

Meeting: Small and Medium Practices Advisory Group

Meeting Location: Virtual Meeting

Meeting Date: Oct 27, 2020

From: George Willie, Chair, SBSTF

Agenda Item 5.1

For:

- ☐ Approval
☒ Discussion
☐ Information

Practice Transformation Initiatives – Break Out Session

Objective(s) of Agenda Item

1. To identify what IFAC and the profession can do together to help ensure that SMPs are empowered in their transformation into the practice of the future. This has an added urgency as more and more economies are slowly emerging from the pandemic. It may be very tempting for a lot of SMPs to go back to the old practice, pre-pandemic, especially when the future is so uncertain. Yet, this could also be a time for real transformation to take place – with the right guidance and support.

Background

2. The focus will be on developing future Gateway articles based on the sharing of insights, experiences and good practices on three major areas:
 - The digital office: Further reflections on the implications, benefits and challenges of operating a digital practice (possibly embracing a hybrid model of physical office and remote working) and its impact on the need for office space and infrastructure, outsourcing of services and a sustainable customer experience.
 - Talent management in a digital practice and its impact on performance and evaluation of staff and possibly, on employee's compensation; and
 - Partners' compensation in the new normal.
3. During the SMPC virtual webinar on January 30, 2020 Chad Davis of [Live CA, LLP](#), highlighted the business model of running a virtual SMP in the digital age. The agenda item was in support of IFAC's strategic initiatives to inspire, promote and disseminate thought leadership and knowledge on topics, that among others, aim to focus on assisting SMPs to be future ready. You can listen to the recording [here](#).
4. In our July 2020 SMP Advisory Group (SMPAG) meeting, we had a robust discussion on the future of sole practitioner's, their challenges and possible support that can be offered by the Professional Accountancy Organizations (PAOs). The article capturing our discussion is currently in the finalization stage.
5. ACCA's [SMP Pacesetters Embracing Technology](#) series of four videos have recently been added to the practice transformation web page. These showcase the use of technology in SMPs and how it has elevated these firm's customer service experience while expanding their scope and volume of services. The SBS Task Force (TF) organized a recent discussion on September 15 on the future of practice in the areas of leveraging technologies and talent management, among other issues. A

number of the TF members are of the view that, post pandemic, a fully virtual firm as a business model may not be a preferred mode, at least in the near future. A staggered transformation to a digital practice may be a more realistic approach. The flexibility that has been adopted following the pandemic lockdown in many areas has opened up a new opportunity for firms to think outside the box and experiment with innovation.

The Digital Practice – Post Covid-19

6. A digital practice is one that is not constrained by the geographical location of their clients or where they can draw upon their most important resources – i.e. staff.
7. For example, Oana's practice in Romania has been able to run on a mostly remote basis within 3 days of the decision being made, even before the Government of Romania had decreed the lockdown of the capital city. Currently, the office is open to the support staff and professional staff are still being encouraged to work from home. A [hot desking](#) approach has been adopted where the professional staff will need to "book" their space in the office (for social distancing purpose) in advance (24 hours) and only come back to the office at the scheduled time.
8. The ability of staff working from home has opened up the possibility of firms being able to look at their talent pool not being constrained by the availability of individuals in their immediate vicinity but across a wider geographical spread. However, such a strategy may have its own challenges. For example, firms may need to adjust the compensation package of staff based on their geographical spread or consider new benchmarks to guide remuneration. The approach can get even more complicated if the staff are from a different country with different legal and immigration or work requirements. Firms may even consider using an outsourcing model rather than directly employing the staff.
9. Similarly, a digital practice using the cloud can open-up markets previously considered unreachable. This is also not without its challenges. Many countries are slowly adopting more robust privacy standards, enacting laws mandating that data cannot be stored off-shore or being processed using foreign servers.

Break-Out Session

Performance Evaluation

10. Performance evaluation of staff is critical for many practices. This issue was raised during the recent SBSTF meeting in September. The SMPAG, in this break-out session is invited to deliberate on the challenges and the suggested approach to deal with staff evaluation – under the new normal.
11. While performance evaluation of staff is critical, dealing with this in the current remote working environment can be even more complicated. Section 4.6.7 of Module 4 of the [Guide to Practice Management for Small- and Medium-Sized Practices \(SMPs\)](#) provides some suggestions that firms can follow in assessing staff performance. Challenges in assessing staff's performance covers multiple areas. For example, the job description can be very generic and does not match the day to day work of the staff. How performance is being assessed is sometimes not clearly outlined and agreed upon with the staff, possibly leading to an ineffective assessment towards the end of the year.

12. The Advisory Group (AG) members are thus invited to share their views on the following:
 - a. How do firms keep track and assess staff's productivity, work quality and service delivery?
 - b. Is the approach the same across all service lines (i.e. audit, tax, accounting and advisory)?
 - c. How is performance assessment different in the virtual environment?
 - d. How can the process be enhanced? E.g. are there technology tools being available (e.g. project management apps) to optimize the process?

Hybrid Office & Hot Desking

13. Google's CEO Sundar Pichai issued a statement about his vision of the future of work. It involves a "hybrid model" and Google is already reconfiguring its work-place for this new approach. It involves the majority of Google employees working from home but who will occasionally need to congregate in the office for in-person meetings or other event/ project collaborations. He said *"We firmly believe that in-person, being together, having that sense of community, is super important for whenever you have to solve hard problems, you have to create something new. So we don't see that changing; we don't think the future is just 100% remote but rather a seamless hybrid model of how people would like to work"*.
14. In a recent SBSTF meeting, many members were of the view that a fully virtual practice model may not be the trend in the near future. Rather, it will involve a similar hybrid of a brick and mortar practice and the flexibility of staff being able to work from home.
15. With this possible new trend, these are some of the possible consequences:
 - There may be less need for physical space, thus a potential saving on rent. However, there could be firms which will invest in smaller spread out offices, outside of the city center to provide flexibility to staff. A robust management system to monitor the availability of space at any given time (managed capacity) may be required. For example, the same engagement team may look to sit together in a hot-desking environment, but spaces will need to be booked very much in advance.
 - Hot-desking may mean less privacy for staff, which could be a concern. For certain service lines (such as forensic audit), this may be critical. The firm may also need to invest in staff lockers. Using smaller conversation booths (or meeting rooms) when discussing with clients on confidential issues may be a possible solution.
 - Staff compensation packages could be impacted. For example, travel allowance may need to be provided or incentives for staff to come back for a meeting, e.g. free lunch.
 - Additional cleaning costs could be incurred due to a need to ensure proper maintenance of common equipment/ furniture. There may also be higher spending, potentially, on maintenance of equipment in the common area.
16. The SMPAG are asked to provide input on:
 - a. Is a hybrid model a likely long-term trend for SMPs?

- b. Which service lines will be best fitted for such a model?
- c. What are the potential advantages and drawbacks of using a hot-desking approach in your practice? And, how would you overcome those challenges?
- d. How can firms build a positive culture and strong team environment with a hybrid office model?

Partner's Compensation

- 17. Partner's compensation is often a challenging area for management. Many articles aim to demystify this part of practice management. Others will raise some of the typical issues being faced in a partnership (see example [here](#)). These, usually, revolves around the complication of valuing the contribution of partners especially when the partners are specializing in different field of services (or area of management such as accounting versus marketing), perceived inequality in compensation due to workload differentiation and the sub-optimal behavior of silo vision rather than operating as a cohesive partnership.
- 18. The article "[Partner Compensation: How to Compensate Partners to Keep Your Firm on Track](#)" includes a compensation structure covering base compensation, incentive pay and ownership distribution to ensure a sustainable practice that can also incentivize the partners in an equitable manner. The incentive pay within such structure will also be able to encourage desirable behavior and this is essential when firms are formulating good quality management system internally.
- 19. CPA Australia has identified some trends such as partnership model that do not require incoming partner to purchase equity in the firm or where new partner do not have to buy goodwill when joining an existing practice. This can be found in the report, [My Firm, My Future](#) (see page 34).
- 20. With the trend of firms looking to attract more diverse talent, including those who may not be professional accountant (e.g. IT experts), the SMPAG is asked for the views on partners compensation as follows:
 - a. How do you calibrate and evaluate the contribution of different partners, each specializing in different tasks within a practice to arrive at an equitable partners' compensation scheme, in commensuration with their efforts?
 - b. How can a firm change its compensation offerings to attract non-accounting talent to join as a partner?
 - c. What innovative compensation schemes have you come across in your jurisdiction?

Session Format

- 21. The plan for the session is as follows:
 - a. Opening remarks by Chair of the SBSTF (5 minutes)
 - b. Small group breakout sessions to discuss the questions listed above. A virtual worksheet will be available to make notes. A scribe will be designated to record the input (25 minutes, out of which 5 minutes is to discuss the approach to the sharing of the key observations).
 - c. Key insights or observations will be shared by each group by an appointed leader (15 minutes).

22. It is intended that the insights provided will be used to produce Gateway articles or as a basis for future discussions, which may involve the development of a thought leadership publication to be shared with the global audience.

Material(s) Presented

None

Action(s) Required

23. The SMPAG is invited to provide input and observations based on the questions identified in the earlier paragraphs.