other legal compliance requirements). The focus would be on automation, streamlined processes and efficiency of output.

Count on an alternative

Barry Lambert and Jeremy Wardell say public practices have the opportunity to extend service offerings

Australia's largest independently-owned network of financial planning accountants and advisers, Count, works as a consolidator, so public practices can become Count advisers, and the parent firm provides resources to those firms so they can "run bigger and better businesses", says Count's executive chairman Barry Lambert.

"We are not aiming to just have massive businesses out there trying to produce another PricewaterhouseCoopers or whatever, because if accounting firms have to be big to be successful then we would have a lot more big firms around," he explains.

"The reality is we have got a lot of little firms around so maybe big is not necessarily better."

"Certainly the big issue that we are addressing upfront is the business ownership issue, because they say that the younger people don't want to be indebted to buy an accounting firm. Under our arrangements they don't have to put any principal capital in … they will earn equity over time in our incentive system that is based on performance, so over time they will end up like a partner … they will run one business but the ownership will be a collective business.

"It just means that in the future the businesses will have the best people running them and not someone who happens to have ready access to finance."

Under the Count model, the accounting firm still has to run the business. "In other words it's not for tired old guys who want to retire, because we don't run the business. We don't know anything about accounting businesses."

Count prefers to buy businesses that are big enough to run themselves, so sole practitioners are not sought after.

"So where the sole practitioners come along is what you might say is the second stage of the acquisition process – where we have established businesses out there and a sole practitioner down the road wants to retire, but can't find anyone to buy his firm, then they will be absorbed by the existing business. The industry refers to that as tuck-ins," Lambert says. When franchisees finally leave the business, they do so with equity.

Count on … financial planning

Wardell: "Accountants have probably the greatest trust relationship with their clients of any professional group in a society, particularly in the financial area … they potentially have a moral obligation to provide their clients with other financial services advice and in particular financial planning."

KEY MESSAGES

The BPPC sees the following top 10 challenges and opportunities as paramount for the future of members and the profession

1. Strong growth opportunities for CPA firms

Challenges for members:
- CPA firms must ensure they are structured to embrace the demands associated with growth
- The long-term growth forecast provides stability for employees and a great career path for new graduates.

Challenges for the profession:
- CPA Australia needs to take a leadership role in identifying new growth areas and areas of specialisation
- The demand for staff necessitates expanding the available employee pool through alternative entry pathways to attract non-graduates and graduates from non-traditional areas.

2. Practitioners must embrace succession planning

Challenges for members:
- Succession planning is an essential component of your risk management strategy
- It provides you with the opportunity to respond quickly to unexpected opportunities
- It ensures you can develop a plan to maximise the value of a firm.

Challenges for the profession:
- It forms part of the foundations for risk management – in the public interest.

3. Firm structures will change

Challenges for members:
- Changing firms structures: mergers, consolidations and acquisitions will continue and result in a decrease in the number of firms in the next decade
- Members need to be up to date on alternative operating structures
- Different models for partner or employee equity will emerge.

Challenges for the profession:
- Ensuring by-laws are relevant and allow members to embrace new opportunities while maintaining the integrity of the CPA designation
- Advocacy on behalf of the profession to ensure alternative operating structures are acceptable to regulators and licence issues
- Educating members on the implementation of alternative firm structures.

4. Sole practitioners must have a comprehensive referral network and outsource support services

Challenges for members:
- Ensuring they have appropriate and independent referral services
- Maximising the benefits of outsourcing and minimising associated costs
- Providing a broad range of services for a broad range of clients.

Challenges for the profession:
- Helping members establish referral or firm networks
- Providing solutions, advice or guidance on the outsourcing of support services such as IT, HR, and websites
- Ensuring appropriate transparency and independence in networked firms.

5. Service and product mixes will continue to evolve

Challenges for members:
- Firms will be not be able to rely on high percentages of recurring work
- Embracing new areas of personal services to support the ageing population
- Ensuring they have the appropriate levels of knowledge, training and appropriate risk management strategies
- Accounting firms that continue to meet the demand for these new services areas will attract the best staff and graduates.

Challenges for the profession:
- Taking a leadership role and supporting members to 'own' new areas of specialisation
- Development of appropriate CPD programs to prepare members to embrace these new areas of firm or specialisation
- Development of tools and resources to maximise knowledge transfer.

6. Compliance and regulation will increase

Challenges for members:
- Staying up to date on legislative and regulatory changes
- Understanding and being prepared for the demands of a more financially literate public
- Maintaining independence and transparency.

Challenges for the profession:
- Minimising the impact of new compliance programs or regulations on members
- Continuing to be seen as acting in the public interest while providing leadership and advocacy on behalf of members
- Ensuring the timely and concise communication of the impact of changes
- Developing tools, resources and guidance statements
- Embracing the need to deliver on demand CPD activities to educate members.

7. Recruiting and retaining staff will become more challenging

Challenges for members:
- Understanding what motivates graduates and ensuring they properly structure their work environments, working hours, operating structures and incentive arrangements
- Developing alternative staffing models such as the greater use of para-professionals
- Understanding what will make them an employer of choice
- Embracing the needs of an ageing workforce.

Challenges for the profession:
- Showcasing best-practice firms that provide a flexible work environment, staff mentoring programs and innovative incentive schemes
- Development of graduate programs for practitioners and work placement schemes
- Supporting members in the training of para-professionals and support staff.

8. Increasing your focus on soft skills development is essential

Challenges for members:
- Understanding the ongoing importance of soft skill development
- Introducing staff mentoring programs
- Supporting staff in communications and presentation skills training.

Challenges for the profession:
- Acknowledging the increasing focus of regulators on the importance of soft skill development
- Developing clear and concise business plans, and establishing mentoring and coaching programs.

9. Technology will play a vital role

Challenges for members:
- Understanding the value-added features of software and how they can maximise profitability and delight customers
- Embracing the benefits that flexible operating systems can provide to clients and staff (virtual office and portal systems)
- Committing appropriate levels of expenditure to maintenance of systems
- Introducing a less paper office with the aim of moving to a paperless office.

Challenges for the profession:
- CPA Australia should improve member support in the areas of IT via training and solutions partnerships
- CPA Australasia needs to develop solutions partners and education programs to help members embrace technology.

10. Professional integrity and independence will continue to be under the spotlight

Challenges for members:
- Being seen to and being perceived to act with integrity and independence
- Acting within the 'spirit' of the Code of Ethics for Professionals when there may be conflicting requirements.

Challenges for the profession:
- Ensuring ethics education forms part of all learning outcomes for the relevant education and CPD activities
- Encouraging ongoing debate and discussion to ensure the public interest remains paramount.

CONCLUSION

This report presents a snapshot of the opportunities and challenges that CPA Australia and the BPPC believe will occupy the minds of accountants in the future. Considering these issues now and developing strategies to smooth the pathway to the future will ensure that the profession is well prepared to manage critical internal business issues in the years to come. It will also ensure that the complex and changing needs of clients are addressed.

There is no doubt that accountants face some significant challenges. For example, workforce constraints will have a significant impact on the delivery of services in the future.

Outsourcing requires generating the cash flow to pay for those services, but there will be savings offsets because less capital will be required. Computer equipment savings, for instance, will occur because the supplier will pay for such items. As a result, the number and type of people employed in a firm may change. Higher-level, advisory personnel capable of justifying higher hourly charge rates will be must-hires.

A key message from commentators is that business managers will have to be flexible and forward-looking as they seek solutions. To that end, the BPPC encourages accountants to use this report as a starting point for discussion.

Key issues emerge in this report for accounting firms to consider: growth opportunities; succession planning; the changing structure of firms; the impact of compliance and regulation on the sector; the future role of sole practitioners and how they will remain relevant; recruitment; technology; and ethics. The list goes on.

The firm of the future will attempt to be innovative and meet these challenges in pursuit of stronger profits and liquidity. This will allow progressive firms to share some of those benefits with staff and permit investment in vital and competition-enhancing computer-based applications, as well as staff training.

Stronger profits and liquidity will make these firms more valuable, irrespective of who owns them or who wants to buy them. Accountants have always been and will remain an integral part of their clients' business success, but the best firms of the future will be greater contributors to their clients' success.

At all stages, CPA Australia and the BPPC will be seeking feedback from members as they grapple with the issues of today and tomorrow. We will use such feedback to constantly redefine how we service and regulate members.

This report is designed to be used as a working tool – not one that sits on a shelf and gathers dust. An exciting future awaits the profession.

There will be challenges, but accountants and their clients will win the day.

‘The future is not some place we are going, but one we are creating. The paths to it are not found but made, and the activity of making them changes both the maker and the destination’

John Schaar
Scholar and political theorist