

How Does Your Accounting Firm Measure Up?

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How can Arkansas accounting firms incorporate continuous improvement into their strategic planning? Accounting firms may use the best possible industry practices to establish goals for continuous improvement. Benchmarking against the best is not limited to manufacturing industries but beneficial to service-related industries as well. One of the most difficult aspects of this process is competing accounting firms will not likely be cooperative in sharing their financial data. However, the Texas Society of CPAs' annual management of accounting practices (MAP) survey provides information useful for establishing benchmarks for comparison purposes. The MAP survey is distributed to CPAs across the nation. Survey

results provide valuable insight into emerging secular trends. The MAP survey allows accounting firms to set targets based on the Arkansas industry or on a national level.

Based on a study of the five-year time period from 1994-1998, MAP survey results were analyzed through funding by a SILO Advisory Council Undergraduate Research Fellowship. Survey results should be interpreted with consideration for certain limitations due to varying participants and number of responses to the survey over the five-year period. Results were divided into individual and multi-owner accounting firms. See Table 1 for number of survey participants.

Table 1
Number of MAP Survey Participants for National and State of Arkansas Surveys Including Individual and Multi-Owner Accounting Firms

	1994	1995	1996	1997	1998	Average 1994-1998
<i>National</i>						
Individual	1,078	957	706	774	838	871
Multi-Owner	<u>1,022</u>	<u>917</u>	<u>722</u>	<u>708</u>	<u>716</u>	<u>817</u>
Total	2,100	1,874	1,428	1,482	1,554	1,688
<i>State of Arkansas</i>						
Individual	31	28	31	27	17	27
Multi-Owner	<u>21</u>	<u>20</u>	<u>23</u>	<u>16</u>	<u>21</u>	<u>20</u>
Total	52	48	54	43	38	47

Net Income Per Owner

First, state and national survey comparisons on net income per owner provide insight on how Arkansas firms are performing compared to firms across the nation. Nationally, individual firms reported net income per owner higher than Arkansas individual firms, with the exception of 1996 and 1997. On the average for the five-year period, U.S. accounting firms reported net income per owner higher than Arkansas individual firms reported. The response of CPA owners in multi-owner firms indicates a higher net income per owner than reported in individual firms. This held true for every year of the study in the national data as well as the Arkansas data.

On average for the five-year period, nationwide multi-owner firms outperformed Arkansas multi-owner firms based on net income per owner. However, over the five-year period there has been a slight increase in charged hours per person as firms strive to increase productivity and profitability. It seems Arkansas CPA firms provide more charged hours per person yet earn a lower net income per person than the national average. In national and state averages, it appears that individual firms require more charged hours per person than multi-owner firms. Average billing rates over the five-year period for Arkansas firms were slightly lower than national averages. The national average for individual and multi-owner firms was \$53 per hour. Arkansas individual firms averaged \$48 per hour and multi-owner firms averaged \$50 per hour. See Table 2 for more detailed analysis.

These statistics suggest Arkansas accounting firms have the opportunity to improve their bottom line. Whether accounting firms benchmark on services offered to clients or cost of revenues, the information available through the MAP survey allows them to compare their performance with the performance of their peers.

International Activities

Upward trends in international activities are evidenced in all areas reported. Multi-owner firms show the highest growth in international activities for this time period. Arkansas individual firms average less than the national figures for firms that have clients that buy or sell outside the United States. In the same category, Arkansas multi-owner firms average less than national averages.

	1994	1995	1996	1997	1998	Average 1994-1998
<i>National</i>						
Individual	74,914	78,467	79,123	87,651	93,845	82,800
Multi-Owner	107,759	114,263	121,884	127,412	128,422	119,948
<i>State of Arkansas</i>						
Individual	66,444	61,251	85,523	96,388	61,861	74,293
Multi-Owner	95,835	101,701	101,565	113,627	96,450	101,836

As a whole, the percentages of firms that service clients that are owned by a foreign entity are lower than the previous category. Averages on national data for individual and multi-owner firms show over twice the average percentages for Arkansas firms in this category.

The category that reports firms employed by clients that own foreign businesses shows an upward trend in United States and Arkansas data. Once again, national averages for individual firms and multi-owner firms outranked Arkansas firms. For more details, see Table 3.

The percentage of firms that have none or less than 5% of fees due to international business has been reduced as firms continue to grow in international activities. Although a very

	1994	1995	1996	1997	1998	Average 1994-1998
Average Percentage of Firms with Clients that Buy or Sell Outside the United States						
<i>National</i>						
Individual	41.5	40.1	40.0	37.9	41.2	40.1
Multi-Owner	60.0	60.0	58.2	62.8	61.8	60.6
<i>State of Arkansas</i>						
Individual	24.1	10.9	29.7	34.4	28.6	25.5
Multi-Owner	19.0	40.9	39.1	50.0	35.3	30.9
Average Percentage of Firms with Clients Owned by a Foreign Entity						
<i>National</i>						
Individual	16.0	17.2	20.3	14.9	17.5	17.2
Multi-Owner	30.0	31.2	32.6	31.3	31.1	31.2
<i>State of Arkansas</i>						
Individual	3.4	7.7	20.0	9.1	0.0	8.0
Multi-Owner	4.8	12.5	15.8	28.6	15.2	15.4
Average Percentage of Firms with Clients that Own a Foreign Business						
<i>National</i>						
Individual	18.3	13.6	15.8	12.6	16.1	15.3
Multi-Owner	32.5	26.4	28.7	26.1	29.6	28.7
<i>State of Arkansas</i>						
Individual	7.1	7.7	0.0	18.2	12.5	9.1
Multi-Owner	0.0	0.0	25.0	14.3	20.0	11.9
Annual Percentage of Firms with Clients Reporting Zero or Less Than Five Percent of Annual Fees Due to International Activities						
<i>National</i>						
Individual	87.3	88.8	81.4	85.0	82.1	84.9
Multi-Owner	89.0	72.3	73.8	74.8	70.7	76.1
<i>State of Arkansas</i>						
Individual	100.0	100.0	96.5	100.0	100.0	99.3
Multi-Owner	100.0	75.0	91.3	93.7	84.8	89.0

high percentage of Arkansas individual firms seem to have a low percentage of fees due to international business activities, there appears to be growth in the multi-owner firms. Expertise within the international arena of business will prove to be vital to Arkansas accounting firms. The demand for accounting services due to international activities will likely escalate as more and more Arkansas businesses enter into the global economy. Accounting firms may set goals for continuing education to focus in this area in order to meet clients' needs for these services.

Sources of Net Fees

The net fees for accounting firms were earned from four major sources. Tax services provided a slightly higher percentage of fees on a national average over the five-year period than Arkansas averages. Auditing accounted for lower percentages nationally than percentages for Arkansas firms. Write-up and data processing accounted for a lower percentage of fees on a national basis than Arkansas firms reported for the five-year period. Management advisory services accounted for a lower percentage of fees in Arkansas individual and multi-owner firms compared to national CPA data. For more details, see Table 4.

These statistics suggest that Arkansas accounting firms may seek out opportunities to serve their clients with additional services. Although small accounting firms may specialize in certain areas, this information should offer insight into clients' demand for services in all areas. Management advisory services and computer-related services may be areas of growth available to Arkansas firms.

Employee Benefits

Employee benefits provided to CPA firm employees were examined in four major categories. The percentage of firms that offered these employee benefits was often higher for Arkansas firms. CPA exam fees were reimbursed to employees on a national average more often than in Arkansas firms. This was the only category of the four major benefits that Arkansas firms did not exceed the national average in at least one division. Other employee benefits include group medical insurance, continuing education courses, and group life insurance coverage. The percentage of Arkansas firms that offer these benefits was higher than the national averages for individual and multi-owner firms. See Table 5 for more detailed analysis. This knowledge could be helpful in explaining differences in net income per owner for Arkansas firms versus national firms.

Customers

The organizations and individuals that engage CPA firms in Arkansas may find it helpful that Arkansas CPA firms are becoming more adept in conducting international business accounting activities. This may be especially advantageous for small businesses that need guidance in entering interna-

tional business. Previously, organizations may have been forced to seek accounting services outside the state in order to find expertise in this field. Now, Arkansas accounting firms are offering write-up, tax, and advisory services.

Since a greater number of CPA firms are offering management advisory services, businesses in Arkansas may recognize the benefit of outsourcing rather than hiring on new management within the company. Since the CPA firm is familiar with the history, structure, and financial data of the company, the company may find it beneficial to rely on the accounting firm for advice.

Arkansas businesses may feel confident that billing rates for accounting firms in Arkansas are lower than national averages. The Arkansas firms seem willing to seek out new ways to service their clients.

	1994	1995	1996	1997	1998	Average 1994-1998
Average Percentage of Net Fees from Tax Services						
<i>National</i>						
Individual	48.9	50.7	48.2	47.5	48.2	48.7
Multi-Owner	43.8	45.5	43.3	42.9	44.4	44.0
<i>State of Arkansas</i>						
Individual	46.0	41.7	40.8	41.8	48.8	43.8
Multi-Owner	41.7	41.8	42.9	41.1	43.3	42.2
Average Percentage of Net Fees from Auditing Services						
<i>National</i>						
Individual	6.3	7.0	7.4	6.7	7.1	6.9
Multi-Owner	16.4	17.3	17.5	17.1	17.2	17.1
<i>State of Arkansas</i>						
Individual	10.6	10.5	13.7	15.9	6.1	11.4
Multi-Owner	18.2	19.7	18.5	18.1	18.2	18.5
Average Percentage of Net Fees from Write-up/Data Processing Services						
<i>National</i>						
Individual	17.5	16.8	16.5	16.8	17.6	17.0
Multi-Owner	13.1	13.3	12.6	12.4	12.4	12.8
<i>State of Arkansas</i>						
Individual	23.4	26.6	24.0	23.6	24.7	24.5
Multi-Owner	22.4	21.7	20.4	15.9	19.4	20.0
Average Percentage of Net Fees from Management Advisory Services						
<i>National</i>						
Individual	6.2	6.1	6.5	5.9	6.7	6.3
Multi-Owner	6.6	7.0	8.0	7.4	7.2	7.2
<i>State of Arkansas</i>						
Individual	5.1	6.6	4.1	3.5	5.7	5.0
Multi-Owner	5.1	5.9	6.3	3.4	4.2	5.0

Table 5

Average Percentage of Firms Providing Specified Employee Benefits for National and State of Arkansas Surveys Including Individual and Multi-Owner Accounting Firms

	1994	1995	1996	1997	1998	Average 1994-1998
Average Percentage of Firms that Provide Reimbursement on CPA Exam Fees						
<i>National</i>						
Individual	36.4	22.1	22.6	20.5	21.6	24.6
Multi-Owner	44.0	33.4	32.1	36.2	25.5	34.2
<i>State of Arkansas</i>						
Individual	32.1	20.1	29.4	15.3	25.0	24.4
Multi-Owner	23.8	26.2	15.8	33.3	36.4	27.1
Average Percentage of Firms that Provide Group Medical Insurance						
<i>National</i>						
Individual	55.7	48.4	44.3	46.9	48.7	48.8
Multi-Owner	88.8	88.5	90.2	87.2	89.6	89.0
<i>State of Arkansas</i>						
Individual	46.4	57.2	59.0	59.2	53.1	55.0
Multi-Owner	81.0	80.0	87.0	93.8	85.7	85.5
Average Percentage of Firms that Provide Continuing Education Course Reimbursement						
<i>National</i>						
Individual	80.3	56.9	57.5	59.6	56.5	62.2
Multi-Owner	98.0	94.6	94.6	94.2	93.0	94.9
<i>State of Arkansas</i>						
Individual	85.7	47.6	65.2	90.5	59.7	69.7
Multi-Owner	100.0	95.0	100.0	100.0	100.0	99.0
Average Percentage of Firms that Provide Group Life Insurance						
<i>National</i>						
Individual	34.4	29.3	28.7	28.9	27.3	29.7
Multi-Owner	74.4	75.6	76.0	70.1	73.2	73.9
<i>State of Arkansas</i>						
Individual	46.4	25.6	49.3	40.2	25.0	37.3
Multi-Owner	76.0	78.7	87.0	93.7	81.0	83.3

Consideration for employee benefits and starting salaries for CPA firms may give private organizations guidance in their own personnel policies as they seek to hire accounting personnel. Small businesses should consider the benefit packages offered by public accounting firms in order to remain competitive for quality accounting personnel.

Conclusions

This comparison study may prove beneficial to Arkansas accounting firms in identifying important targets to improve profitability and management policies based on benchmarks set within the industry on a nationwide basis. This study may be a catalyst for CPA firms to evaluate and monitor every aspect of their organization in order to focus on the continuous improvement of services and profits. To keep abreast of policies and practices of their competitors, CPA firms may purchase copies of the annual MAP survey through the Texas Society of CPAs at www.tscpa.org.