

THE BUSINESS ABILITY OF ACCOUNTING FIRMS

*Insights from Karbon's Practice
Excellence Scorecard*



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THE BUSINESS ABILITY OF ACCOUNTING FIRMS
Insights from Karbon's Practice Excellence Scorecard

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Why 'Practice Excellence'?

How does your accounting firm compare to others? Are the results you are achieving through long hours, sleepless nights and dedication to clients greater than what is being achieved by your peers? Or are other firms doing better from a revenue, growth, or work-life balance point of view, simply by working smarter?

These are questions that you have probably wondered as you put in late nights at the office or struggled to meet another deadline.

Accounting firms differ in what services they provide, what clients they serve, and how they complete their work, yet they are all inherently businesses. The most common—and hindering—challenges facing firm owners everywhere relate to the ability to be a successful business owner and entrepreneur.

Yet, there is a substantial variation in the skills that these firm owners possess, and their ability to overcome these challenges.

This is why we developed the Karbon Practice Excellence Scorecard—a method to qualify and quantify the critical business ability of accounting firms everywhere.

This shows the specific areas a firm excels at, what they need to work on, and how they are performing on average against other firms. It equips them with personalized information and an action plan to better focus efforts and ultimately achieve Practice Excellence.

We have analyzed the results from the first 250 accounting firms to be assessed, and present them in detail for the first time. Revealed in this report are the business strengths and weaknesses of these firms from around the world—broken down where relevant by geography, size, service breadth and business tenure. As more firms participate, these results are expected to change, and these findings will be updated periodically.

Here, you can compare your own firm with those similar around the world and use the detailed insights to prepare for what is likely coming round the corner.

The data in this report is based on a unique survey conducted by Karbon. Respondents included 250+ accounting firms from 13 countries, with the majority from the United States, Canada, United Kingdom and Australia.

Practice Size:

- Solo (1 staff member): 9%
- Small (2–5 staff): 27%
- Small Boutique (6–10 staff): 25%
- Large Boutique (11–25 staff): 26%
- Regional (26–50 staff): 6%
- Medium (51–100 staff): 5%
- Larger (100+ staff): 2%

Practice Age:

- 0–1 year: 4%
- 1–2 years: 7%
- 2–5 years: 19%
- 6–10 years: 20%
- 10+ years: 50%

Key insights

- 1 Systems thinking:** While single actions help, the collective view is required—no aspect of business proficiency is truly more important than the other. While the focus can be on one specific area at first, a balanced, holistic approach is needed to progress a firm forward.
- 2 Growing pains:** Firms need to be wary of some very common bumps in their road to growth—specifically when they reach 6–10 staff, again at 26–50 staff, and/or they have been in existence for 5–10 years. Challenges related to staff, management, access to resources, and processes, will only emerge once firms reach a certain size and maturity.
- 3 Innovate or else:** To survive growing pains, accounting firms are forced to innovate and develop new strategies. This is because strategies that allowed them to grow to a certain level are not the strategies that work for them once they get there.
- 4 Geography matters:** If your firm is based in Canada there is a good chance that you are more proficient in critical business competencies than average, while if you are a United States-based firm you have a greater risk of lagging behind.
- 5 Pick your side:** A Practice Excellence class gap exists in the accounting profession that separates the progressives from the laggards. Most firms are able to reach a certain level of proficiency without investing too many resources, but this only takes them so far. To cross this gap, a firm needs to dedicate deliberate time and effort, and commit to it. Those firms that do this are then able to accelerate.
- 6 Drivers of change:** As a firm's capabilities improve, their specific focus will shift. Different drivers are needed to help them progress as a whole depending on their maturity and size. But this focus is balanced by systems thinking. The margin of focus can only be so big, as there is no ultimate silver bullet.
- 7 Get expert help:** Sales and marketing is a clear struggle for all firms, with low scores common for the Growth pillar of Practice Excellence. Firms should seek help in areas such as this if they want to progress. If you can't build it yourself, look at other options such as outsourcing or expert guidance.
- 8 Implement technology now:** Unique challenges emerge the larger and older a firm gets, and these take considerable time to rectify. Many of these challenges can be solved through technology, and can be foreseen. The sooner technology is implemented, the better.
- 9 Don't set and forget:** Business processes are a strong area for young and small firms, only to take a backseat as they grow. After neglect, challenges will emerge. Do not become complacent as you mature. Follow a path of continuous process improvement.

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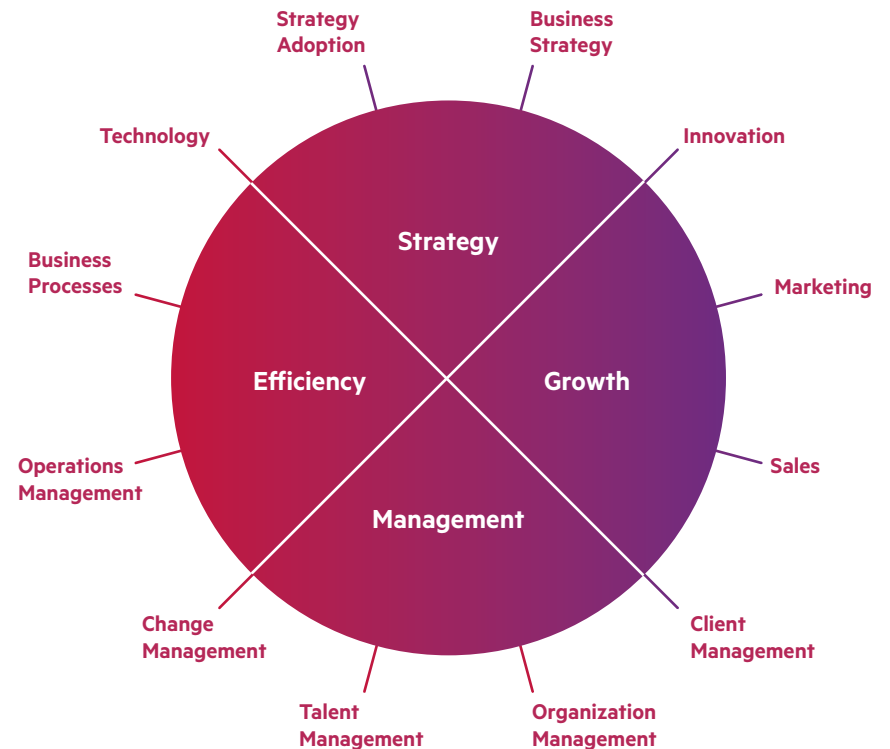
Practice Excellence explained

Every accounting firm is different. Different markets, different teams, different maturity. But everyone in the profession faces similar core challenges. What sets successful practices apart is how they approach these challenges, the tools they use to enact change, and the structures and systems they have in place to implement.

This is why Practice Excellence focuses on four key areas pivotal to running a successful accounting firm: strategy, management, efficiency and growth. These areas form the four pillars of Practice Excellence.

12 competencies have been identified that influence a firm's proficiency in these 4 pillars.

Excelling in each of these competencies—and their overarching pillars—is how a firm will achieve a higher level of Practice Excellence.



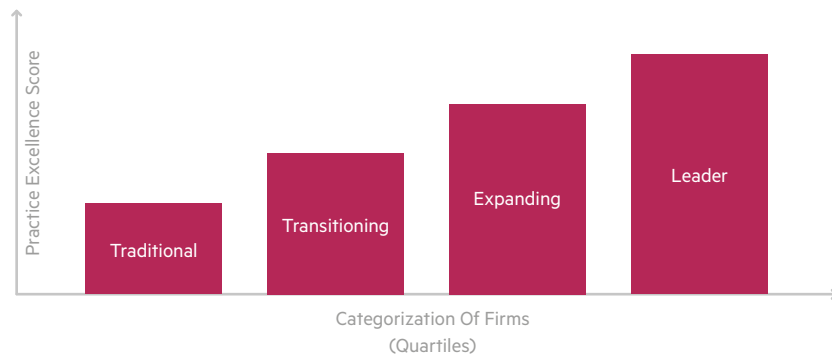
From a quantitative, cross-sectional study: a 20-minute online survey asking wide-ranging questions, a Practice Excellence Assessment evaluates a firm's proficiency in each of these areas. A score is then provided for each of the 12 competencies, and aggregated to determine the scores for the 4 pillars—highlighting where a firm's specific strengths and weaknesses lie.

Ultimately, these scores are aggregated to determine a firm's singular Practice Excellence Score. This is what a firm can use to show their overall business capability, and identify how they compare to accounting firms globally.

To make things even easier, four distinct groups are identified based on the data of all participating firms, and broken into even quartiles:

- Q1: Traditional (bottom 25%)
- Q2: Transitioning (25 - 50%)
- Q3: Expanding (50 - 75%)
- Q4: Leader (top 25%).

Any firm that participates in the Practice Excellence Assessment can be categorized in one of these four levels of expertise.



How Practice Excellence Is Measured

- 20-minute online survey
- 35 questions
- 4 sections: Demographic, Operations, Usage, Confidence
- Question types are a mix of multiple choice, numeric scale and multi-select

The Practice Excellence Assessment is free:
karbonhq.com/get-scorecard

**Take the free Practice Excellence
Assessment now.**

START

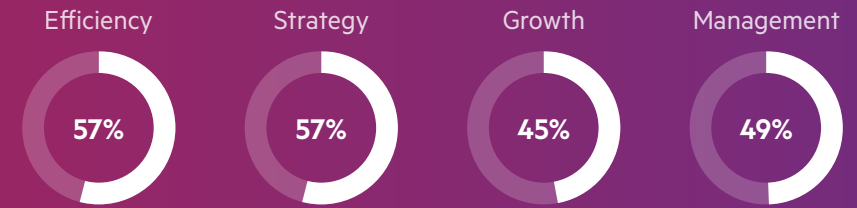
“These metrics back up what has been anecdotal until now.

Through these amazing insights we now can better predict the lifecycle of a firm, anticipate the challenges ahead, adapt to ease their effect, and learn the skills needed to thrive.”

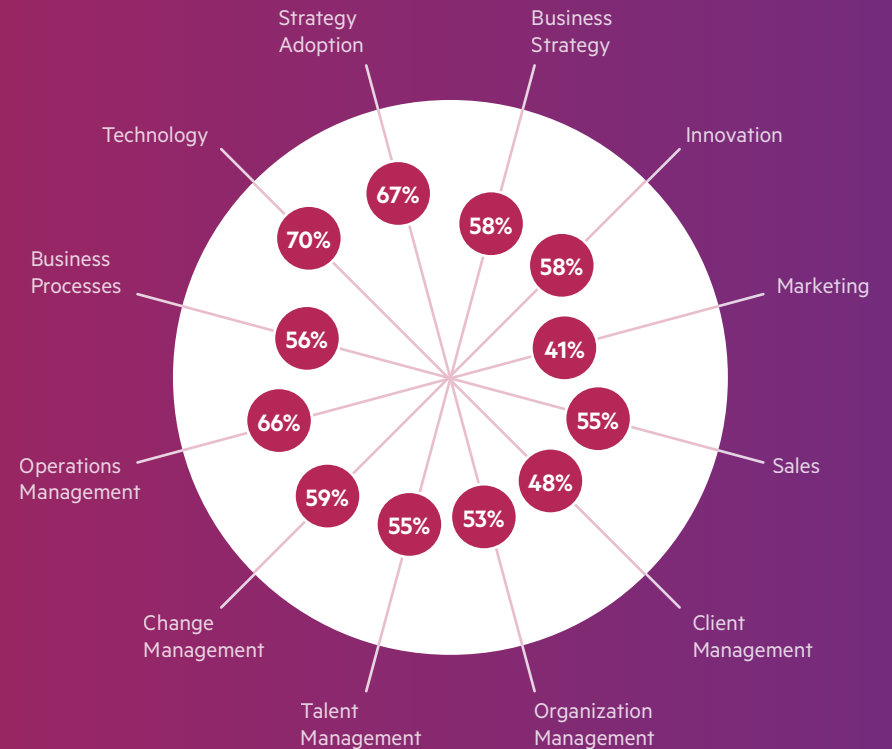
Rachel Fisch, Sage

The business ability of an average accounting firm

Average Proficiency Across Practice Excellence Pillars



Average Proficiency Across Firm Competences



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What does it take to excel?

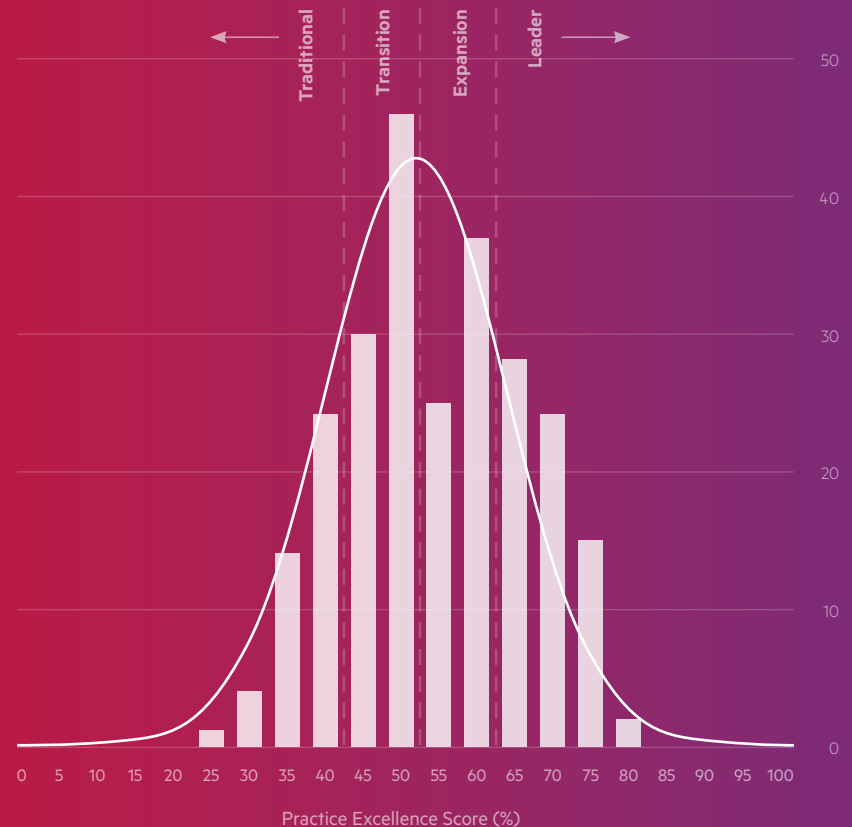
To date, more than 250 accounting firms across the globe have taken the Practice Excellence assessment. Analyzing their results and data presents interesting findings, and helps to show what firms need to do to progress—and the risk of not investing in improvement.

The Accounting Profession's Class Gap

For large data sets, one would expect the data to exhibit a normal distribution—presenting a symmetrical bell curve. However, this does not happen when analyzing the Practice Excellence scores of participating firms.

Instead, two peaks are presented, separated by a significant dip in the lower end of the Expansion quartile (firms with a score near 55%). This indicates a bimodal distribution and can be looked at as the progressives, and the laggards.

Practice Excellence Breakdown



“Of course firms should celebrate their successes but cannot be lulled into complacency.

A continuous improvement mindset ensures continued success.”

Amanda Wilkie, Boomer Consulting

A large number of firms—including many solo and small firms that make up a large quantity of the market—sit in the Traditional and Transitioning quartiles. These firms demonstrate lower than average business capabilities. This could be attributed to a lack of time and resources, a resistance to change, or a lack of desire to invest in the firm itself.

In the middle of a distribution chart like this one, you normally see the highest bars. But one bar in this chart is significantly lower than those around it.

The steep curve preceding the dip, and the dip itself, shows a struggle for accounting firms to progress to the next stage. They are able to reach a certain level of Practice Excellence without investing too many resources, but this will only take them so far. To cross this gap, a firm needs to dedicate deliberate time and effort, and be committed to it.

But for those firms that invest in this, they are then able to accelerate (as demonstrated by the flatter curve after the dip). They find it easier to keep improving and progressing towards the Leader quadrant and a high level of Practice Excellence.

Drivers Of Change And Systems Thinking

Comparing average scores across the 4 pillars (and their underlying 12 competencies) for each quartile, shows what changes the most as a firm's overall Practice Excellence score increases.

Practice Excellence Drivers Of Change

Quartiles	Efficiency	Strategy	Growth	Management
Traditional 0–25%	39%	43%	34%	33%
Transitioning 26–50%	51%	53%	41%	42%
Expansion 51–75%	62%	61%	47%	54%
Leader 76–100%	73%	70%	59%	67%
Change From Q1 to Q2	31%	23%	20%	28%
Change From Q2 to Q3	21%	14%	17%	26%
Change From Q3 to Q4	18%	16%	24%	24%

To move from Traditional to Transitioning, the biggest advancement is in Efficiency. Management is what improves most to reach the Expansion stage. And Growth, in conjunction with Management, is the big move for firms that are classed as Leaders.

These changes highlight what the main focus for each group is during different stages, as they become more proficient overall. Different drivers are needed for a firm to progress, depending on their current ability.

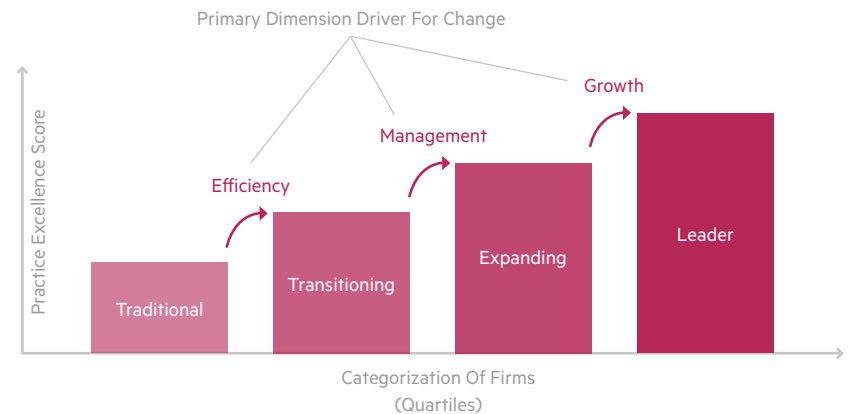
However, firms do not favor one area too much. None of these changes are significantly greater than the rest. This demonstrates the systems thinking approach that is occurring.

No aspect of Practice Excellence is truly more important than the other. A holistic approach to the collective set of competencies is

needed to progress a firm forward. While the focus can be on one specific area at first, like a technology strategy for example, things balance out quickly. This is also evident when analyzing results across specific segments.

In summary, the focus should not be on a single competency but rather on the mix that is optimal to move from one stage to another.

Accounting Practice Capabilities Scale



“You need to focus on each area in order to make improvements, but you can’t ever remove focus from the others completely.

It’s in our nature to think that what we’ve mastered once will stay at the level we achieved, but those check-ins are critical to long-term success.”

Rachel Fisch, Sage

“A lot of firms might invest heavily in strategy at one point, and then go back to focus on something like efficiency.

When you’re growing you’re making a decision to invest in one thing knowing you’ll need to ramp up another thing at a later stage.”

Steph Hinds, Growthwise

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Proficiency across segments

Are Australian firms more strategic? Do larger firms excel at management? Will you become more efficient as your firm matures? Looking at the business proficiency based on segments such as location, size and tenure presents some interesting answers.

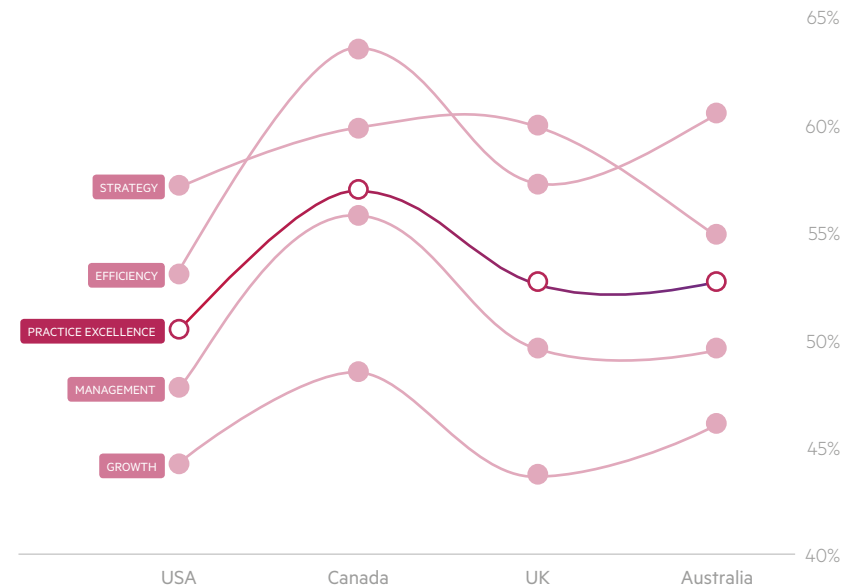
Location, Location, Location

Comparing the business ability of accounting firms based on where they are headquartered showed one clear leader and one clear lagger. Canadian firms excel across Strategy, Efficiency, Growth and Management compared to firms based in Australia, United Kingdom and the United States (these are the four regions where the majority participants to date are located). Unfortunately for those in the US, on average, firms located there are struggling most in all pillars except for Strategy and Growth—in which they rank third for both.

One likely contributor to Canada leading the charge is the unique challenges they are forced to overcome. Canadian firms often deal with both US and Canadian legislation. They have to operate in a situation of both GAAP and IFRS accounting standards, and in order to handle that, they have no choice but to be more resourceful.

When comparing the mix of the pillars, it highlights that the US and United Kingdom are similar while Canada and Australia are also similar.

Practice Excellence Per Region



“Canadians have a strong entrepreneurial spirit and relentless obsession for making the world a better place for others.

What we lack in digital banking services and financial system infrastructure innovation, we more than make up for with our healthy attitudes towards knowledge sharing and having respect for one another.”

Chad Davis, LiveCA LLP

Growing Pains

As firms grow towards 100 staff they generally become more proficient in business expertise. It can be argued that the velocity by which a firm can grow from 1 to 100 staff is accelerated by their Practice Excellence score. This can be seen across all four pillars of Strategy, Growth, Efficiency and Management—firms score higher in most of these categories the larger they are.

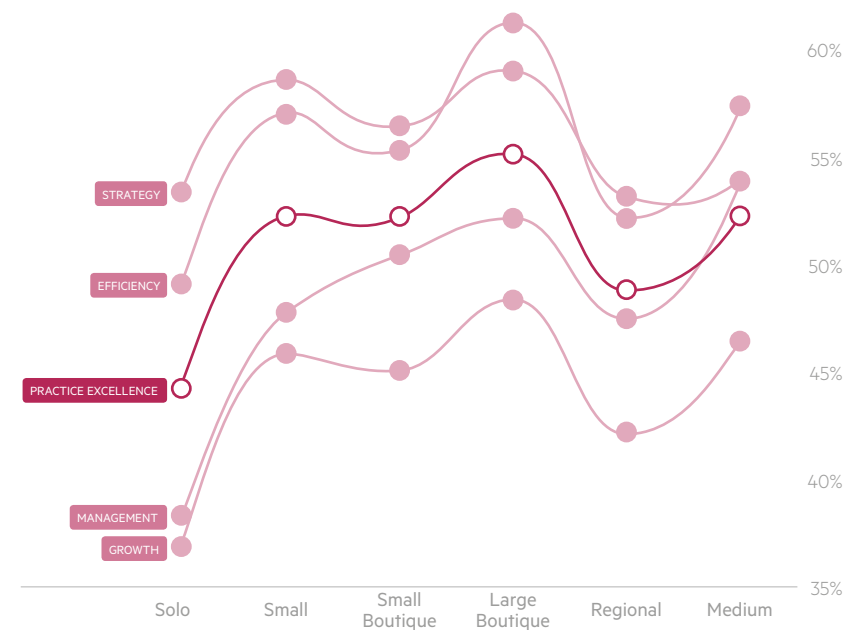
But there is one noticeable exception to this trend: Regional firms with 26–50 staff. Firms of this size usually have multiple partners, are based across different locations, and require a different organization structure than what was required when they were smaller. Teams are less capable because they have to work outside reporting boundaries, coordination is harder, and culture begins to shift. These factors bring a set of challenges and priorities for the firm that are completely new. It's likely that this is the key reason that their Practice Excellence score takes a hit.

At this stage, the biggest decrease is in Efficiency, while the smallest drop is in Management. This highlights the over-focusing on how to manage or move the firm forward, and the loss of focus on processes. Perhaps, because the old system cannot support the new way that things have to work.

It is also noticeable that while Small Boutique firms (6–10 staff) do not have the same drop in their Practice Excellence score—they do not improve either. Generally in firms with less staff, each person is able to bill, manage their own tasks, and wear many hats. As they grow, more time needs to be spent on non-billable activities such as managing, delegating and meeting. This leaves less time to spend servicing clients and improving business capabilities.

These are all signs of growing pains that will hit most firms as they expand. Challenges emerge relating to things like staff, management and processes, which, until they reached that size, will have been foreign to them. The strategies that would have once worked for them so well, and allowed them to grow to this level, are not the strategies that work for their firm now.

Practice Excellence Per Firm Size



“Strategy and planning is definitely one area where all firms can improve.

In fact, this can be a key differentiator between firms that are scaling and growing, and those that remain stagnant.

Taking the time to assess where you have been, where you are going as a firm, and how you plan to handle the future will set your firm apart and project you light-years ahead of your competitors.”

Jason Blumer, CPA, Thriveal CPA Network

Business Tenure

The length of existence for accounting firms paints a similar picture. On average, a firm's proficiency improves steadily until they have been in existence for 5–10 years. A drop then occurs.

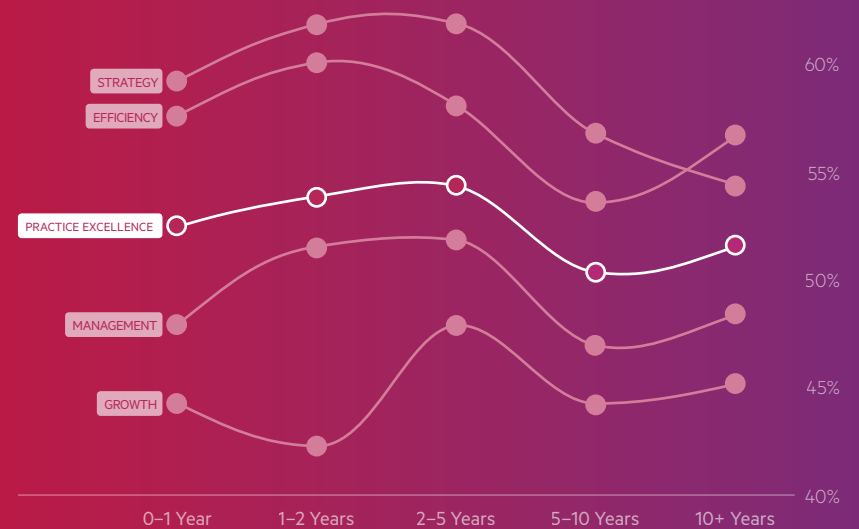
For firms in the 5–10 year tenure, Strategy suffers the most of all 4 pillars, dropping by 8%. This is likely due to similar pains that a firm will experience as they grow larger. Once again, the strategies that worked for a firm in the first few years of existence will no longer be relevant as they mature.

But firms that exist for 10 or more years do recover, particularly in the area of Efficiency. After this time, a business has generally figured out their value proposition and now they can dedicate time to delivering this quicker and smarter.

Diving deeper into this segment, and looking at specific competencies, shows how areas of expertise can shift. For example, firms become weaker in technology and innovation as they mature. They also grow less proficient in the area of business processes until they have been around for 10 or more years—when most have been able to fine-tune how they work and experience a huge jump in expertise in this area.

Across all of these charts that break down scores across segments, proficiency in each area usually correlates to one another. If a firm scores higher in Strategy, the other three pillars usually follow—but if Efficiency drops, so too do the others.

Once again, this shows the holistic approach firms are taking. When they grow they decide where to invest their resources. As effort is applied and results emerge they can then shift their focus generally to another aspect to continue to grow and improve.



Practice Excellence Per Business Tenure

“Staying nimble in terms of technology adoption and innovation are critical for firms of all sizes, but seasoned firms must be especially mindful of this in order to combat the trend toward complacency or ‘just keeping up’, especially in today’s climate of change.”

Carla Caldwell, Caldwell Consulting & Training

“As an owner tries to move their firm they have to focus on all dimensions rather than one single dimension.

But it takes a little bit to get all the pieces in place and working in harmony with each other.”

Adrian Simmons, Elements CPA

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Firm effectiveness: the most critical periods

A firm's Practice Excellence score demonstrates their overall knowledge and capabilities—what they can put in—but that does not automatically mean that they are leveraging these inputs to their full extent.

To look at how well firms are leveraging their proficiency, their output must be considered: revenue per employee.

“If the Practice Excellence Score measures the capabilities of a knowledge-based firm—their inputs—then their revenue and number of employees tell us how effective they are at leveraging those capabilities—their output.”

Ian Vacin, VP Education, Karbon

Bumps In The Road To Growth

Charting firm revenue based on firm size presents a positive trend that is marred by two clear bumps in the road.

The first bump appears for small boutique firms—those with 6–10 staff. Firms who reach this size are trying to find their way, learn the best way to manage their team, and identify the right technologies and processes. They are also faced with hiring challenges, often for the first time.

Average revenue per employee for firms of this size is significantly less than smaller firms and sole practitioners because they are now hiring for resources that have more non-billable activities associated to them. The firm has to shift from having the luxury where all staff can do everything, to a situation where they need more specialized resources that aren't directly delivering services that are chargeable—such as a Business Development Manager, for example.

The second bump appears for firms classed as regional—those with 26–50 staff. While this bump isn't nearly as severe, revenue growth does slow down. This is likely a result of the new challenges they are experiencing as their teams increase and become more hierarchical. This results in more inefficiencies and reduced capacity, meaning that each staff member is unable to serve the same amount of clients they were prior.



Average Revenue Per Employee By Firm Size

*Data from Accounting Today's special report of 2018 'Top 100 Firms and Regional Leaders' (<https://www.accountingtoday.com/top-100-firms-and-regional-leaders>)

Technology changes so rapidly and, like processes, should be looked at through a lens of continuous improvement to ensure they are thoroughly leveraged.”

Amanda Wilkie, Boomer Consulting

The Make Or Break Period In A Firm's Lifecycle

Again analyzing revenue per employee, but this time breaking it down based on the number of years a firm has existed, also paints an interesting picture. There is another positive trend in staff effectiveness as a firm matures, with one exception—the 5–10 year period for a firm's lifecycle.

This is the period that many accounting firms will thrive, or die. Many at this point of their lifecycle find that the strategies that worked so well for them previously are not going to be the same strategies that will continue to progress them forward. This highlights the need that firm owners must always be learning and re-inventing.



Average Revenue Per Employee By Business Tenure

“Leadership is absolutely key throughout the lifecycle of any organization, and firm owners are no different.”

We must always be learning—and not just about the latest accounting trends, but also about leadership, strategy and management.”

Carla Caldwell, Caldwell Consulting & Training

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The relationship between a firm's inputs and outputs

Practice Excellence scores for firms (their inputs) and their revenue per employee (outputs) show noticeable spikes and drops based on firm size and tenure. Comparing this input and output together provides a quick understanding of where one firm stands in regards to both measures, and the relationship between the two.

“Although we keep growing and tripping over ourselves, we are excited by the new automation that is starting to emerge in our space.

I believe this new horizon will help us reach new profitability levels, and firm owners will be able to make the choice about growing income with or without scaling a firm.”

Jody Padar, The Radical CPA

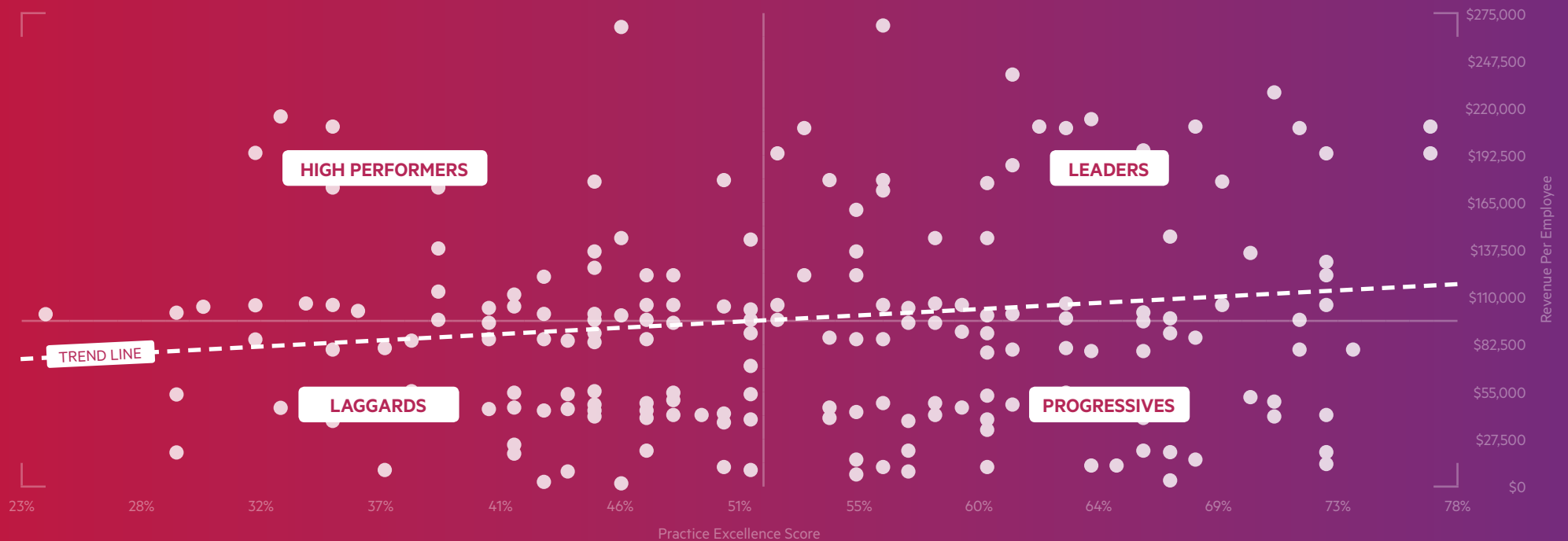
The Karbon Magic Quadrant

The Karbon Magic Quadrant indexes each participating firm based on their Practice Excellence Score and their revenue per employee.

This diagram is broken into four quadrants based on values for the average firm:

- **Laggards:** firms that aren't investing in their team, or extracting above-average outputs from their staff.
- **Progressives:** firms that have obtained business knowledge and have invested in their team, but are still achieving below average results. They have shifted their mindset but are yet to unlock the full benefits of their efforts.

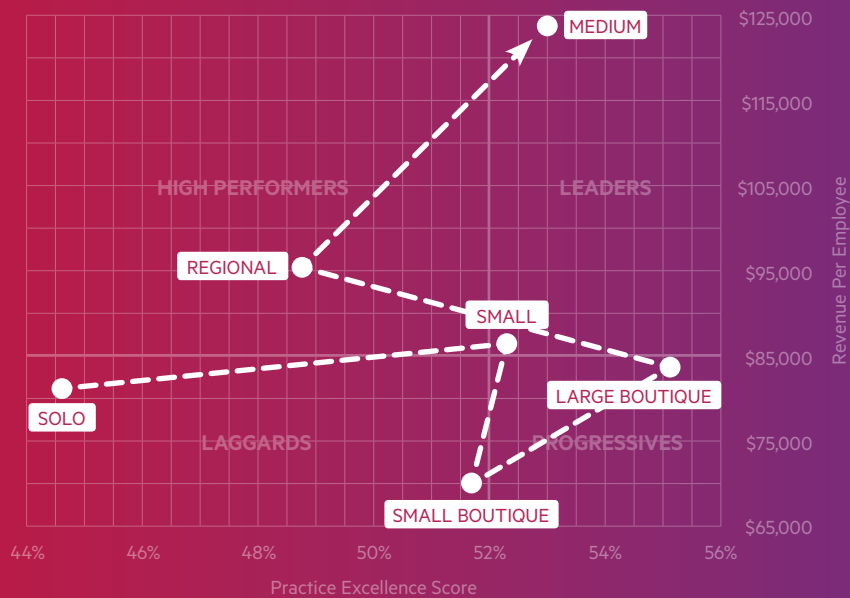
- **High-performers:** A lower than average firm in Practice Excellence ability that obtains higher than average revenue per employee. They have proven they know how to maximize each and every resource, but lack business expertise.
- **Leaders:** A higher than average firm in Practice Excellence ability and revenue per employee.



The Journey For An Accounting Firm To Reach 100 Staff

Due to the variabilities that exist such as firm size, maturity, location, and other factors, making broad implications of what is correlated on the Karbon Magic Quadrant is a bit premature. But comparing a firm's input and output based on staff numbers emerges a more interesting picture.

The overall trend line shows positive movement up and to the right, yet this movement is anything but a straight line.



Solo (1 staff member): With an average Practice Excellence score of 45% and revenue per employee of \$81,535, sole practitioners are firmly in the Laggard quadrant. Working on their own, these accountants are clearly stuck in the weeds. They are wearing many hats and strongly focused on delivering for their clients and finding new clients. Therefore, they are unable to provide the time to learn, develop and grow.

Small (2–5 staff): Average Practice Excellence score of 52% and revenue per employee of \$86,848. These firms have usually determined how to leverage a small team, technology, and ways of working together to be much more efficient for their size.

Small Boutique (6–10 staff): Average Practice Excellence score of 52% and revenue per employee of \$70,014. Growing to this size is when a firm needs to manage the fundamental dynamics of teams for the first time. An understanding of managing and delegating is required, with which many owners—who often started much smaller—can struggle with. They get bogged down, face a drop in efficiency and can struggle to let go of things they have always done themselves.

Large Boutique (11–25 staff): Average Practice Excellence score of 55% and revenue per employee of \$85,702. Firm owners who have management and strategy proficiency can quickly grow their firm to this size. Good systems and processes are usually in place within firms who have reached this size.

Regional (26–50 staff): Average Practice Excellence score of 49% and revenue per employee of \$95,770. These firms usually have multiple-partners and are often based across multiple offices. This brings a whole new set of challenges and priorities brought on by size, and Practice Excellence takes a hit. Change is harder to implement and is slow. However, effectiveness per staff member

increases, most likely due to being in a position to employ more junior staff at lower salaries. They can do more for less and drive more revenue.

Medium (51–100 staff): Average Practice Excellence score of 53% and revenue per employee of \$124,542. Medium-sized firms have made it over the hump and rectified much of their growing pains. To reach this size they have found an ideal balance between Practice Excellence proficiency and employee effectiveness.

Survey Considerations

Selection Bias: Respondents are within the broader view of Karbon, which may skew results, since these firms are typically more progressive. Results and this report will be updated as a broader audience participates.

Results: The survey questions and calculation are not a perfect science, and could impact results. However, a pre-test was conducted to ensure the best opportunity to gain insights.

Analysis: All data provided was collected, calculated and included in this report. The analysis is based on our best understanding and assumptions (including from expert opinion). Other reasons/rationale may also exist.

*“Always be learning.
Not about accounting but
about business.
From leadership to strategy
to management and even
technology in general, partners
and owners, and future
partners and owners, should
invest in their business skills
outside of accounting, just like
any other business owner, in
order to succeed and thrive in
today's markets.”*

Carla Caldwell, Caldwell Consulting & Training

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The road to Practice Excellence

A high level of Practice Excellence is what every accounting firm must aspire to achieve. Balanced proficiency in the four pillars of Strategy, Growth, Management and Efficiency will ensure that success will follow.

Firms who achieve this demonstrate an ability to tackle challenges, foresee and adapt to change, take advantage of opportunities, exceed revenue targets, produce more output without working more, be a place where the best talent want to work and their best staff want to stay, and be prepared for future change that is coming.

A focus on these areas has to be your new reality. If you want your accounting firm to succeed today, and 50 years from now, you simply must invest real time and effort into these vital areas.

If you have not already, take the Practice Excellence Assessment today to identify the business proficiency of your firm, and how you compare to hundreds around the world. Better still, you can determine what your strengths and weaknesses are so that you can invest in the areas that are out of balance, capitalize on what you already excel at, and accelerate toward a more efficient, profitable and enjoyable future.

The Practice Excellence Assessment is free:

karbonhq.com/get-scorecard

**Take the free Practice Excellence
Assessment now.**

START

How work gets done.

Karbon is an advanced workstream collaboration platform, ensuring visibility across teams, departments and locations. Combining your email, discussions, tasks and powerful workflows, Karbon keeps everything your team needs to get work done in one place and in context.

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