

How to Prosper during an Economic Downturn

Strategies and Opportunities for Accounting Firms

By James Byrd, Douglas Smith, and Marilyn M. Helms

Tough economic times have occurred periodically throughout history; according to the National Bureau of Economic Research, there have been 10 recognized U.S. recessions that covered approximately nine years in a nearly sixty-year period (1953, 1958, 1960–61, 1969–70, 1973–75, 1980, 1981–82, 1990–91, 2001, and 2007–09). A recession, or even an economic slump, is not an unusual event; for one quarter of the twentieth century, the United States was in an economic downturn.

Although such challenges are often short-lived, some have longer durations. Variations exist in the magnitude of their impact, and there are regional differences in the severity of a downturn and the strength of a recovery. According to an economist's strict definition of declining gross domestic product (GDP) for two or more consecutive quarters, the last U.S. recession officially ended in 2009, but business and economic challenges remain. The country's current prolonged period of slow growth and cautious consumer spending—combined with unemployment, rising fuel prices, slower business activity, and a housing oversupply—is definitely a challenge for all businesses, and accounting practices are no exception.

Exhibit 1 illustrates that accounting employment generally follows the same pattern as overall U.S. employment. The primary difference in the trend lines is the higher rate of increase in accounting employment from 2003 to 2006, following the passage of the Sarbanes-Oxley Act (SOX) of 2002. It is clear that the accounting field, like other sectors, is subject to the fluctuations of the business cycle, although not as severely. The 2010–11 edition of the Bureau of Labor Statistics *Occupational Outlook Handbook* calls

for national job opportunities for accounting and auditing to grow 22% from 2008 to 2018 (<http://www.bls.gov/ooh>). Because current challenges exist, strategies for surviving in a still-weakly recovering economy continue to have relevance. Regardless of the economy, business best practices deserve continuous review.

Responses to a Downturn

The primary response to reduced revenues is to cut costs by a proportionate, or even greater, amount. Typical retrenchment responses include delaying expansions; deferring maintenance and special projects; freezing training, business travel, and nonessential spending for supplies and services; and decreasing expenses. Other tactics include eliminating waste, monitoring receivables with more frequent billing, or offering discounts for immediate payment. Some hard-hit industries are also limiting or eliminating raises for employees. Others are using unpaid days off, or furloughs, as a short-term solution.

Although a variety of cost centers can be affected, depending upon a business's type or industry, personnel reductions are typically part of an overall response in a downturn. But because businesses need accountants for compliance filings, the accounting departments of corporations do not usually reduce staff at the same rate as other functional areas of the organization. Maintaining morale and productivity becomes an added responsibility for managers. According to Lindsay Blakely in "How to Manage in a Recession," employees are under increased pressure to produce more with

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fewer resources (CBS News, June 23, 2008, http://www.cbsnews.com/8301-505125_162-51208896/how-to-manage-in-a-recession/). Productivity is critical, but continuing to increase productivity at the same rate as before a recession is not feasible.

Public accounting firms might find themselves with fewer clients as their business customers retrench. In an article on cross-discipline training, Max Messmer suggested that cross-training employees to perform multiple job functions can be an option even during retrenchment (“Cross-Discipline Training: A Strategic Method to Do More with Less,” *Management Review*, vol. 81, no. 5, 1992). This approach has an additional benefit: it allows workers to understand how different functions in a company fit together.

Understanding how the entire company operates can improve functioning, reduce duplication, and promote satisfaction among workers. Increased knowledge among workers can lead to more efficient operations that will strengthen the company through cost reductions, making it more resilient in a downturn. This can also improve competitiveness and profitability as the economy improves. If reducing the workforce becomes necessary, a multifunctional group of employees will be better able to cope with the new environment. Cutting prices is typically not recommended for accounting practices, because clients equate price with the quality of such expert services.

Stability with Minor Changes

Accounting functions are better protected from the level of employee cuts experienced by line operations because more information is often needed in challenging times. Accounting groups are needed to retrieve the data used for decision making and for fulfilling several functions, including financial transparency, financial reporting, and business accountability. If business fluctuates wildly, accounting firms can utilize a mixture of both full-time and temporary employees; a large pool of talented workers is usually available for temporary and part-time employment.

Accounting firms should focus on the basic organizational goals of operating efficiently, providing high-quality products and

services, satisfying customers so that they return, converting cash quickly, and maximizing profits while maintaining customer service and quality. Demonstrating concern for employees during these times will result in employee loyalty, both in the present and in the long term, and can increase the capability of the accounting staff. Strategic goals remain important, and top management should be careful not to engage in reactionary decision making; instead, management should consider the long-term needs of the organization because managing the accounting practice efficiently is paramount.

Just as accounting firms advise businesses about cost control, accounting organizations must use good budgeting strategies as well. Maintaining the firm’s bookkeeping and monitoring cash flows closely is essential. Strong internal controls

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should be firmly in place to manage assets, particularly cash. An alternative to cutting expenses is to focus on building revenue. Debt should be controlled and used only as necessary. Adjusting compensation to the current market for new hires, particularly as market salaries might have fallen, is also important. Reactivating dormant accounts and calling on old leads can be a stability strategy for generating new business to replace lost customers. Postponing fee increases and improving work flow and efficient routing can also be important.

Employees often work longer and retire later during a downturn to compen-

sate for the loss in their own investment portfolios. Retaining these senior members can present an opportunity for a business to benefit from their knowledge in mentoring junior employees or managing college interns. Leading the implementation of new software and upgrades can be another effective use of senior employees’ leadership and expertise. Area businesses can also benefit from the consulting expertise of senior staff.

Increased online work can be a cost-saving measure for employers. In fact, many tax returns are done offshore in India; such outsourcing can help shrink labor costs. Automating processes through technology is another way to save money and improve both worker efficiency and business processes. If businesses want to retain current local employees, telecommuting can be a perk, as well as a way to reduce variable overhead costs. Many accounting functions can be done from home, or anywhere that an employee has access to a secure computer.

Firms should increase their value to clients during tough times by becoming a strategic business partner that helps clients solve their financial problems. Successfully surviving the economic downturn is possible, as is creating new opportunities for the future. Some accounting firms believe that they have a responsibility to keep their employees employed, and this belief prompts them to create new lines of business. Keeping the employee pool intact ensures that the firm will not have to compete for talent once the recession ends. Firms—especially neighborhood-based accounting practices—should also enhance their reputations within the community.

Proponents of an increased social consciousness in corporations present arguments that community involvement is a form of marketing—that is, building a relationship and reputation with the community and customers translates into increased profitability. One of the important aspects of a business’s responsibility is to make a profit; profitable businesses increase the value of a community and allow it to accomplish its other responsibilities, such as providing jobs and engaging in community service and leadership. In an eco-

economic downturn, accounting firms might have more difficulty fulfilling this responsibility, but it can be supplanted by exceptional performance in other areas—for example, the personnel and resources made available in the firm by reduced business demand can be assigned to improve the community and the economic environment by following a heightened external social responsibility strategy for the organization.

Developing unique expertise can also benefit a public accounting practice. If there is a business cluster or if the firm has a high concentration of clients in a particular industry, it should work to develop additional skills in this industry. Moreover, the firm should recruit competitors, suppliers, and even vendors and other entities in the industry's supply chain as clients.

Some accounting firms have grown—or at least remained steady—in the slow economy as a result of recurring annual tax and audit work; even though clients are cautious about requesting additional services, assurance and tax services remain necessary. Firms could offer more value-added services for clients in order to dissuade them from trading down in an attempt to reduce costs; these added services would give customers a reason to remain loyal to the firm. Lastly, although hiring at accounting firms has been less aggressive than in the past, more firms are balancing employment needs and workloads by relying on college interns and part-time staff.

Strategies for Growth

Tough times precipitate dramatic challenges for all organizations, including accounting firms; however, there are opportunities to be seized. Although cost control and reductions are a normal first response, they are not always the appropriate one. Both public and corporate accounting organizations can provide valuable advice during times of economic hardship. Diversifying into new, related areas might be one option, along with serving smaller clients and repackaging fees for them.

In addition, rather than reducing staff, redeploying newly available staff to such development yields opportunities to create new lines of business that could become substantial sources of revenue even after

the economy recovers. Hiring in carefully targeted areas of current or future strategic need is one growth option; even in times of high unemployment, it can take time to find the right employee with a specialized skill set. Another idea for growth, tailored for public accountants, is to include additional personnel in visits to job sites and in sales calls to potential customers. This can help a firm gain a better understanding of its customers, their needs, and the types of reports that would better serve users of accounting information.

Inevitably, the economy will rebound, so continuing to invest in the future is important. Companies should continue doing the things that made them successful in the first place, while acknowledging the mismatch between the timing of investments and the resulting cash flow improvements.

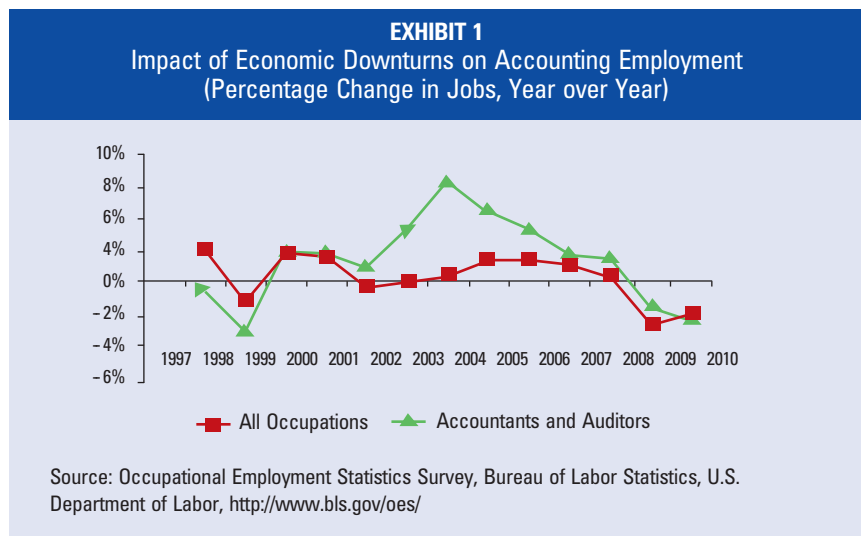
In the area of corporate and management accounting, most corporate operating departments need more information to manage during tough times. Accounting organizations need to be responsive to these requests. In addition, accounting organizations should be proactive in collaborating with operating departments to recognize user needs, identify costs, and work with other units and departments to come up with improvements.

Public accounting firms should use tough times as an opportunity to assist clients in dealing with costs. Unique corporate challenges, which clients might be unfamiliar with, present opportunities for

consulting services. In addition, the lingering effects of the economy can present opportunities for employment related to accountability and compliance in many industries. Sometimes, organizations facing a downturn must trim their staffs to the bone in order to survive; however, much compliance work does not disappear, and staff with expertise in areas of annual reporting or other seasonal regulatory or compliance reporting can easily be deployed as temporary staff to complete special projects for clients like insurance companies, telecommunications firms, and healthcare organizations. Public accounting firms can even improve their bottom line by generating additional income.

Other types of consulting that could become lucrative revenue sources, both in the present and in the future, can be developed during a downturn and be ready to take off when the economy improves. For example, project management is a natural fit for many accountants. Certification in project management is available through the Project Management Institute (www.pmi.org). Searching the broader environment for regulatory changes can benefit public accounting firms.

While not related to the economy, the implementation of SOX provides a parallel. Requirements of the act include stronger internal controls and increased responsibilities of senior management for accuracy of corporate filings. Implementation of these new requirements



was arduous and expensive for publicly traded companies; thus, public accounting firms experienced a tremendous increase in audit fees due to SOX requirements. The Patient Protection and Affordable Care Act of 2010 provided opportunities for additional fraud auditing and the implementation of medical records and billing systems (www.healthcare.gov). The Dodd-Frank Act of 2010 also provided opportunities for professionals with financial backgrounds.

Building Relationships

Developing and maintaining business relationships is an important part of public accounting firms' success. Sometimes the pressures of getting the work done today can cause busy accountants to focus more on their current tasks than on developing new potential client relationships. A great time to

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pursue and nurture new business relationships is when business is slow. When the economy improves, these relationships can result in new business. Thus, a firm that has focused on developing such new business during a downturn will be poised to rapidly grow revenues when the economy improves—and such a firm will do so more rapidly than competing firms that have cut staff to reduce costs.

Marketing is another overlooked area. In one *CPA Journal* article, Mary Kay Copeland

outlined management ideas related to marketing, advertising, and customer relationships that are relevant in growing a practice (“Marketing and Advertising for CPAs: Leading-Edge Strategies,” Aug. 2010, pp. 58–62). Marketing a practice can be accomplished by writing an accounting column for a local newspaper or business journal, or by posting white papers about current topics on firm websites for added client benefit, as well as a potential way to attract new clients. Professional social networking sites, such as LinkedIn, are good avenues for accounting practices to establish a broader Internet presence. Conducting seminars for the business community is another suggestion. Firms can recruit new clients from current entrepreneurial businesses by speaking to small business development centers, business incubators, chamber of commerce groups, college business classes, and professional organizations. These activities can all increase professional visibility in the business community with little or no cost, and they are a good use of the time of senior managers and partners. Newsletters, sent either by postal mail or electronically, can help firms stay connected to clients and improve retention—and retaining current customers is always less expensive than soliciting new clients.

Looking to the Future

Developing new capabilities in the midst of a downturn can prove to be profitable in the long run. For example, forensic accounting has been growing despite—or perhaps as a result of—the current economy. The membership of the Association of Certified Fraud Examiners (ACFE) grew by almost 10% during 2010 and now includes nearly 55,000 members (*2010 Report to Members*, ACFE). According to ACFE’s *2010 Report to the Nation*, fraud costs businesses collectively about 5% of their revenue. Despite SOX regulations and efforts by many agencies and organizations (e.g., the Government Accountability Office, the ACFE), fraud is not subsiding. A recession can contribute to an increase in fraud, and with business slow, staff members and partners would have time to train in a new specialty field. Forensic accounting could be a great new service opportunity for many firms. (More information regarding the ACFE and certification in this specialty can

be found at www.acfe.com.) Although other firms might cut training during a weak economy, it can be a smart business move to be ready for the upswing.

The impending convergence of U.S. GAAP with IFRS provides another opportunity for firms. Developing expertise in the convergence area would enable a firm to provide consulting and training on the new standards to other firms and to corporate accounting departments. Not only can providing this training be a new source of revenue, but demonstrating expertise in teaching IFRS could be a productive business-development strategy. Clients could have time to implement new software, and accounting firms can help. Year-end reviews earlier in the fourth quarter might help clients (including S corporations) plan the timing of expenditures that have flow-through tax implications for owners. Some accounting firms are more involved with cash flow and budgeting issues. In some cases, the role of an accountant as a counselor has grown in importance, and firms are working with clients to develop ways to help their businesses.

Cost accounting is growing in importance as businesses work to determine their most profitable products lines, services, or customers, and accountants can assist in this analysis. Clients often need accounting firms and their services more than ever in periods of uncertainty, but accountants might have to initiate the call and spend more time in the field listening to clients before proposing new avenues of consulting.

Although tough economic times are certainly not appealing to anyone, including accounting organizations, the profession can play a major role in a weak and recovering economy, allowing it to not only survive, but thrive. □

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