

SOLID ROCK CPAs

STRATEGIC PLAN

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Date: September, 2009

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I. Executive Summary

Solid Rock is a midsize accounting firm in Indiana. The firm's main focus is providing assurance services for middle-market companies. Solid Rock has three office locations in Indiana: Indianapolis, Fort Wayne, and Evansville. The firm is made up of 50 employees. Solid Rock has found itself in a very difficult situation due to the current economic state. Revenue has decreased significantly, clients have decreased their payments for services, and the firm has decreased its number of employees because it cannot afford to pay all its wages. Solid Rock CPAs is now making an effort to reestablish itself as the strongest midsize accounting firm in the Indiana area. The two general goals have been established for Solid Rock CPAs to sustain its current financial position through the current economic state in hopes that the firm will become more profitable with a future rise of the economy, as well as separate Solid Rock from competing midsize firms to boost the firm's market share in assurance services for middle-market companies. To reach these goals, we are suggesting actions for Solid Rock in the areas of recruiting, employee morale, client relations, and additional efficiencies. Solid Rock intends to become the strongest midsize accounting firm in Indiana by increasing selectivity of recruits without reducing numbers, by creating a comfortable working environment to improve employee morale, and maintaining strong existing clients while developing an identity that will compete for future market share. The following strategic plan will describe these actions

The following is an outline of the actions we have set for Solid Rock CPAs to manage the economic state and separate itself from other midsize accounting firms. The actions are separated into four sections: Recruiting, Employee Morale, Client Relations, and Additional Efficiencies.

Recruiting

- Continue to hire interns
- Bring potential interns to the office to “Meet the Firm”
- Encourage employees to become a CPA
 - Give employees bonuses to pass the CPA exam early
 - Reimburse employees for CPA study materials

Employee Morale

- Reducing the work week to four days during the non-tax season (May-December)
- Offering flexible hours to employees during the summer months
- Promote employee camaraderie by increasing fun office activities

Client Relations

- Examine the financial records of new clients to ensure their ability to pay for services
- Allow different customers to have various ranges of services
- Keep loyal and paying clients
 - Ask loyal clients for referrals

Additional Efficiencies

- Begin to focus on company paid training for employees
- Use a Computer-Based training program
- Increase job specificatio

II. Actions and Implementation

A. Recruiting

1) Actions

In order to get the best talent and hardest working employees Solid Rock CPAs needs to increase its college recruiting efforts. The company needs to increase selectivity without decreasing the number of applicants interviewing. Recently the firm had a round of layoffs due to the current economic environment. It is still possible to recruit at the college level with the five percent reduction in staff. College interns could be an efficient way to lower cost. An intern can do as much work as a staff auditor and their familiarity with the firm would make the transition from intern to full-time staff very smooth. To make students aware of Solid Rock CPAs the firm needs to advertise heavily on college campuses. The company should also have a very strong website with recruiting information and a place to upload a resume. Once students are aware that Solid Rock is looking for interns the firm should host office events. These events should be casual and should show the culture of the firm to increase interest among students.

Solid Rock CPAs believe in the 150 hour education requirement. Education is important and further learning is highly valued by the firm. The state we operate in requires 150 hours to take the CPA exam, and we think Solid Rocks should take steps to strengthen the legislation in Indiana.

One way to motivate employees to study and take the CPA exam is to give bonuses for passing it. Currently the company does not provide any incentive to have the CPA designation. If Solid Rock encouraged its employees to take the CPA exam it would increase its reputation in the market. To do this the company could team up with a CPA review program like Becker CPA

Review. Another option is to offer bonuses and promotions for passing the CPA exam. A bonus could be rewarded to an employee if they pass the exam on their first attempt. Another program our team recommends putting into place is offering reimbursement for studying and passing the exam. I believe if our firm paid for it outright there would be little incentive for the employee to pass on their first attempt. Therefore, if they will only be reimbursed for passing it they will study harder and pass. A promotion should also not be possible without the distinction. This would encourage employees to study hard and pass the exam in order to move up in the firm. In public accounting having the CPA designation is a priority and most employees seem to know that. Our employees realize this is a very marketable distinction to have and should not be discouraged by current economic trends.

2) Implementation

I suggest Solid Rock CPA begin actively recruiting at college campuses immediately. Good students are beginning to look for internships in the Spring, and the only way Solid Rock will be able to compete for the good students is if it starts actively recruiting now. I recommend making employees of the firm feel obligated to get in touch with one student through a University in Indiana and bring him or her to visit the office. The company website should be updated so that it encourages students to apply for an internship. Essential in the recruiting process will be letting students know about the new system that will financially reward students for passing the CPA exam early.

B. Employee Morale

1) Actions

Solid Rock is facing many internal challenges due to the struggling economy especially with keeping employee moral high enough to provide a stimulating workplace. The financial struggles of Solid Rock have created an extremely stressed work environment resulting in low employee morale. Solid Rock has been reducing compensation and benefits of employees in order to keep as much of their staff as possible. However, the firm may still need to resort to further layoffs of employees. Employees of Solid Rock are aware of these issues which results in even lower employee morale.

Improving employee morale is a must for Solid Rock. Solid Rock needs good morale to retain their employees and attract the best and brightest recruits. Clients will also respond more positively to satisfied employees that are thoroughly enjoying their job. Improving employee morale is an extremely important step to developing a more successful firm.

Financially, Solid Rock must change certain practices in order to have the ability to hire and retain employees. To solve the issue of poor employee morale Solid Rock must change some of their current business practices, as well as add new practices that will boost morale. Reducing compensation and benefits will only drive employees to seek employment elsewhere, and it will also hurt recruiting efforts. Future lay-offs may also not be necessary if the proper changes can be implemented. Reducing the work week, changing work arrangements, and finding cheaper activities to replace expensive firm outings will all increase employee morale and save Solid Rock money.

Reducing the work week to four days during the non-tax season (May-December) will save on non CPA wages as well as office overhead. Rex Facer, a professor of public finances,

stated “a shorter working week boosts morale and productivity and at the same time cuts overtime, absenteeism, staff turnover and utility bills.” Giving employees an extra day off will reduce stress and give them more time to take care of their personal lives. A shorter work week will also increase office efficiency; with less time to work, there is less time to waste.

Changing the working hour structure is an effective way to have lower employment and boost morale. Offering flex hours to employees during the summer months will give employees better options that fit their personal needs. When other CPA firms were asked why they had implemented programs like this they cited employee retention, morale, productivity and recruiting as areas that had benefitted from the change. (AICPA, 2004)

Increasing the number of office activities will promote better office relations and also improve employee morale. Solid Rock needs to implement a bi-weekly activity for the office promoting some friendly inter office competitions such as basketball games or softball games, and have an event including all three offices once or twice a year. Inner office activities will not cost nearly as much as a firm outing, but the firm still improves office relations and employee morale.

2) Implementation

Reduction of the work week will begin May 1, 2010 during the non busy season and will continue for four months to August 31, 2010. Clients will be provided with this information in January 2010. Throughout the period employees will be asked to provide feedback and suggestions for future improvements. Financials will also be closely monitored for actual savings to be calculated. Following the six month period, the feedback and financial information will be presented to the managing group to discuss permanent implementation of the program.

The flex hour program will start June 1, 2010, and will last for three months. The flex hours will allow employees to make their own schedule given certain board approved parameters. Employees will not be permitted to come in whenever they please, but will be granted more freedom with their work schedules. The flex hour program will be monitored much like the four day work week program and will also be presented to the managing group for permanent implementation if successful.

Office activities will be immediately implemented with activities starting as soon as possible. Inter office activities will be coordinated by a team of employees consisting of a staff, senior, and supervisor level member. The team will organize activities for three months, and then a new team will be formed to allow everyone in the office a chance to plan events. Improving employee relations will directly influence office effectiveness and client relations.

Annual summer staffing adjustments will be more complicated in 2010 because of the new programs being implemented, but should improve employee relations. The new programs will improve employee relations by providing them with more personal freedom without sacrificing any more compensations or benefits provided to employees. Solid Rock will be joining countless other firms and states that have improved morale by shortening the work week

and allowing flexible work hours. The new programs will also save money that will allow Solid Rock to retain and hire top notch employees.

C. Client Relations

1) Actions

Solid Rock needs to strive to achieve three main objectives: to amass an increasingly reliable clientele that is more financially sound, offer more affordable service plans with numerous types of services to its clients, and work to gain a loyal client base. The current economic crisis in the United States is changing the way that businesses handle assets and search to increase revenue. While businesses are struggling to hold onto the little revenue that is brought in, the Solid Rock CPA firm has seen a dramatic decrease in the amount of fees it has been able to collect from its clients. With the decrease in revenues to the firm, gross profits have fallen just as substantially. The lack of collectable funds has changed the very structure that the firm has held from its beginning. Without the appropriate funds, the firm has explored delaying its traditional promotional process, has cut forms of compensation and benefits to its employees, and has even explored the idea of laying off employees to reduce payroll. Clearly, the issue of not being able to collect client fees has hindered the way that Solid Rock operates. With this in mind, the firm can take several steps to gain a more reliable client base while continuing certain services to other clients that are having trouble with the current economy.

Solid Rock's client base has grown increasingly unreliable. The obvious benefit of increasing the reliability of the firm's clients is that Solid Rock will see more predictable revenue schedules and be able to generate higher profit levels. Being a CPA firm, the process would be relatively easy to identify businesses that would be risky or reliable clients with a thorough examination of the financial records prior to committing service. However, the firm would incur more salary and wage expenses due to the need to review basic financial statements and determine the financial stability of the potential clients. Not only will reviewing the statements

increase expenses, but it will also require resources, time, and personnel that would have gone towards another job that may directly be responsible for generating revenue.

Although having a client base that can always make payments in full and on time would be ideal to any business, Solid Rock has been having issues collecting its fees from the clients the firm handles. In a 2009 Institute of Management and Administration study of CPA firm clientele, it was found that approximately one-fourth of all clients think their firm's billing fees are excessive. Allowing different customers to have various ranges of service will not only give the firm a chance to restructure into a more profitable business, but it would also help the clients to select plans that will meet their specific needs and help the firm more easily direct its resources to revenue generating operations. Despite the prospective benefits for the goal of offering specific services to different clients, Solid Rock will need to take some time to restructure and use resources to train the employees to handle specific jobs. Further suggestions for training can be found in a later section of the strategic plan.

Solid Rock is also in need of holding onto the loyal clients who have sought service for many years and have made their payments throughout those years. The longer that a client is a customer of the firm, the more likely they will stay with the firm and continue to be loyal to Solid Rock's services. A client should be considered a loyal client of the firm if the client has sought service from Solid Rock, and paid its bills for 5 years. Loyal clients would be more likely to try to make the payments on time and could also make referrals to other businesses that interact with them. The Institute of Management and Administration conducted a 2009 study stating that businesses would "definitely provide a referral if asked to do so by their CPA firm(s)." Despite this huge potential to get the firm's name out and search for prospective clients, 77.6% of the client respondents had never been asked to supply a referral by the servicing CPA firm (Miller, 2009).

2) Implementation

Setting the goals sounds great, but it is implementing the firm's objectives that is both difficult and costly. Solid Rock needs to take advantage of its multiple office structure and organize its processes so that the firm can more easily provide the appropriate degree of service to its clients. The office in Evansville can house a department comprised of non-certified public accountants and lower level staffing. Separating these employees and having specific standardized jobs that are performed at this office will increase efficiency. The employees at the Evansville office can then work specifically with documents that do not require a CPA to handle them, such as compiling financial statements.

The Sarbanes-Oxley Act of 2002 requires that a CPA evaluate and assist in the designing of internal controls of businesses. The law also states that public businesses are required to have CPA's look over its financial information and perform an audit or review. The government is seeking to apply the Sarbanes-Oxley Act to all types of businesses alike, but this action is being protested by smaller business owners who don't think that the benefit of the legal document outweighs the cost it will require businesses to pay to obtain compliance. Regardless of the resistance, the Sarbanes-Oxley Act is currently not as strictly enforced on private companies as it is on public companies. Smaller to mid-sized private companies simply avoid confusion and comply with the full set of requirements when in fact the companies do not need to. Allowing companies to select only the services that are needed to comply with the Sarbanes-Oxley Act will help to cut service fees and allow the firm to utilize the non-CPA's to bring down wage expenses.

With more clients cutting the more expensive auditing services and asking for a cheaper review of its financial statements, the firm is not able to make up for the lost revenue. While it is important to Solid Rock to keep the clients happy, the firm needs a way to account for the

revenue it is no longer making on the audit reporting. One way this can be accomplished is to offer more services to the clients. A study performed in 2008, by Moss Adams LLP, a Seattle-based CPA firm, shows that after the new millennium, 50% of all accounting firms in the United States have added financial planning and advisory to its available services. The survey also showed that revenue derived from financial planning and advisory services grew by 30% in just two years, from 2004-2006. The factors given by the survey that lead firms to adding these services were: the respond to a client demand, competition from other CPA firms, and the search to increase revenue (Hilzenrath, 2008). Numerous CPA firms also offer services such as tax preparation, financial analysis, and consultation. Separate accounting departments can handle each service and standardize the service to attain efficiency and increase revenue even more.

D. Additional Efficiencies

1) Actions

An initial goal for Solid Rock is to become the strongest midsize firm in the greater Indiana area. The most important quality of a strong firm is its customer base. Mid size firms face serious competition to gain new clients. In order to acquire new clients, a firm must find a way to work more efficiently and heighten quality of work. To improve efficiency and produce higher quality work, I am suggesting Solid Rock CPAs begin to focus on company paid training of employees.

Although true, the saying, “You can only learn through experience” is becoming cliché. What if there was a way to more quickly deliver the experience to employees? Employees would more quickly perform at a higher level and work more efficiently. Educating employees in the specific skills they will need to perform tasks, as well teaching the employees how to please the clients would certainly improve Solid Rock’s reputation.

The words, “company training” often brings to mind an image of a bunch of unrelated employees, all sitting in a conference room together, and everyone listening to someone talk about a topic they do not care about. The form of training I have in mind is much different. The form of training I have in mind is known as computer-based training. Computer-based training is a stronger training method than classroom style training for several reasons. Employees are allowed to work at their own pace, and review subjects and ideas when necessary. The second positive of computer-based training is knowledge retention. A study conducted by Scott Lawson comparing computer-based training programs and classroom-based training programs revealed that employees in a computer-based training program scored 1.53 percent higher on a final test of the course material than employees in a classroom-based training program (Lawson, 1999). 1.53 percent is rather low; however, it is important to understand the costs associated with each

training style. Lawson's study also shows that if 100 employees participate in an 80 minute training program, the company would save \$1,350 with each program if the program was computer-based as opposed to classroom-based (Lawson, 1999).

The largest problem with company paid training is the cost. The cost of a computer-based training program and a classroom-based training program were just compared. It is important to realize that just because a computer-based training program is more cost efficient than a classroom-based training program does not mean the computer-based system is cost efficient in its very nature. The firm would need to pay for the software program, but more importantly, the benefit of the training program would need to cover the lost work time of its employees. The firm could make up the cost of lost work time in two ways. As previously mentioned, one goal of training is to improve client satisfaction. If training employees could improve the satisfaction of customers, the firm would be more likely to acquire new clients. The other benefit of training is more efficient work. For example, in a study by Jack Phillips, allowing employees to participate in a time management workshop could save up to 74 minutes a day (Phillips, 1996).

Another problem with spending money on company paid training is that accountants often only work at a firm for several years. It is too expensive to train employees, but then a year later they walk out the door to a new job. An article by Kenneth Bredemeier speaks on this particular issue. He suggests that any employee leaving the firm within 12 months of the company paid training should be held financially liable for the company paid training (Bredemeier, 2004). I find Bredemeier's approach very sufficient for two reasons: company paid training costs would all be used to benefit the company, and strong employees would feel a financial obligation to stay at the firm.

I find training to be a crucial part of increasing employee knowledge and effectiveness more quickly in Solid Rock. This alone, however, will not sufficiently boost the efficiencies of

the firm. Along with employee training, the managing group needs to consider the standardization of every job within the firm. Proper documentation can be taken to assure that each job is done correctly without error. Standardization will allow each employee to know his or her part in the organization of the firm and help the individual save time and work more efficiently. Additionally, the utilization of lower level staffing will allow the CPA's and management to concentrate on the more important and revenue generating activities.

Understanding what documents that a CPA needs to review or complete is essential to assigning the correct people jobs. Using less expensive labor to perform some of the firm's services can effectively be used when analyzing the contribution margin of each client to develop plans to increase the overall profit from each client.

2) Implementation

I am assuming that placing an emphasis on employee training will be a new concept for Solid Rock CPAs. Should Solid Rock CPAs move forward with our recommendation to implement a computer-based training program, the company would need to purchase a software program or hire a designer to design the software program. Both options would be more cost efficient than hiring a team of employees to staff a training department.

In regards to the standardization of jobs, Solid Rock must more effectively organize the firm. Splitting the firm up into department to handle specific jobs will allow each individual in each department to have a better understanding of how to get the job done quicker and more effectively. Using the Evansville office as a non-CPA building will not only help to specify the documentation going to each office, but it will also allow the firm to attract recruits from near-by states such as Illinois and Kentucky who do not have their CPA licenses.

Within each department, the managing group should supply a specific documentation to guide the employees through the tasks at hand. Analyzing each job and the specific requirements that are expected of the employees will make it easier for the employees to work effectively.

III. Conclusion

One of Solid Rock CPA's goals is to sustain a solid financial position through the tough economic state in hopes that a later increase in the economy will create a greater increase in profit for the firm. Solid Rock CPAs has also established a goal to become the strongest auditing firm of midmarket companies in the Indiana area. The firm will continue to compete for market share of these clients. With the proceeding goals in mind, I am suggesting Solid Rock implement the actions and procedures outlined and described throughout the strategic plan. The plan has defined actions to increase the firm's efficiencies specifically in the areas of employee recruitment, employee morale, relationships with clients, and training programs for current employees. A tightened economy makes operations difficult for almost all markets of business. Accounting firms are no exception. Solid Rock is certainly in a difficult economic situation; however, my suggested actions should help the firm handle the current economic state. Solid Rock CPAs should look at the economic state as an opportunity to improve its operations and continue to strive to become the strongest midsize CPA firm in Indiana.

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