Assessing Your Firm's Capabilities... and Identifying Where You Need to Change the Firm

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As 1999 approaches, leaders of accounting firms throughout the world are stepping back, asking:

- How's our firm doing?
- Where do we need to improve?

This is not an exercise that is unique to accounting firm leadership. The CEO's at leading organizations throughout the world go through this exercise regularly. A tool that is used in the assessment of organizational capabilities at major corporations can be easily modified by accounting firm leadership to assess their firm's capabilities and identify where change needs to occur.

The process, "Firm Capabilities Analysis," has three key steps:

- **Step One** – Identify the key capabilities of your firm (we've provided a generic list as a starting point),
- **Step Two** – Rate the relative importance of each capability and your firm's current performance on that capability, and
- **Step Three** – Plot the firm's capabilities on the assessment matrix.

Each of these steps is described in more detail below.
Step One – Key Capabilities

The first challenge is to identify the major capabilities you believe an accounting firm needs to have to "play" in your competitive environment. Some possible capabilities might include:

- Qualified professional staff.
- Client service.
- Image/reputation.
- Current client list.
- Financial strength.
- Marketing skills.
- Selling skills.
- Client relationship management.
- Financial management.
- Morale.
- Alignment of strategy and rewards.
- Use of technology.
- Operational efficiency.
- Strategic alliances.
- Vision.
- Price/value ratio.
- Passion.
- Support staff capabilities.
- Location.
- Practice area capabilities.
- Bench strength.
- Etc., etc. (you pick).

You need to spend some time thinking about what are the top 12 capabilities that will provide the keys to the future for your firm, as well as link to the firm strategy.

Step Two – Rate the Relative Importance

The next step—after you have identified the most critical capabilities—is to rate the relative importance of the capability, as well as your firm's performance on each of the capabilities. That can be done on the grid below.

Relative Importance/Performance Grid

Importance

Rate each capability anywhere from 1 (low) to 10 (high), based on your view of its importance in achieving the firm's strategic objectives. As an example:

- If the capability is "needed to play," you would rate it as a 1 (low).
- If the capability is "needed to compete," you would rate it as a 5 (medium).
- If the capability is "needed to win," you would rate it as a 10.
**Performance**

Rate each capability anywhere from 1 (low) to 10 (high) based on your view of your firm's performance relative to its competitors. As an example:

- If your firm's performance is worse than your competitors, rate it a 1 (low).
- If your firm's performance is equal to your competitors, rate it a 5 (medium).
- If your firm's performance is better than your competitors, rate it a 10 (high).

<table>
<thead>
<tr>
<th>List of Capabilities</th>
<th>Importance Low (circle one)</th>
<th>Performance Low (circle one)</th>
<th>Plot Point</th>
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</table>
Assessing Your Firm's Capabilities

**Step Three - Assessment Matrix**

The final step is the assessment process is to plot the capabilities you have identified on the assessment matrix. A blank assessment matrix is show below.

![Assessment Matrix Diagram]

The firm's capabilities represent the collective ability of the firm to accomplish strategic objectives. When you have completed your assessment, you will have capabilities that represent:

- Surpluses,
- Alignment, and
- Gaps.

The challenge for any firm is to build capabilities before competitors do. High performing firms continually assess their capabilities to develop strategies to close gaps, identify emerging requirements, and deploy resources appropriately (see the sample assessment matrix below).
Some Closing Thoughts

Management consultants analyzing global businesses are noticing a pattern. The pattern of winners. There appears to be two factors that contribute to the success of winning corporations:

- **Agility** – organizations that can turn on a dime, and
- **Humility** – organizations that will try anything and accept that they will make some mistakes.

Look at those two words. How does your firm stack up if metrics were applied to each of those two attributes? The Firm Capabilities Assessment exercise should have identified some competencies/capabilities that need improvement in your firm. How are you going to go about making those changes? Hopefully, **agility** and **humility** will be key factors in your change process.