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Contryman Associates, P.C. Strategic Audit

An Undergraduate Thesis Submitted in
Partial Fulfillment of
University Honors Program Requirements

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Abstract

Contryman Associates, P.C., is a small accounting firm located in central and western Nebraska. After its founding in 1939, the firm has expanded to seven locations servicing accounting, auditing, tax, business advising, and financial planning needs. A PESTEL analysis was done to analyze the external environment. Porter's Five Forces analysis guided the analysis industry forces. Current strategy, competitive advantages, resources of Contryman Associates, and any major issues of the firm are also discussed. This information recommends Contryman Associates to keep working to expand if possible while passing industry knowledge to future generations.

Key Words: Contryman Associates, PESTEL, Accounting, Auditing, Tax, Strategy, Strategic Audit

Accounting and Tax Industry

When accounting is discussed in the business world, many minds go straight toward the Big 4 accounting firms. These monsters that have engulfed most of the business involved with accounting are still comparable to smaller, lesser-known firms. Both firms have business ventures that are successful in building relationships with clientele. Bigger firms specialize in stricter, more professional relationships while smaller firms focus on the personal aspect of customer relations (Stephanie, 2023).

One pro of working with the Big 4 accounting firms is that these firms land the biggest clients. Employees will have a chance to work with different industries if they choose to. Bigger firms also have a well-known reputation. These reputations will allow employees to transition to different companies or career paths with ease because of the opportunity provided. However, large firms also require longer hours with a normal dedication of over forty-hour weeks. These hours are fast-paced and require ultimate productivity.

Smaller firms have different pros and cons from an employee standpoint. The employees tend to be more close-knit because they work together on most of their clients. Clients tend to be smaller and easier to manage. On-the-job training at smaller firms is more personalized with more first-hand work with senior level employees. One con of working in a smaller firm is that often firms do not have as much exposure to different work product experiences as larger firms. The pay is typically lower at first.

Background of Contryman Associates, P.C.

Orin Contryman founded Contryman Associates, P.C. in 1939 as one of the first Certified Public Accountant (CPA) firms in central Nebraska. “Providing services for your success” was the mission of Contryman in 1939 and still stands as the current mission of Contryman

Associates, P.C. Grand Island, Nebraska, is the founding city for Contryman Associates, but this company now has seven locations in the central and western parts of the state (Audit Services, 2023). Contryman Associates provides financial services for employers, individuals, businesses, government entities, non-profit organizations, and for-profit entities. Its services include managing investments, preparing taxes, completing audits, organizing employee benefit plans, and managing payroll services among numerous other financial functions. Maintaining positive client and community relationships is a major goal of Contryman Associates, P.C.

The corporate structure includes one president who sits on a board with four other shareholders. Managers and employees operate with a top-down management structure. A median tenure of 7.8 years signifies employee retention. The total number of employees varies from 40-50 depending on the year and number of interns taken in. Affiliations for employees include BDO Alliance USA, American Institute of Certified Public Accountants, and the Nebraska Society of Certified Public Accountants. The BDO Alliance USA is an association of accounting and professional service firms that guides Contryman Associates in standard practices (BDO Alliance USA, 2023).

Competition for Contryman Associates

In central Nebraska, people look for a firm that they trust to prepare their taxes or provide accounting services. People and companies want to be able to go in person to a location where they can speak about their finances. Since having offices in central Nebraska is not a major goal of nationwide firms, competition in Contryman Associates' field is low. There are four or five other firms of its size, but it is difficult to keep the staff size adequate for each of these firms. If anything, there needs to be more small firms in central and western Nebraska for the amount of business there is. The strategic group Contryman Associates belongs to does not compete with

huge big-name firms but rather family-owned, small firms. The people-first, friendly aspect is what sets a small firm apart from large firms, and this is a benefit of doing business with Contryman Associates.

Audit Department

Contryman Associates provide audit services for employee benefit plans, for-profit entities, non-profit entities, and government entities. Government entities consist of cities and counties across Nebraska. This makes up around 80% of its total business. Each audit must pass through multiple quality control reviews with at least two reviewers approving financial statements. Audit standards are ever-changing. For example, a new one was just deemed active last year regarding lease standards. Employees must learn new standards regularly and adjust practices accordingly. It is a number-filled, decision-making environment centered around communication with clients. The Audit Team consists of around ten members that are credentialed CPAs and report to the Audit Department Lead. Contryman Associates uses the QuickBooks Systems to report data.

Tax Department

The goal of Contryman Associates' tax department is to prepare tax returns that follow current federal and state laws. The employees aim to help individuals, families, and businesses minimize their taxes obligation by using methods that are ever-changing. Tax professionals work one on one with clients to review prior documents, explain information, and answer any questions that clients may have about their taxes. Documents are reviewed by several members of the company before another review meeting with the client to discuss returns and future opportunities.

PESTEL Analysis

A PESTEL Analysis focuses on the factors in the general environment that might impact the industry or firm (Libguides, n.d.). This type of analysis will be used to analyze six factors influencing the business environment. These factors are political, economic, social, technological, environmental, and legal. Some factors influence Contryman Associates more than others.

Political

Tax policy on federal and state levels influences Contryman Associates and similar firms. Depending on the tax rate, the accounting profit wavers during the period that a change is enforced. Currently, Nebraska income tax ranges from 2.46 percent to 6.64 percent (*How Does Nebraska Compare*, n.d.). Corporate income tax is a higher than this. Another governmental factor affecting Contryman Associates is the amount of government audits the state chooses to complete. In typical states, the state government aids smaller firms to complete city and county governmental audits. In Nebraska, Contryman Associates competes with the state for business. Political factors have the most significant impact on Contryman Associates due to the policies created.

Economic

One of the top challenges for accounting firms is to hire and retain employees (Beaver, 2023). Talent requirements for this industry are high because of the requirement to be a licensed CPA. Most firms must offer to provide study time or to support new employees taking these exams. to study and sit for these exams while taking time from work. Many firms also require a Bachelor or Masters degree as a condition of employment. Employment in the industry in 2021

was just above 8,300 in the state of Nebraska, and it is projected to increase to around 10,000 by 2028 (*Accounting.com*, 2022). Other than employment rates, changes in the economy do not affect the accounting industry much due to the necessity of services provided.

Social

The age distribution of employees in the accounting industry is a challenge firms face. Most of the workers have been working in the industry for over a decade. Finding new talent that possesses a work ethic to carry on smaller firms' knowledge and growth is difficult. Contryman Associates faces the same challenge. Offering a work-from-home option is an attractive advantage that Contryman Associates has. It provides this opportunity to fit the lifestyles of its employees and clients. During the heart of the pandemic, Contryman Associates collaborated with clients on a case-by-case basis to deliver results in a safe, preferred way.

Technological

Accounting firms rely heavily on technology to continue to improve their processes. With quicker processes, more business can be taken on to earn a greater profit. Contryman Associates uses QuickBooks for their accounting services. It is important to train employees in systems operations to ensure security and accuracy. Asset management and protection is another key area for accountants. This is a service offered for businesses through Contryman Associates. Ensuring assets are invested in profitable ventures plays a role in business retention. Technology helps model these profits.

To stay current and improve its technology, Contryman Associates representatives attend a conference yearly in its BDO Alliance where the most recent technology is presented.

Contryman Associates needs to adapt and implement to be competitive. Contryman Associates

outsources much of its security protection and development. Outsourcers give them access to specialized firms with advanced technological expertise.

Environmental

Weather has a potential to affect audits across the state of Nebraska. In the Midwest, tornadoes, floods, thunderstorms, fires, etc. have potential to cause damage. When assessing these damages, some cities and counties have altered tax laws and may receive help from the state or federal government. Contryman Associates helps to assess the financial situation of these risks and include them on annual statements. Many auditors travel to the city or county where they are working with to speak with clients or present the audit to a board. After the 2020 pandemic, travel is less necessary. However, some clients prefer to meet in-person despite the work-from-home option, and Contryman Associates adheres to the clients' preferences by continuing to travel to the city or county as needed.

Legal

Legal regulations by the Governmental Accounting Standards Board present regulation changes for firms to follow. On a state level, the state of Nebraska was behind on their 2022 auditing due to a new standard, No. 87 (Governmental Accounting Standards Advisory Board, n.d.). This legislation creates challenges for understaffed accounting firms to keep up. GASB 87 was created to better meet the needs of firms with leases issued by governments. This change in standards took extra time to learn and implement when reporting government leases. Whenever the federal or state government implements one of these changes, Contryman Associates also must allot extra time to learn and execute the change.

Public accountants also follow the GAAP framework (Fernando, 2023). This legal framework sets standards for the complexities, legalities, and details of corporate accounting.

With a change in these frameworks, each firm will have to adjust accordingly. Each system is set up to follow these standards.

Porter's Five Forces Analysis

Michael Porter published the Porter's Five Forces model 1979 to examine competitive environments for industries (Williams, 2023). Each of the competitive forces helps to determine profit potential in an industry. Using insights from these forces can help firms discover how the firm can succeed in an industry with rivals. The five forces are: the threat of new entrants, bargaining power of buyers, bargaining power of suppliers, threats of substitute products and services, and intensity of rivalry among competitors in an industry.

Industry Rivalry

Only four or five small accounting and tax firms exist in the part of Nebraska west of Lincoln. These firms compete for business, although an excess of business exists. Small firms also compete with large, well-known firms especially Deloitte, KPMG, EY, and PWC. The profitability of small firms does not depend on their rivals since there is a surplus of business. The number of accountants has declined by around 300,000 in the past two years as the baby boomer generation begins to retire (Ellis, 2022). So, this leads to firms competing to hire talent and skilled employees rather than competing for business.

Threat of New Entrants

The threat of new entrants is influenced by barriers to enter a new industry. In the accounting industry in central and western Nebraska, the threat of new entrants is low. Developing a new firm would consist of gathering certified public accountants and becoming a credentialed firm. Accountants wanting to start their own firm face hardware and software costs (Hooper, 2022). If an accounting entrepreneur has already worked in-industry before, the barriers

to entry may be reduced. Training modules, continuing professional education (CPE), and policy updates are something new entrants must consider when entering this industry. Contryman Associates is an established, reputable firm that is almost completely unaffected by the threat of new entrants.

Bargaining Power of Buyers

Switching costs to a buyer to change accounting firms is high. New clients face front-end fees that would have to be assessed before switching suppliers. In central and western Nebraska, accounting and tax services are few and far between. If one firm raises prices for services, buyers could have a reason to switch to another firm. City and county government accounting is dependent on the type of audit the buyer needs. For single audits, few firms can perform these as single audits need a lot of resources. Buyers do not have many options to switch if needing a single audit. For regular audits, more firms can perform these.

The industry's services are overall important and necessary for customers, and that makes the risk of bargaining power of buyers low. Accounting firms provide necessary services for their clients,

Bargaining Power of Suppliers

One supplier for accounting firms is property owners and suppliers of technology. Property owners have power in location of accounting firms in cities across Nebraska. Unless companies buy their own building and land, a company is dependent on the availability of property in areas with little to no excess suitable commercial rental property available.

Software and hardware vendors also have an impact on the profitability of accounting firms. If software purchasing rates are raised, accounting firms may have no option except to purchase the new software. Every firm relies on software to analyze and process data. However,

suppliers continue to increase the price of software and hardware to be competitive. The switching costs of software and additional training costs are high, so this is the biggest threat from suppliers.

Threat of Substitute Products and Services

Since the accounting industry is regulated by the government and specific standards, the threat of new products is relatively low. However, doing taxes individually is becoming more popular and is a substitute for utilizing an accounting firm's services. Websites now offer products and services that accounting firms pay people to manually do. In 2022, around 152 million tax returns were filed online (eFile, 2023). However, businesses, counties, cities, and entities cannot use online services for their audits since these are regulated by the state and federal governments. The number of services offered does not necessarily change unless an accounting standard changes. Different firms may offer different services like bookkeeping, tax services, payroll services, etc. The regulations for services may prevent substitutes from surfacing.

Current Strategy / Major Strategic Objectives

One main objective of Contryman Associates is to provide personalized client services using industry knowledge, technical expertise, and proven problem-solving experience. Its services are accounting, auditing, tax, business advising, and financial planning. Offices are located across central and western Nebraska to satisfy their target market.

Contryman Associates' current strategy implementation involves following its six strategic objectives set forth at the inception of the company. The first of these is financial performance. Contryman Associates must stay financially motivated to ensure the ideal compensation of its employees and shareholders while offering a competitive price for

consumers to purchase its services. The second objective is client management. Contryman Associates must manage its clients wisely. If the client is not a good client, Contryman Associates may choose to not serve them any longer. Two more objectives are business development and team development. These involve internal reflections amongst the employees, services offered, and the teams in the company. The fifth strategic objective is personal effectiveness. This objective allows for each employee to set goals and evaluate their goals periodically with themselves and their managers. Lastly, leadership success is a goal of Contryman Associates. The leadership team, comprised of the shareholders, asks for feedback, and evaluates itself to perform with the company's best interests.

Competitive Advantages

Since Contryman Associates is based only in Nebraska, it aims to execute a “Nebraska nice” attitude when working with clients. A major advantage it has is portraying a helpful, positive attitude while providing high quality services. Since clients are local, Contryman Associates can meet in-person with clients rather than only offering online or phone options like out-of-state or online firms. Employees at Contryman Associates are part of its competitive advantage, as well. Most employees start working at the firm after graduating from Nebraska colleges and have interned with the firm before or were recommended from one of its partner firms. With these employees, Contryman Associates can take on the optimal amount of business because the market is not saturated. Since city and county audits make up most of the business, the target market has an excess of service needs and Contryman Associates must sometimes turn business away. This is a competitive advantage because it has more staff available to complete audits that most rival firms.

Resources Leading to Competitive Advantages

The main resource of Contryman Associates that leads to its competitive advantage is having a skilled staff. Because of the number of employees, Contryman Associates can offer services other Nebraska firms cannot. As previously mentioned, the company offers single audit services, which takes a greater number of staff and skill than other firms possess. Contryman also has several offices which allows them to capture business across the state. Even if a Western Nebraska client wants services, the Contryman Associates office in central Nebraska could be providing those services. Having a variety of offices also makes it easier for employees to travel to meet with clients with a local office space for meeting.

Major Issues

As previously mentioned, Contryman Associates must evaluate its clients and occasionally turn down business due. This business is then lost to other firms. Business is usually turned away because of a shortage of staff needed to take on new clients or provide expanded services. One of its major competitors recently quit offering as many services beginning in 2022. Contryman Associates was one of the referred firms for these clients, giving it an expanded pool of clients to service. The major issue facing Contryman Associates is the size of the pool of recent graduates or experience and credentialed accountants interested in working in central and outstate Nebraska. To take on more business, Contryman Associates would need to hire additional staff. It is difficult to expand rapidly because of the time it takes to onboard and train new staff. Company culture and service quality is an essential strategy for Contryman Associates which can extend onboarding time. This dedication and willingness to work long hours during audit and tax season is difficult to instill in new hires who are still learning the standards.

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