

Bombay Chartered Accountants' Society

Workshop on Practice Management & Technology

Saturday, June 18th, 2016.

Aligning Human Capital
(People as strategic assets)

Vaibhav Manek

Content

1. Where do we stand today?
2. Aligning with all stakeholders
3. Performance is everything
4. Challenges faced by SME CA firms
5. Case Studies

Where do we stand today?

- Let us use a questionnaire to assess where we are:
 - Average Score: ___/30

- What does this indicate?



- Do we need to increase our focus on our most valuable assets?

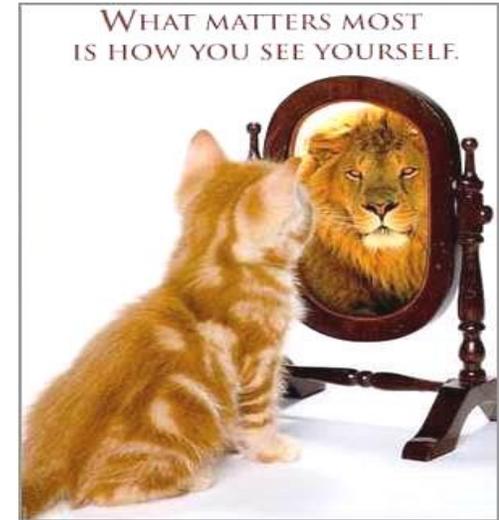
Aligning with all stakeholders

Alignment of Human Capital



The Self

- Questions for evaluation of each team member:
 - Who is the professional?
 - How did he come into being in to our firm?
 - What are his aspirations?
 - What drives him? Is there a conflict in his thought process, his goals and career aspirations?
 - Is he a good mentor and a team player? Is he a good fit for the firm currently?
 - Will he be a Partner in the firm in the coming years?



The Self

- Make each individual's strength productive
 - “People work best when their strengths are aligned to the needs of the firm” -Peter Drucker
- Professionals must learn to manage oneself
 - Starting step in aligning human capital
 - Know their time, assign priorities and take responsibilities for action
 - Make effective decisions, conform to an execution framework, focus on priorities, have a growth orientation, think with a solution mindset and multitask between production and management.
 - Have a strong sense of affinity to the society, his family, his friends, his work colleagues and his clients

Team

- Professionals need to be effective in teams
- Teams get influenced by team dynamics
- Technically brilliant people should be respectful to their peers and must share their knowledge and expertise
- Sharing of ones' knowledge is critical to have the team come up to terms with the thought process of the team leader
- Team members must have a constant quest for learning and upgrading themselves



Markets

The following must be addressed:

- Where is the profession heading?
- Would our services be relevant, three years from now and seven years from now?
- What do we need to do today to continuously adapt to the marketplace?
- Is there a better way of doing what we do?
- What are the trends in the market place that the we can see and that help us to think about generating more opportunities for our firm?
- What can we do about it?

Markets

- The market is a great leveler; the market is very discerning and will choose the most appropriate service player for its requirements
- What is perceived is the truth; thus whatever Partners say and do must be relevant to their chosen segment of clients?
- A PSF should strive to be omnipresent in the Market

Clients

- “We exist because of our clients; The customer is not an interruption of our work; he’s the purpose of it” - Mahatma Gandhi
- Professionals must have “a connect” with the client
- To win a client’s confidence, give him the chance to talk to you, person to person, about his needs and his expectations
- Make it easy and comfortable for the clients to share his secrets
- Professionals must adapt a mindset of joint problem solving, instead of trying to win or prevail
- People with different views must learn from each other

Regulators

- Professionals have to be trained to deal with **the entire regulatory ecosystem**
- This includes various set of regulators, authorities, governmental agencies, revenue authorities, the courts, the justice delivery system, the administration in the state, Chambers and Associations and the likes.
- Some of these are **watchdogs**, some policy **makers** and the others policy **implementers**
- Professionals need to have skill-sets to deal with them differently
- The best firms thrive in such an ecosystem by having specific people earmarked to deal with this breed – the Regulators

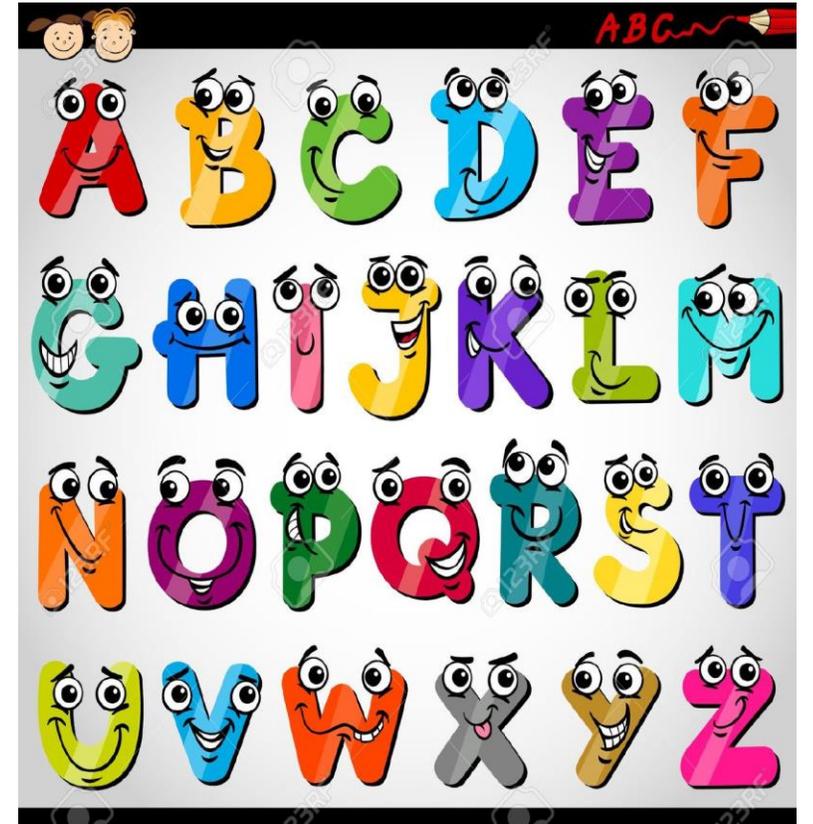
Peers

- PSF's are pressurized to benchmark themselves with their peers; with respect to the relative size of the firm, the size of the team, the infrastructure, the quality of the delivery, the timeliness and responsiveness and the professional fees/compensation for the engagements.
- **The human capital is the biggest differentiator, since partners and managers are the face of the firm.**
- The quality of delivery is also a reflection of the level of training, the knowledge base and expertise
- Growth of firms primarily depends upon better mentoring of their teams as compared to their peers
- The main factor behind successful firms is the constant alignment of their human capital to the firm's growth trajectory

People as strategic assets

A CA firm's most valuable assets – do we really treat them well?

- Performance matters
- Setting goals and communicating expectations
- Creating loyalties
- Enabling performance
- Aligning the stars



Performance is Everything

Performance Matters

- Performance orientation
- Compensation models
- Goal setting
- Measurement of performance
- 40 hours * 48 weeks = 1,920 hours
 - Billability, chargeability, yields, performance



Setting Goals & Communicating Expectations

- Goal setting
- Budgeting
- Functional roles
- Expectations from the firm
- Aligning the compensation to achievement of goals
- Continuous monitoring



Setting Goals & Communicating Expectations

Leaders should;

- Provide appropriate employees firm's strategic performance goals, departmental performance goals and leader's individual goals
- Meeting employees to create a "line of sight" to achieve the goals
- Provide assistance to ensure employees' goals are **SMART** (Specific, Measurable, Achievable, Relevant, Time-bound) and aligned with firm goals
- Review and approve employees' goals ensuring a win for both, employee and firm
- Each employee develops and implements a professional development plan
- Hold employees accountable for achieving goals
- Offer resources, feedback, coaching and support employees' needs to achieve their goals

Creating Loyalties

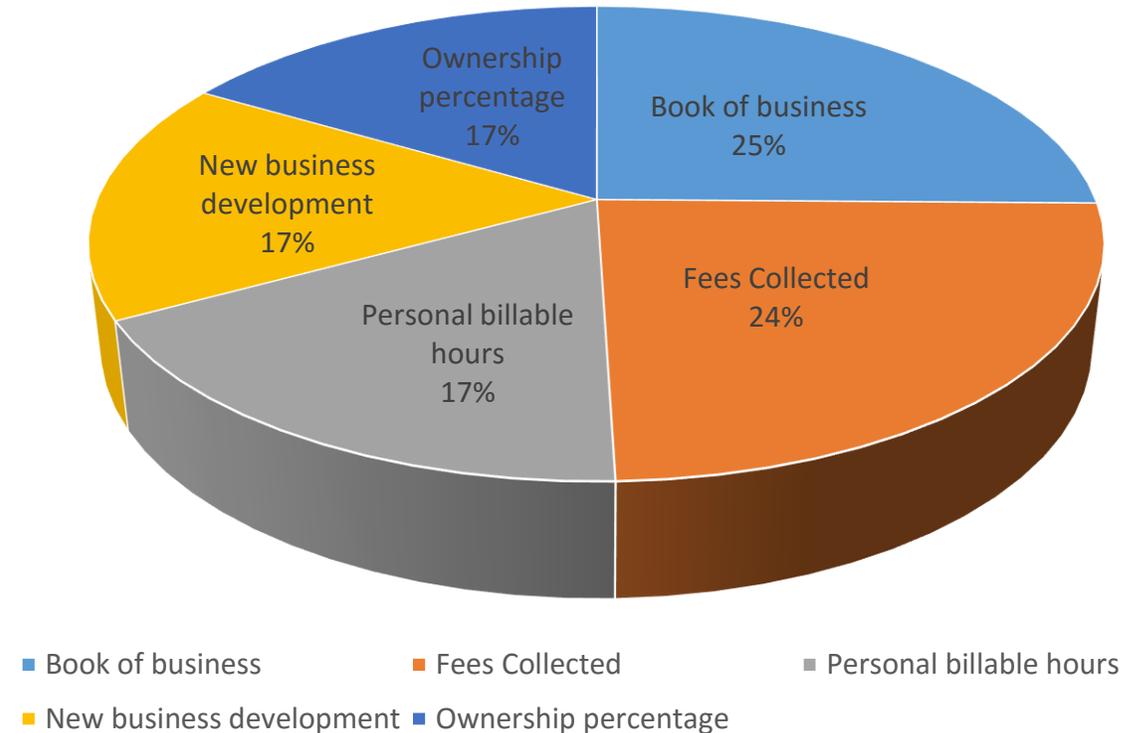
- Rewarding focused performance
- Building an environment that promotes merit
- Promoting in house talent
- Cutting through the age barrier
- Recognizing meritorious performance through firm wide awards



Compensation Criteria

Top 5 criteria in determining compensation

- Book of business
- Fees collected
- Personal billable hours
- New business development
- Ownership percentage



Should “total contribution” to the firm impact compensation?

Align compensation to strategic goals

- Do we have a shared vision for the firm?
- Can everyone in the firm clearly state it in 25 words or fewer?
- Do we have **one** firm culture or **many** cultures in the firm?
- Have we identified the 3 or 4 **most important goals** the firm needs to accomplish this year?
- Have we identified what success looks like in each one of these goals?
- Do we know how **motivated** the owners and staff are to achieve these goals?
- Do we know how **committed** the owners and staff are to achieving these goals?

Enabling Performance

- Aligned and shared vision
- Written performance expectation
- Investing in tools and frameworks
- Tolerance for mistakes
- Mentoring during the “pits”
- Empowering the professional



Aligning the stars

- Turning talent into stars
- Guiding your brightest stars
- Culture
- Leadership without control
- Build a life, Not a Resume
- Shared boat ride metaphor



Key Challenges faced by SME CA Firms

Key Challenges faced by SME CA Firms

- Attracting the **right** talent
- HR **processes** & its execution
- **Attrition/Retention** of employees
- Meaningful **career roadmap**
- **Aligning** for growth



Attracting the Right Talent

- Creating the **right** environment
 - Benchmark policies and processes
 - Career roadmap alignment
 - Performance orientation
 - Meritorious culture
 - Nice working environment in the office
 - Rewards and recognition for outstanding performances
 - A personal touch for each individual for his balanced progress

Attracting the Right Talent

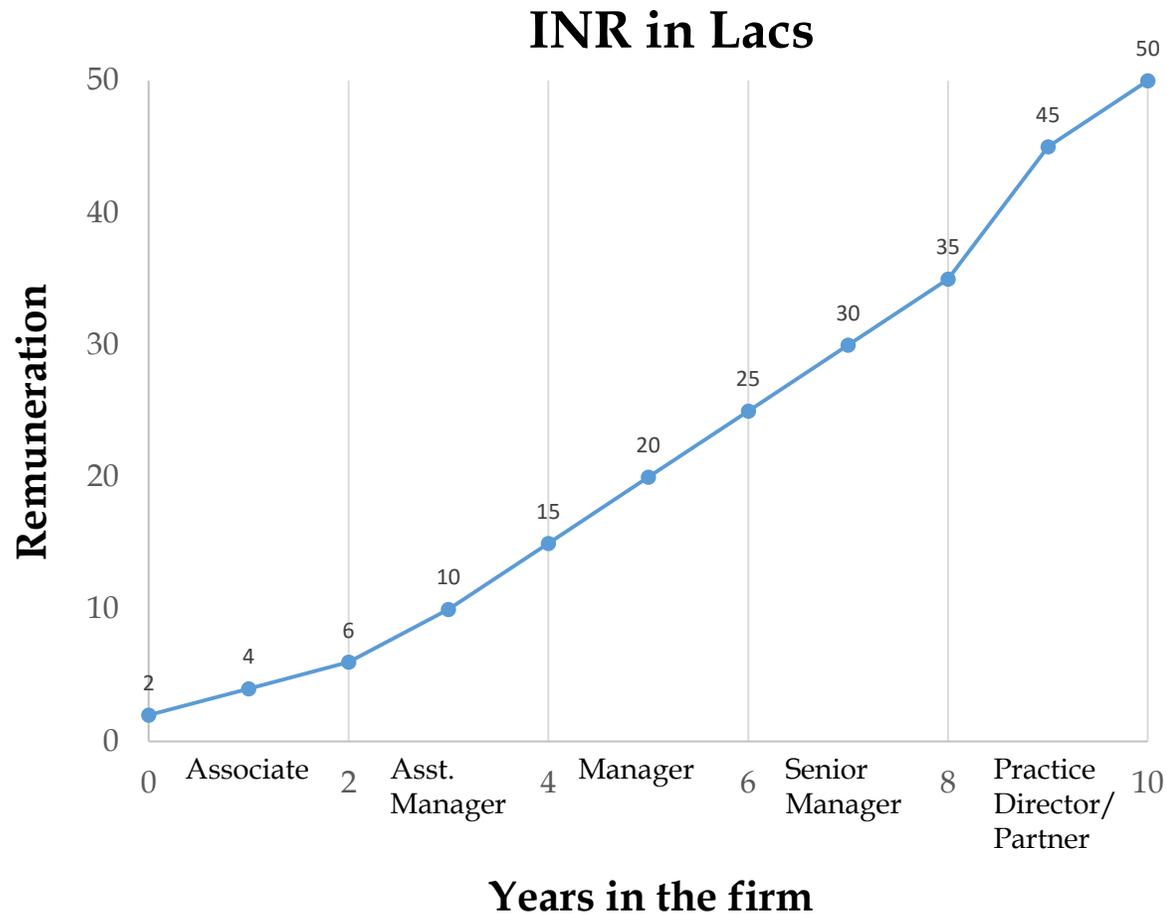
- Ensuring a **strong brand** in the market
- Having a reputation for being **fair and agile** in the market place
- Your firm should be in the **top recall list** of firms to go to



HR processes & its execution

- Induction
- Defining roles and responsibilities, KRAs, KPIs of each individual
 - Mapping them to their service lines, goals and targets
- Performance Reviews
 - Project performance
 - Quarterly performance: Meet employees to discuss progress towards goal achievement and revise them as appropriate
 - Mid year performance:
 - Annual performance

Meaningful Career Roadmap



- Meaningful performance review
- Merit and performance based growth of designation and pay
- Increased responsibilities in the firm
- Inclusive participation in management of firm
- Transitioning to becoming a brand enhancer for the firm by increased networking and marketing activities
- Becoming a knowledge expert for selected subject areas
- Rewarding and satisfying career in the firm

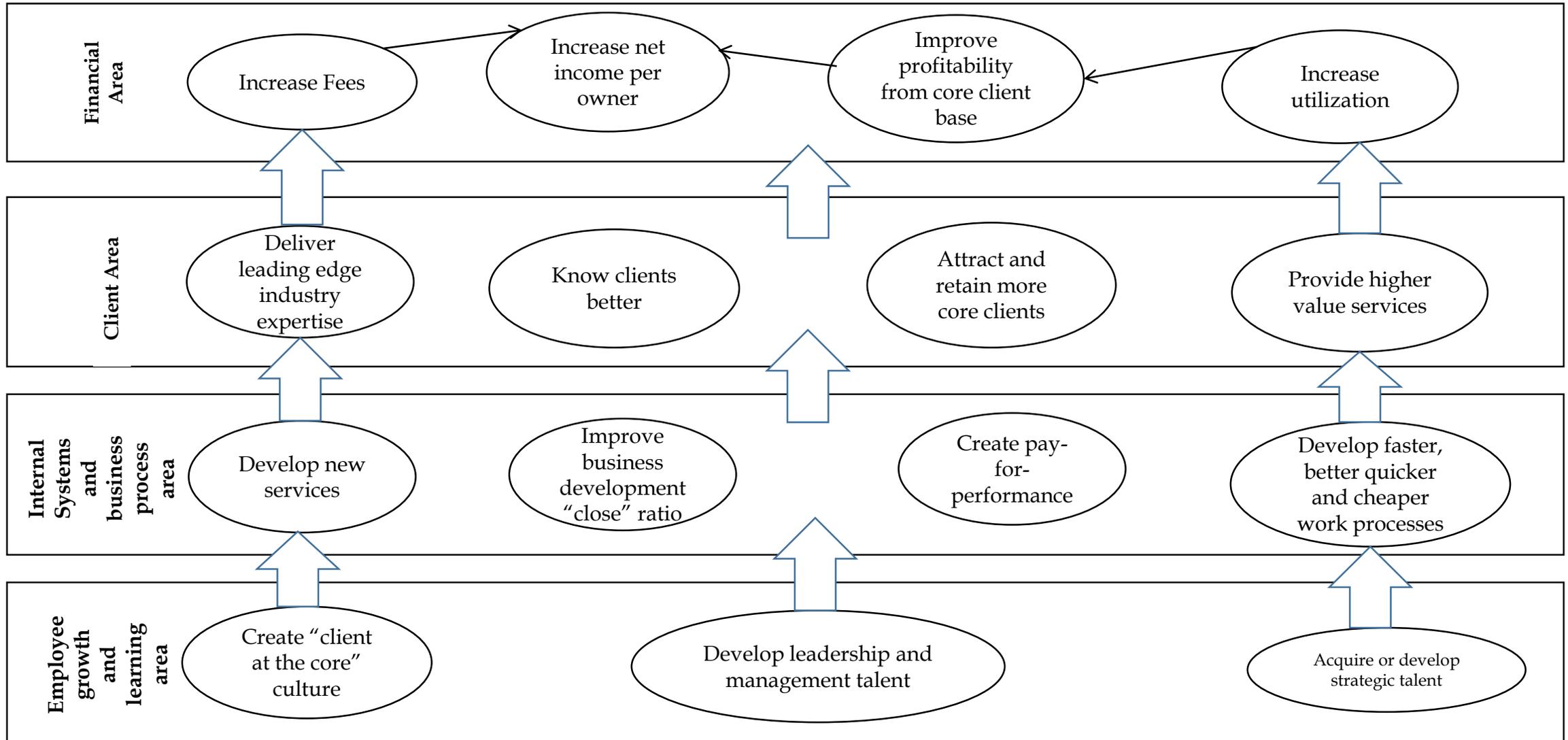
Retention of Employees

- Meaningful career roadmap should be implemented
- A feeling of being heard, recognized and rewarded
- Culture of inclusive growth
 - Merit and performance driven reviews
- Motivation and empowerment



A highly engaged workforce can lead to committed employees

Balanced Score Card



Case Studies

Case Study 1

Facts

- ABC & Co. Chartered Accountants is a firm with four partners. A,B and C are the founding partners sharing profits and losses equally since 1995. D joined their partnership in 2005 as a promising young turk with 10% share. As a result, A,B & C got diluted to 30% each
- The partners have no fixed remuneration. Whatever cash flows are generated are reviewed monthly and after keeping 30% aside for expenses the balance 70% is distributed to the partners towards the end of the month in the ratio 30:30:30:10 respectively

Case Study 1

Facts...cont'd.

Here is the performance for 2015-2016:

- The performance of D turned out to be the best, as he exceeded his budgeted revenues and budgeted profit by 50% each. Clients loved his client centric approach to work. Additionally, he developed the brand of the firm by speaking at 8 conferences during the year. Also, he mentors his team and plays a very vital role in leading the HR function of the firm.
- B met his revenue targets and profit targets.
- C under-performed by 20% on both counts.
- A did not work for 6 months of the year and managed 60% of his annual revenues and profits.
- Each of the partners have 10 people working for them with 2 managers and 4 assistants under each of the 2 managers

You have to align this firm for growth.

Points to ponder

- If partner A has only spent 6 months in the firm, is it fair to remunerate him for the whole year?
- If partner C has under performed by meeting only 75% of the target, does he merit the 30% share of the profit.
- Conversely, if the partner D has exceeded his budget by 50% is it fair to continue him as at his original 10%. What will partner D do - what does the group feel?
- Should A, B & C be thinking differently about how they want to grow the firm?
- Compensation is one of the key elements to maintain a sustained growing PSF. Similar techniques have to be used to compensate managers and associates. Those days of fixed salaries and annual 15% bonuses are gone.

Possible ways to think

Here is how ABC & CO. should think about rewarding for performance

- a. The partners should meet before the beginning of each FY and set annual revenue budgets, annual expense budget and annual gross margin target and annual net profit target. Partners should set compensation mechanism for each partner, with market linked remuneration driven by his/her "contribution" to the firm, and possibly consider a 75:25 split for fixed v/s variable compensation.
- b. Each partner should be provided with a specific functional profile, roles and responsibilities, KRAs and KPIs.
- c. Each partner will provide his action plan for the year in terms of highlighting what is his recruitment plan, people plan, new revenue generation plan and service delivery plan to achieve the budgets.

Possible ways to think

- d. A quarterly review mechanism is ideally recommended to take stock and make course corrections, with a monthly MIS discussion.
- e. Depending on market conditions and the maturity of the firm's policies, each partner has a free hand to take decisions impacting his or her service lines.
- f. If, in the quarterly review, it is found that any of the partners are lagging behind, then necessary support needs to be provided by the remaining partners. This may include client re-allocation, transferring work from one partner to another partner, transferring people between teams and a continuous morale boosting environment to enable performance.

Case Study 2

Facts

- XYZ & Co has strict policies on the following lines:
 - Office time is 9.30 AM to 6 PM, with 30 minutes of lunch break. Saturday - full day working.
 - Deduct 1 day leave if any staff member comes last for 3 days (cut off time is 9.35 AM), for whatever reason
 - No comp-offs for working late evenings or last nights during busy season
 - No work from home days
 - No time to be spent on Facebook, Whats app, Linked in etc., personal calls on mobile, personal emails - during office hours; with no exceptions.
- XYZ & Co is facing severe attrition and the firm is not growing fast enough

What would be your advice to the partners of XYZ & Co.?

Summary

- Align the firm's human capital to the firm's strategy
- Performance is everything
- Proactive approach to meeting the challenges
- Continuous alignment is the name of the game





Thank you

Keep implementing your learnings..

Stay in touch:

E-mail: vaibhav.manek@knavcpa.com

Mobile: +91 98676 70620

Office: +91 22 61644800