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Employee benefits of multi-owner accounting firms: groundwork for benchmarking

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Abstract

Purpose – The purpose of this research paper is to provide practitioners and researchers with guidance and ideas for benchmarking employee benefits in companies providing professional services. The research addressed employee benefits in multi-owner accounting firms.

Design/methodology/approach – Data from a survey of a large number of multi-owner accounting firms (CPA firms) were analyzed to examine professional employee benefits and to look at the relationship between firm size and benefits offered.

Findings – An analysis of survey results suggested that larger firms offer better benefits than smaller firms. Larger firms tend also to be more profitable. Various employee benefit metrics were examined.

Research limitations/implications – The survey was limited to accounting firms in the United States, so the findings may have limited value for researchers and practitioners in other countries.

Practical implications – The better benefits offered by larger accounting firms may allow them to attract better personnel, possibly accounting for their greater profitability. If this is indeed true, then a good benefit package may well be a key success factor for accounting firms, and possibly for other professional services. Firms seeking to improve their competitive position may, therefore, find it advantageous to benchmark their professional employee benefits against the benefit packages of larger more profitable competitors.

Originality/value – This paper examines professional employee benefits in multi-owner accounting firms and identifies metrics that could be useful to practitioners in benchmarking those benefits. The metrics identified and other findings may provide practitioners with ideas for benchmarking benefits in other professional service organizations.

Keywords Benchmarking, Human resource management, Accounting, Benefits, Professional services

Paper type Research paper

Introduction

Human resources (people) are arguably a critical resource in organizations. Even with the great advances in automation and IT, human resources remain critical to the success of organizations, both public and private. This is particularly true in many types of service operations where the work remains highly labor intensive in spite of advances in technology. Efficient and effective management of human resources has the potential to profoundly influence present and future organizational success, particularly for labor-intensive services like those performed by a Certified Public Accountant. A critical aspect of human resource management today is compensation; furthermore, employee benefits are an integral part of the total compensation package.

Among the forces increasing the importance of benefits are the following: the rising cost and increased complexity of healthcare (including prescription drug costs) and related insurance coverage; increased skepticism about the future availability

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of government managed retirement benefits such as social security and cuts in government assistance programs; an ever increasing cost of living that increases post retirement financial needs; and growing concern about pension fund failures or reduction in pension fund payouts.

Employee benefits provide considerable financial security to employees and their families. Benefits are also costly to the employer. According to a 1998 study by the United States Chamber of Commerce, the average cost of employee benefits provided by private employers equaled one-third of payroll[1]. Attractive employee benefit packages, especially those that allow employees choices and greater control (flexibility) over their benefit package, allow firms to recruit and retain the highly competent people required to manage and perform the processes critical to service system success.

The broadest definition of employee benefits includes both legally required and discretionary benefits. In the US, legally required benefits include social security, workers' compensation and unemployment insurance. Discretionary benefits include protection programs (e.g. life insurance, disability insurance, retirement plans, health insurance and dental insurance), paid time-off, and accommodation and enhancement benefits (e.g. educational programs)[2].

Employers have limited flexibility in the design of legally required benefits that are mandated at either the state or federal level. However, the proper selection and design of voluntary group benefits as part of a total compensation package, is crucial to a strategy of attracting and retaining the best, most highly qualified employees (Salisbury, 1998, p. 7). The purpose of this paper is to examine discretionary benefits of a service intensive industry, specifically benefits provided by multi-owner accounting firms. The results of this research might be used to benchmark current benefits packages of multi-owner accounting firms, and potentially other professional service industries, against reported averages.

Literature review

Employee benefits represent a significant component of the total compensation of employees. Because of its importance, an employee benefits plan should be carefully selected. A functional approach to employee benefit plan design was first discussed by Foust (1967). Continuing on the Foust's work, Hallman (2001) clearly developed procedures and techniques for the application of the functional approach to individual benefit plans. Among the procedures developed by Hallman (2001, p. 20) is the analysis of "the benefits presently available under the plan in terms of the functional categories of needs or objectives . . . ". The firm's employee benefits objectives provide a starting point for the decision-making process. Beam (2000, p. 446) suggests "Objectives of benefit plans can be general and part of a firm's overall compensation objective in order to achieve a compensation package that is competitive with the firm's geographic area or industry. Such an 'average' objective usually means that the firm wants both its wages and salaries and its fringe benefits to be similar to what the competition is offering its employees". Mahoney (2001, p. 876) suggests "to judge the competitive position of a total compensation program, employers often seek to compare their benefits programs to similar employers". He also states that this is often a difficult task and may require a survey of the industry as a starting point (2001, pp. 876-7). Mahoney highlights the need for a company to compare its benefit package to those of other firms. Benchmarking is a widely used and generally accepted business practice for just such comparisons (Yasin, 2002).

David T. Kearns, the CEO of Zerox, defined benchmarking as "the continuous process of measuring products, services and practices against the toughest competitors or those companies recognized as industry leaders" (Camp, 1989, p. 10). Camp offers an operational definition of benchmarking. He defines benchmarking as "the search for industry best practices that lead to superior performance" (1989, p. 12). Codling (1996, p. 8) defined benchmarking as "an ongoing process of measuring and improving products, services and practices against the best that can be identified worldwide". The American Productivity and Quality Center defines benchmarking as "the process of identifying, understanding, and adapting outstanding practices and processes from organizations anywhere in the world to help your organization improve its performance" (O'Dell, 1994, p. 1). Last, Michael Spendolini defines benchmarking as "A continuous, systematic process for evaluating the products, services and work processes of organizations that are recognized as representing best practices for the purposes of organizational improvement" (1992, p. 9). From these definitions we can glean the following:

(1) The benchmarking process is continuous. Best practice does not remain constant – it changes over time as does an organization's own performance. Consequently, benchmarks must be revised to reflect internal changes and the changing competitive landscape.

(2) Performance must be measured. In order for a firm to compare its performance in key areas to the performance of internal or external entities chosen because of their superiority in those key areas, performance must be measured. Quantitative measures are preferred, but qualitative measures might be used where appropriate – all that is important cannot easily be quantified.

(3) Many things can and should be benchmarked. Simply put, many things influence organizational performance. Products, services, resources, processes and practices can be benchmarked. Any one or all of these and more, can contribute to an organization's success or failure.

(4) Companies should compare themselves to best practice wherever it can be found. Industry leaders, competitors, other organizational units within an organization, government agencies, non-profit organizations or any other entity believed to demonstrate best practice can be used in establishing benchmarks. Those striving to become world-class competitors should define best practice from a global perspective – who is the best in the world? Firms that face more localized competition should benchmark themselves accordingly (i.e. competition for resources and customers may be more local in nature and benchmarking should take that into consideration).

(5) The objective of the benchmarking process is to improve organizational performance – to make a firm more competitive. Realistically, success is a relative thing; therefore, an organization should probably tailor its benchmarking effort to its own broad improvement goal, whether it is lofty (to be the best in the world) or more modest (to be the best in a more narrowly defined area – perhaps a small market segment or a specific region).

(6) Benchmarking is about learning. It is about learning how to do better, the things that matter most in organizational success. The learning process is never ending, for internal and external change invariably brings about the need for additional learning.

There are in essence three types of benchmarking: internal, external and best practice. Internal benchmarking involves establishing best practice within a company. Another function or division within a company that performs some process or activity particularly well, or provides a product or service of high quality, might be used in establishing benchmarks. Codling (1996) describes this as "nursery" benchmarking and suggests that it can be a starting point for a firm's benchmarking program. Internal benchmarking can facilitate organizational learning (Hyland and Beckett, 2002), which can promote greater internal efficiency or effectiveness. While arguably beneficial, this may not significantly improve a firm's competitive position. Codling (1996) suggests that, although internal benchmarking may be a good way for a firm to start its benchmarking program, it is not the way to become world-class.

External benchmarking examines best practice in other organizations, be they direct competitors or organizations in similar or unrelated industries. External benchmarking can be conducted among partners in different industries but under common ownership (companies comprising large multinationals are good examples), among partners in different industry sectors but sharing similar processes, and among competitors (Codling, 1996). The advantage of process benchmarking is clear in this approach – diverse companies often utilize the same or similar processes, not just manufacturing processes. Purchasing, hiring, manufacturing, employee training and development, product development as well as other processes often have great commonality, even when undertaken in very different organizations. The acquisition of resources necessitates that firms compete as buyers rather than sellers – competitors are the other buyers of said resources which would seem to make external benchmarking most appropriate.

The third approach to benchmarking is best practice benchmarking (Codling, 1996), or generic benchmarking (Camp, 1989; Carpinetti and de Melo, 2002). It is probably best viewed as an extension of external benchmarking that focuses on benchmarking against best practice. It involves identifying the undisputed best, regardless of industry, in the process or processes believed critical to business success. Codling (1996) suggests that the challenge of this approach is not just finding the best, but rather defining what "best" means in terms of critical processes being examined. Best practice benchmarking holds the greatest promise for bringing about dramatic improvements in performance, major breakthroughs, and ultimately helping a company be "the best it can be".

Best practice benchmarking and external benchmarking (perhaps internal benchmarking to a lesser extent) require firms to isolate common metrics in like functions and use those metrics to compare themselves to other firms that have established themselves as the best in that specific business function (Spendolini, 1992). Codling (1996) advises that more than hard processes are involved in benchmarking and notes that the combination of similar processes with different management and employee attitudes might be the determinant of best practice. Codling's advice portends a significant challenge for those who would benchmark; precisely measuring intangibles such as attitudes presents a significant challenge, but it may be a necessary part of a successful benchmarking program.

While benchmarking human resource management practices and processes has gained acceptance in recent years (Rodwell *et al.*, 2000), measures of the effectiveness of HRM practices such as compensation have historically been organizational level indicants of performance (Browne, 2000). Employee benefits are an important aspect of HRM. Managers must attract and retain competent people and this is particularly true of professional services such as accounting. Competence can be defined as "a knowledge, skill, ability, or characteristic associated with high performance on the job, such as problem solving, analytical thinking, or leadership" (Mirabile, 1997, p. 74). Public accounting firms must have competent people to compete and a good benefits package can help a firm attract and keep competent personnel. To date, little research has focused on benefits data that might be used for comparison purposes. In the context of a larger study of public accounting firms, Flaherty *et al.* (1998) provided limited data on Arkansas public accounting firms versus the national average. However, data related to the top 25 percent most profitable firms was not included.

In this study we investigate the following research questions.

RQ1. Do the more profitable accounting firms provide a better health and income protection benefit package?

RQ2. Do the more profitable accounting firms provide a more generous sick leave benefit package?

RQ3. Do the more profitable accounting firms provide better resources for professional growth and enhancement?

The authors suspect that more profitable firms are able to attract and retain more productive employees by offering a better benefit package. If not, the implications for professional firms would be to reduce the level of benefits offered.

Data collection

In 2001, the Texas Society of Certified Public Accountants conducted a national survey of management of accounting practices. Multi-owner and sole practitioner firms were queried on a variety of topics including types of services provided to clients and, most relevant to this paper, human resource practices. In order to generalize the findings to a broader audience we have elected to present only the multi-owner results.

The results presented are from the most recent fiscal year for each firm with a total of 521 multi-owner firms responding to the survey. Responses came from 46 states with the majority (108 firms) originating from Texas firms. The survey also separated these firms into the top 25 percent most profitable firms so that all firms would have some benchmarking data.

The study is limited by the fact that the Texas Society of CPAs does not disclose individual responses in order to guarantee a firm's anonymity. However, the results still provide useful information for purposes of benchmarking.

Results

Table I provides information on the types of health and income protection programs and percent of multi-owner accounting firms offering these benefits. The survey results are provided for all firms and separated into the top 25 percent most profitable firms. Casual observation of the information in Table I shows that the top 25 percent most profitable multi-owner accounting firms have a greater tendency to offer various health and income protection benefits than the average firm surveyed.

Group health insurance

One of the single most significant, as well as most costly, employee benefits is health insurance. Group health insurance provides coverage to a group of employees under a single insurance contract (the master contract) issued to the employer. There are two advantages of group health insurance over individually purchased health insurance. First, most group health insurance plans do not require individual employees to provide evidence of insurability. Instead, underwriting emphasis is focused on the group of employees, thus reducing the likelihood of an employee being denied health insurance coverage. Second, the total cost of providing group health insurance per employee is usually less than the cost of purchasing an individual health insurance policy.

Group health insurance offerings as part of an employee benefits package should help employers to attract and retain the best qualified employees. Not surprisingly, a substantial majority, 94 percent, of all multi-owner accounting firms offered group health insurance. In the top 25 percent most profitable firms, this proportion was higher at 98 percent.

Group dental insurance

Group dental insurance is usually offered independently of group health insurance coverage. Most group dental insurance plans cover routine preventive dental care (e.g. teeth cleanings twice a year) and diagnostic procedures (examinations and x-rays) as well as expenses associated with dental treatment (e.g. fillings, crowns, extraction of teeth, braces, treatment for gum disease). Thirty-four percent of all multi-owner accounting firms offered group dental insurance, compared with 32 percent of the top 25 percent most profitable firms. Group dental insurance is the only health and income protection benefit noted where fewer of the top 25 percent most profitable firms offered the benefit over the average firm surveyed.

Disability income insurance

Disability income benefits provide for salary replacement either on a short-term basis, for a 6-12 month period, or a long-term basis, generally for a period that ends at

Staff benefits paid or provided by firm	Top 25 percent[a]	All firms (percent)
Group health insurance	98.5	94.1
Group dental insurance	32.1	34.1
Disability income plan	57.3	44.7
Group life insurance	76.3	68.2
Cafeteria plan	77.1	57.7
Retirement plan	89.3	86.1
Provides partner retirement	73.3	65.3
Funded plan	58.3	58.6
Unfunded plan	41.7	41.4

Note: [a]Represents the top 25 percent most profitable multi-owner accounting firms

Table I. Percentage of multi-owner accounting firms providing health and income protection benefit retirement. Less than half, 44 percent, of all multi-owner accounting firms offered some type of disability income plan. The percentage of the top 25 percent most profitable firms offering disability income insurance was higher at 57 percent.

Group life insurance

Group life insurance is usually offered to employees as group term life insurance payable upon the employee's death to the beneficiary designated by the employee. The amount of group term life insurance coverage is most commonly a multiple of the employee's salary or a specified dollar amount per employee. Sixty-eight percent of surveyed multi-owner accounting firms offered group life insurance as compared to 76 percent of the top 25 percent most profitable firms.

Retirement plans

There are many different types of employer-sponsored retirement plans. Most retirement plans fall into one of two categories, defined benefit or defined contribution.

A defined benefit plan uses pre-determined formulas to provide a fixed, monthly retirement benefit that is tied to the employee's pre-retirement level of pay and length of service. A defined contribution plan, on the other hand, requires the employer and employee to contribute a given percentage of the employee's salary to an individual employee account. The employee selects where the money set aside is to be invested. The employee's retirement benefit is then based on the balance of his or her individual account at the time of retirement.

Retirement plans were offered by 86 percent of all multi-owner accounting firms surveyed, compared to 89 percent of the top 25 percent most profitable firms that offered retirement plans.

Cafeteria plans

Section 125 of the IRC governs flexible benefits plans often referred to as cafeteria plans. These plans allow employee choice in how to allocate employer contributions among benefits offered. Employees participating in cafeteria plans have the opportunity to select the best benefits package for their individual needs instead of having to simply accept benefit decisions made by the employer. Approximately, 58 percent of surveyed multi-owner accounting firms offered cafeteria plans as compared to 77 percent of the top 25 percent most profitable firms.

Partner retirement plans

Partnership retirement plans allow firm partners to "cash out" ownership in the firm at retirement. The partnership retirement plan results from the survey are presented in Table I. Sixty-five percent of all multi-owner accounting firms surveyed provided partner retirement plans as compared to 73 percent of the top 25 percent most profitable firms.

These plans can be categorized as either funded or unfunded. Funded retirement plans require the accounting firm to contribute into a qualified retirement plan on behalf of the partner during the partner's working career. Each partner has an individual retirement account and upon retirement, the partner receives the value of the fund made up of firm contributions and investment earnings.

Funded plans provide a more secure retirement benefit than unfunded plans. Unfunded plans are not pre-funded overtime but rely on the faith in the ability of future partners to continue paying retiring partners beyond their working lives. One need only look at the demise of Arthur Andersen whose partners' future retirement benefits were unfunded to understand the large degree of risk associated with unfunded retirement plans. The results from this survey indicate that approximately three out of every five multi-owner accounting firms had funded partner retirement plans.

Table II provides information on sick leave benefits and percent of multi-owner accounting firms offering these benefits.

Sick leave

Sick leave benefits are separate from short-term disability benefits and offer employees paid time-off due to personal illness. Most plans provide benefits that fully replace lost income due to personal illness. Some plans even offer paid-time off for employees to care for dependents. Sixty-five percent of surveyed multi-owner accounting firms included leave for employees to care for dependents as part of formal sick leave plans as compared to 70 percent of the top 25 percent most profitable firms. Most firms included maternity leave in the formal sick leave plan with only 14 percent of surveyed firms offering pay for maternity leave in excess of normal sick leave. The percentage of the top 25 percent most profitable firms offering pay for maternity in excess of normal sick leave was slightly higher at 15 percent.

The vast majority of employers have formalized sick leave policies. Employee eligibility and benefits payable are generally included in formal sick leave policies. Four out of five of the multi-owner accounting firms surveyed had formal sick leave policies in place.

Table III provides information on the types of accommodation and enhancement benefits programs and percent of multi-owner accounting firms offering these benefits.

Sick leave policy benefit	Top 25 percent[a]	All firms (percent)
Formal sick leave policy in place	81.7	80.8
Sick leave provides compensated leave for dependents	70.1	64.8
Pay for maternity leave in excess of normal sick leave	15.3	14.1
Offer paid time to take CPA examination		

Note: [a]Represents the top 25 percent most profitable multi-owner accounting firms

Table II. Percentage of multi-owner accounting firms providing sick leave benefit

Staff benefits paid or provided by firm	Top 25 percent[a]	All firms (percent)
Continuing education courses	99.2	99.0
CPA exam review courses	99.2	99.0
Professional licenses	95.4	95.5
CPA exam fees	46.6	45.1
Professional dues	96.2	95.7
Offer paid time to take CPA examination	92.4	83.7

Note: [a]Represents the top 25 percent most profitable multi-owner accounting firms

Table III. Percentage of multi-owner accounting firms providing accommodation and enhancement benefits

Job-related educational assistance

Professional firms such as accounting firms have significant educational demands and requirements with which they must comply that are mandated by state and federal agencies. Accounting firms often hire new employees who have not completed the CPA exam with the expectation that those employees will successfully complete the CPA exam within a relatively short period of time after employment. Many accounting firms provide newly hired employees assistance with the CPA exam by providing paid time off and paying for or reimbursing employees for the cost to take CPA exam review courses and the CPA exam. The results from this survey indicate that nearly all multi-owner accounting firms either pay for or reimburse employees for taking CPA exam review courses and offer paid time off for employees to take the CPA exam. However, less than half of the firms surveyed paid for the CPA exam itself.

CPA licensure requires continuing professional education. Complying with mandatory continuing education requirements can be quite costly and time-consuming. Nearly all the firms surveyed either paid for or reimbursed employees for continuing education courses. The professional dues and license fees were also paid for or reimbursed by nearly all firms surveyed with little difference in offerings between all firms and the 25 percent most profitable.

Implications and conclusions

The percent of multi-owner accounting firms offering better health and income protection benefits was highest among the top 25 percent most profitable firms, with one exception. Only 32.1 percent of the most profitable firms offered group dental insurance, compared to 34.1 percent of overall firms offering this benefit. However, in all other benefit categories including sick leave benefits and professional growth and enhancement benefits, the more profitable firms lead the industry.

More profitable firms are in a better position financially to offer more lucrative benefit packages. They may also be more profitable because they were able to attract the most qualified employees by offering more lucrative benefits packages. This argument is much like the "chicken and the egg" scenario: which came first? If good benefits help a firm attract the best employees, and the superior human resources positively influence profitability, then a firm certainly wants to provide an attractive benefits package. Developing benchmarks for benefits takes on greater importance if this is true. While studies have examined the relationship between firm size and progressive HR practices (Tannenbaum and Dupuree-Bruno, 1994), more focused research is needed to examine the relationship between the benefits package (and components thereof) and business performance (measured in profitability). A survey of the employees would be useful in determining whether benefits were a relevant factor in their decision to work with each firm.

The results of this study may be applicable to other service intensive industries that require employees with either certifications or high skill levels. Metrics for benchmarking benefits in multi-owner accounting firms were presented herein. These or similar metrics may apply to other labor intensive professional services such as law firms, multi-physician clinics, realties, insurance agencies, financial brokerages, and so on. Future studies might employ surveys to study benefits in other professions with the goal of developing benchmarking metrics for those professions. Analysis of the differences in benefit packages as they relate to firm profitability might prove enlightening, for identifying the more profitable firms may be a short cut to identifying best practice – it helps to know where to look for best practice in an industry or particular segment of an industry.

Notes

1. U.S. Chamber of Commerce, *The 1999 Employee Benefits Study.*
2. These categories are based on those listed in Joseph J. Martocchio, *Employee Benefits: A Primer for Human Resource Professionals.*

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