

## THE PERFORMANCE PENTAGON: A NEW BUSINESS MODEL TO MAXIMIZE PROFITABILITY FOR ADVISORY SERVICES

Richard S. Savich, University of California, Riverside, U.S.A.  
Sean D. Jasso, Pepperdine University | University of California, Riverside, U.S.A.

[dx.doi.org/10.18374/JIFS-20-1.6](https://doi.org/10.18374/JIFS-20-1.6)

### ABSTRACT

*The measure of a successful enterprise is the ability to create lasting value for the client while also maximizing and sustaining profitability. Indeed, other important measures that support the financial perspective of advancing the owner's investment include the ability to measure customer satisfaction, operational excellence, and growth through agility. The big question of any responsible firm is how to design business models that generate growing revenues while minimizing costs and yielding maximum profit. Professional service firms, such as CPA and management consultancies, earn revenue by charging their clients for services rendered and earn net profits by subtracting overhead and compensation from their revenues. This paper presents a new business model called the Performance Pentagon helping owners maximize profit per partner (PPP) by analyzing these five key performance indicators: productivity; realization; leverage; overhead; and compensation. Organized in four parts, we deliver a historical context of how the consultancy profession contends with the delicate balance of professionalism and commercialization. The second part illustrates how the Performance Pentagon measures the five variables that contribute to profitability. In part three, we include a case study that analyzes a firm's implementation of the Performance Pentagon increasing PPP. We conclude with further applied lessons for consultancies on improving their processes for budgeting, managing and evaluation.*

**Keywords:** *Performance Pentagon; Advisory Services; Profit Per Partner; Profitability; Productivity; Realization; Leverage; Overhead; and Compensation.*

### 1. INTRODUCTION: BALANCING PROFESSIONALISM AND COMMERCIALIZATION

An excerpt from *The Book Keeper*, the oldest accounting journal in the United States, argues for the creation of a professional accounting organization as early as its first publication in 1880. The Institute of Accounts becomes the first professional organization in the early days of American accountancy and whose founding objective in 1882 is the "elevation of the moral and intellectual status of every member" (Romeo and Kyj, 1998). In 1887, the American Association of Public Accountants evolves to become the American Institute of Accountants ascending to its permanent namesake in 1957 as The American Institute of Certified Public Accountants. Recently, this organization joined with other similar affiliations to form the Association of International Certified Professional Accountants, thereby recognizing the field of accountancy as a global profession. Among the aims of the early associations is the continuing education of accounting professionals to not only deliver 'moral and intellectual' client services, but to also legitimize and commercialize the advisory services industry for the generations to come. This paper presents a new business model called the **Performance Pentagon** speaking directly to the vital balance of delivering excellence in client services *and* ensuring sustainable economic growth through the maximization of **profit per partner**.

For over 130 years, the 'science of accounting' (Romeo and Kyj, 1998) has served the interest of the client by *assuring* financial authenticity while also *advising* financial strategy. Today, the accounting services industry in the United States shows current growth projections at 2.6 percent through 2025 and beyond. The profession generates \$105.7B in revenues, \$17.2B in profit, employs nearly 500,000 people in 90,000 businesses, with the four major public accounting firms (EY, PwC, Deloitte, KPMG) commanding 35 percent of the total market share. The industry's major product portfolio consists of financial auditing at 30.2 percent, individual tax preparation at 11.2 percent, tax planning and consulting at 8.1 percent, and general accounting at 5.7 percent (Patel, 2020). A hybrid of non-profit and governmental organizations