

## THE CPA MANAGER

### STRATEGIC MANAGEMENT FOR PUBLIC ACCOUNTING

By Jack L. Armitage, CPA

Why are some firms successful, some moderately so, and why do others fail? The answer probably lies in the business' ability to fit into its environment. Strategic management is the process of attempting to match an organization with its changing environment in the most advantageous way possible.

#### First There's Strategy

Strategy involves the match between an organization and its environment. Although some environments change faster than others, all organizations operate in a changing environment. Certainly, the public accounting profession has seen tremendous change over the last decade. New developments have included, for example, technological changes, new types of investments, increasing complexity in the tax code, personal financial planning, and increasing liability insurance premiums.

As the environment changes, threats and opportunities are encountered. Some organizations react to the changing environment by implementing changes in their structure. These changes can affect the relationship between the firm and its environment, or the changes can relate to the internal operations of the firm. Changes relating to the relationship of a firm to its environment have more impact on the organization's effectiveness, and changes involving the organization's internal operations have a greater effect on the efficiency of the firm.

In general, the long-run success of a firm is more dependent on the organization's effectiveness rather than its effi-

ciency. As Peter Drucker stated, "It is more important to do the right things than to do things right."

Thus, it is more important to long-run success to be effective—being in the right place at the right time, offering the services demanded by the firm's market niche—than to be efficient—achieving the most output from a given set of inputs, e.g., using the internal resources of the firm to their maximum. It is possible that a firm doing the right things wrong (effective but not efficient), can outperform a firm doing the wrong things right (efficient but not effective). Concentrating on change involving the organization's internal operations and being extremely efficient will not always insure a firm's long-run success.

#### Next There's Strategic Management

Strategic management is a continuous process that works to fit an organization into its changing environment. Strategic management is a broader concept than strategic planning. Strategic planning (or long-range planning) is traditionally regarded as a periodic process to develop long-range plans for the organization. Strategic management consists of strategic decision making and strategic planning. Thus, strategic management focuses on any strategic decision that must be made, regardless of its time frame and the planning necessary to complement that decision.

Strategic management should not be thought of only in a long-term time frame. Many times, changing a firm's strategies does take a long time to become operational, but sometimes threats or opportunities emerge that must be acted upon immediately. Thus, strategic management includes any decision that has strategic consequence and developing a plan (whether short or long-range) to implement the decision.

Strategic management should also not be confused with operating management. Operating management deals with the ongoing, day-to-day operations of the firm. These decisions are aimed at improving the efficiency of the firm.

Certainly, operating management must not be neglected, and both areas of management responsibility must fit together and complement one another. The strategic function and the operation management function may be carried out by the same people, but the strategic function is separate and distinct from the operating function.

The strategic management process involves taking advantage of the opportunities that are made available to the organization and minimizing the threats to the organization. As a minimum, an organization must be able to react effectively to changes over which it has no control. With an effective strategic management function, a firm may be able to endure change that causes threats for the competition.

#### And Then There's Implementation

Implementing a strategic management system is an administrative task carried out by a group of the firm's partners and managers. At first, the task can be time consuming. Once the basic system is in place, it will be less time consuming to keep it operating than it was to implement. Probably the best method to generate support for the program is to stress that a strategic management system can improve the firm's overall performance.

Implementation of the strategic management system must be approached in a manner indicating that the small planning group is not trying to take over the firm. It must be made clear from the start that the group will work within the bounds of the organization and that all members of the firm will have input into the process. Without the support of the other members of the firm, the process may be doomed to failure.

Another way to increase support for the strategic management system is the use of consensus decision making rather than formal vote taking. Voting on issues tends to divide the organization rather than unite. Voting forces individuals to argue and to try to convince others of their views. Consensus decision making fosters working together and can lead to

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increased cooperation among members of the organization.

A possible stumbling block to a successful strategic management system is reluctance to change. No benefits can be derived from brilliant strategies unless they are implemented. One way to increase the chances for acceptance of change may be to introduce change more frequently for relatively less important matters. As change becomes more commonplace, if the strategic management process proposes change, it may be more readily accepted.

### The Overall Process

At first, the process should focus on formulating the business's mission and the overall direction for the organization. With this clearly in mind, better goals and objectives can be set for the firm to help achieve its mission. This is a difficult project and will not result in a finished product, but rather serve as a starting point.

Early on, the process should attempt to identify the major strategic issues

facing the firm. Having this formalized process forces the leaders of the organization to focus on the future and the strategic issues the organization may face. Without this process, many of these issues may be overlooked until it is too late. Then the firm can only react to the issues rather than anticipating the situation and taking advantage of it.

The next phase of the process involves analyzing the firm's strengths and weaknesses (an environmental analysis) and current services to clients in relation to objectives. Insight into an organization's strengths and weaknesses can be gained by examining informal factors such as the organization's past, its current employees, average age of employees, the current and future partner/manager/staff ratios, salary requirements of personnel, employees' expertise, the business's financial position, and its location. An environmental analysis also consists of studying external factors such as the growth patterns of the surrounding community, types of current and potential businesses in the community, the local

economy, average age of the community, changes in client services demanded, services offered by other public accounting firms in the community, future supplies of accountants, and new tax laws.

The final step in this phase compares the firm's current services to clients to the firm's stated objectives. This should determine if there are gaps that can be filled or services that should be eliminated.

At this point (or at various points during the process), progress reports should be made to the entire firm. This serves to keep the process on track by generating input from the entire firm, and it keeps the process out in the open so everyone feels a part of it.

The final part of the process involves a meeting with the entire firm. This should include a presentation by the planning group covering the mission objectives statements and the analysis that has been done. Then the entire firm can discuss the mission statement and objectives and finalize these documents.

Finally, changes that are to be imple-

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mented can be identified, and work groups can be set up to begin implementation. At this point, the purpose of the strategic management process is to monitor the progress of the changes and to receive feedback. As well, the firm will now have a process in place that can continually monitor the environment and be ready to promptly act on threats and opportunities that have strategic consequences.

A formalized strategic management system can be a powerful tool to achieve a better match between its strategies and its environment. The process provides a way for the firm to determine where it is currently and where it wants to be, and helps to formulate a plan so the firm can achieve its objective.  $\Omega$

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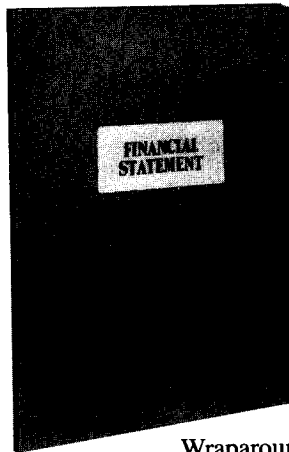
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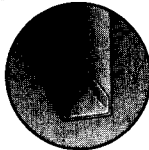
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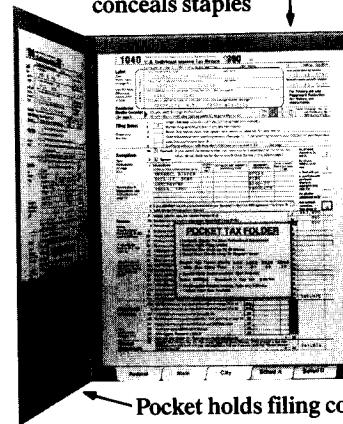


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