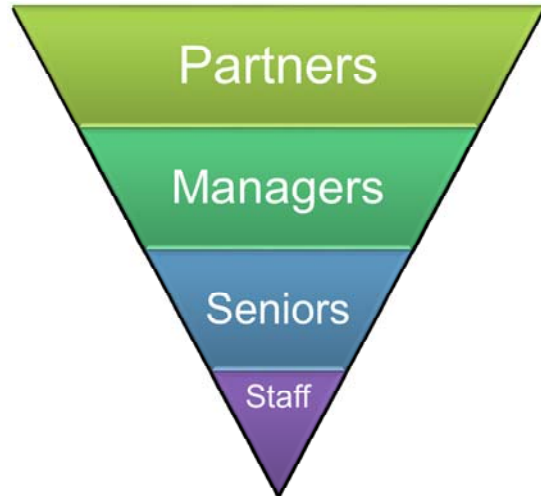


The Inverted Pyramid – Does This Look Like Your Firm?

Chances are it does. This article will give you some ideas on how to deal with it.

By Gary Adamson, CPA



There is no question that the most profitable firms (defined as high per partner income) in our profession have figured out that leverage and a well managed pyramid is one of the key ingredients. Why is it then that so many firms, and I would suggest the majority, are struggling with just the opposite – an upside down or inverted pyramid where there are lots of partners and managers but few staff.

We didn't get here overnight and I would suggest that few of us planned to be here. We wound up with our top heavy firms due to a number of factors. Here are some of the primary culprits:

- Generational issues including the Baby Boomer Bubble, Xers, Millenials, etc.
- Lack of a people plan with effective, consistent recruiting and staff development processes in our firms. We don't have a process to see enough new faces and we let people hang around too long.
- Promoting non-partner-track people or sometimes marginal folks to higher positions because "we're preserving staff continuity" and "it's best for the client" when perhaps it is just the path of least resistance and/or we have no one else.
- Partner compensation plans that focus on chargeable time. Partners stay busy first. Managers are doing staff work and no one has incentive to push the work down.
- "It's just easier to do it myself and besides I'm a lot more efficient at it".

If any of this sounds like you, here are some of the outcomes that are not desirable but pretty common. You have too few if any younger staff. You have a tough time keeping the ones you do have busy. Really talented staff, your "all stars", leave because they don't see any opportunity to advance in the firm. Managers and staff do the same work on the same clients year after year after

year. You have a relatively expensive workforce and you have a difficult time getting paid at their billing rate for work that they have outgrown. Partners are full with compliance work and are not cultivating the high value consulting work. And, worst of all, you don't have the talent at the right levels to succeed you as a partner in the firm.

Ouch! So, what do we do? First of all we need some time to work out of it. We didn't get here overnight and we won't fix it overnight either. Unfortunately, some firms are out of time and that is the reason the profession is seeing so much M&A activity. Hopefully that's not you and you can start to make changes now, to work on the pyramid.

My advice is to begin the journey by prioritizing and tackling the following list in your firm:

- If you don't have a staff recruiting and development plan for the firm, create one now. It should include the commitments that we are always hiring whether we need people or not, we have expectations for performance at each level in the firm and we expect our people to grow and advance. The national firms have done this so well for years. They see lots of new faces every year, they manage the turnover and the cream rises to the top.
- Tell your people the truth. You have managers who are never going to be a partner. Tell them. More than likely, they already know it.
- As important, if not more so, make sure that the rest of the team knows it too. We have staff looking up at the layer(s) of people above them thinking "there is no way that I can ever make it through or around all of them". We can tell our "all stars" that they are special and that we will promote them, until we're blue in the face. But talk is cheap and if they can't see the path, they will leave.
- Treat them differently; pay them differently. If you have all stars in your firm please don't get sucked into making everyone look the same at a particular level. They are not.
- Make the tough decisions sooner. We tend to hang onto people hoping they will change or grow into what we are looking for. They rarely do and we fill up the firm with them.
- Decide how many spots we are willing to have in the firm at each staff level for "career" people. A career person is someone who is stuck in that spot and not moving up. A word of caution – this needs to be a small percentage of the staff and as we discussed above they need to be identified. Don't clog up your ladder with career people and watch the all stars leave!
I know you're thinking that this is just the old up or out policy. Not exactly, but I am suggesting a model that is a lot closer to up or out than where most firms have been. The difference is that you do make room for some career people. Take a look again at the inverted pyramid at the beginning of this article. We need to change our approach.

- Every once in awhile initiate a push down of work at each level in your firm. I promise that you have partners doing manager level work, managers doing senior work and so on. People cling to the familiar and comfortable. So, shake it up and ask everyone to push down 100 or 200 hours. You'll free up your high level people who are capable of creating new work, get more of the work done at the right level and give the younger staff some challenging work.
- If you have a partner compensation model that is heavily weighted toward billable time, change it.
- Promote a work environment that embraces non – traditional staff and partners. Technology and remote connectivity have created opportunities to find great people to help the pyramid but there is a hesitation to run with it because it's different. Get over it and innovate.
- Last but not least, grow! It will be very difficult to turn the pyramid without a solid growth strategy for the firm. We will not see the "easy" growth that we had in the prior decade for some time to come. So, we have to work harder to get it. Dynamic growing people want to be a part of a dynamic growing firm.

Gary Adamson is the President of Adamson Advisory, specializing in practice management consulting for CPA firms. He is an Indiana University graduate and has extensive hands on experience as the recent managing partner of a top 200 CPA firm. He can be reached at (765) 488.0691 or gadamson@adamsonadvisory.com. For more about Adamson Advisory, visit www.adamsonadvisory.com or follow the company at www.adamsonadvisory.com/blog