

## HOW MP'S USE TECHNOLOGY TO INCREASE FIRM PROFITABILITY

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How innovative are accounting firms?

This is a question I've had occasion to ponder lately, in preparation for speaking engagements at conferences and journal articles devoted to the future of the CPA profession.

I had some thoughts of my own, but as a long time pollster of the accounting profession, I knew that whatever I came up with must include input from great managing partners of CPA firms from coast to coast. The bulk of their responses indicated that over the past two decades change has been slow to come to a profession widely perceived as resistant to it.

Said Chris Fredriksen, Chairman/CEO of 2020Group USA:

“CPA firms tend to be reactive, late adopters and risk-averse. Shakespeare said, ‘some are born innovative, some achieve innovation and others have innovation thrust upon them.’ CPA firms are clearly in the last group,” he stated, taking liberties with *Twelfth Night*.

However, the more I pored over my research, the more apparent it became that CPA firms are a lot more innovative than many of us think. Significant innovations that have occurred in the past 20 years or so convinced me that the profession has readily embraced an impressive list of changes.

Clearly, technology is THE major area of innovation for CPA firms. The way accountants do their work has been totally transformed and continues to change every year. Following are some major innovations Roman Keczycyk will address in this book:

1. Multiple screen/monitor displays – made possible a huge jump in individual productivity.
2. Smartphones and tablets, including the touch screen.
3. Cloud/SaaS including portals and addressing security issues.
4. Workflow, including paperless audit and other software and scanning technology.
5. Knowledge management.
6. Social networking –more an emerging technology because it has yet to have a big impact for CPA firms.

How do top CPA firm managing partners ensure that computers and technology have the greatest possible impact on success and profitability?

As a specialist in the overall management of CPA firms, I have a keen interest in how MPs perform their jobs. As is the case with most CEOs of sizeable organizations, the duties of a CPA firm managing partner encompass a long list of critical management functions. Certainly, one of them is ensuring that computers and technology are used in ways that have the greatest possible impact on firms' success and profitability.

To find out what MPs do to achieve this aspect of their job description, we polled a group of them from coast to coast.

**RESULTS:** 28 responses were received: 70% from firms with annual revenues of \$5-15M, 20% from firms billing \$15M and above, and 10% from \$3-5M firms.

Detailed responses appear later in this forward. Here is an executive summary:

- 1. Seek out national CPA industry technology experts.** This was the most often-cited technique practiced by our MP group. Veteran experts such as Roman Kepczyk and Randy Johnston provide a wealth of practical, hands-on experience because they work with dozens of firms each year and have done so for many years. In my field of practice management consulting, I tell my clients that I am one firm smarter than the last firm I worked with. Certainly, the same is true for these national IT experts. They learn from their experiences at other firms and are able to distill that knowledge into incredibly helpful advice and counsel to every new firm they consult with.

In addition to their experiences with firms, these consultants offer an objective view of your firm's IT functions. This is critical because IT directors tend to take a defensive view of their own operations and can be resistant to change.

- 2. Make the IT director an integral part of the firm's management team.** Managing partners make sure to integrate IT directors into the vast majority of firms' management issues. It's critical for IT directors to have a firm-wide view on keeping all personnel working at the most efficient level possible.

One takeaway from the above, that was not stated by our MP group, but certainly implied, is this: If your firm's IT director is not someone who is capable of performing as a vocal, credible and articulate member of the management team, then you probably don't have the right person on board for the job.

- 3. Find ways to obtain the input of a good cross-section of firm personnel on the state and direction of the firm's technology.** Quite a few firms have formed IT committees, usually consisting of the firm administrator, IT director and younger partners with a high technology IQ. The committee

is not so much a decision-making body as it is a think tank. It's also a great way to ensure that the IT director has input from a wide range of personnel.

4. **The importance of technology budgets.** MPs are heavily involved with their IT directors in the preparation of annual IT budgets to ensure that future needs are planned, anticipated and funded.
5. **IT directors need to interact with their peers.** MPs encourage their IT directors to venture outside the firm and observe how other firms of similar size address IT challenges. Whereas numerous peer networking opportunities exist for MPs, firm administrators and marketing directors, unfortunately, the same cannot be said for IT directors. So, it's incumbent upon either the MP or the IT director to initiate these networking opportunities with other firms, where none exist. Technology conferences and associations of CPA firms offer some great opportunities.

For firms in larger cities, roundtable groups of IT directors from area firms that meet 4 to 6 times a year can be organized. I organized one in Chicago ten years ago that continues to meet to this day – and I'm not even an IT guy!

6. **Don't trust vendor sales people.** I love this one, even though only one person said it. This veteran MP of a very sizeable firm noted that canned demos are superficial and most of the sales personnel are not heavy-duty users of the product. The implication that I get from this tip is: Buy a technology based on the advice of credible, knowledgeable people who have successfully used it at their firms, not based on a touting sales person or an ad.
7. **MPs should acknowledge what they don't know and find ways to fill that knowledge gap.** Years ago, I worked with a dynamic, founding partner of a sizeable, hugely successful CPA firm. He was brilliant and super self-confident in his ability to run all aspects of a CPA firm...except computers and technology. He readily admitted this, and to combat this

weakness, he was tenacious in his quest to seek the opinions of others who *were* knowledgeable.

Techniques used by MPs to learn from others include:

- Observe best IT practices from firms in their CPA firm association or roundtable group.
  - Get younger, technology-savvy partners involved in providing input to the firm's technology.
  - Make sure that the firm regularly gets input from the people in the trenches, the hard-core users of IT – the professional staff. Rely heavily on them.
  - National CPA firm IT consultants.
8. **Don't be stingy on IT spending.** MPs told us that good solutions cost money and time to do them right. Falling behind and losing production, they said, will cost your firm in the long run. Incidentally, this point about not being stingy does not mean that firms should be spendthrifts. MPs subject IT investments to a proper cost-benefit analysis, just as they do with any other major investment.
9. **Don't be an early adopter.** This suggestion was made by only one person, but I feel it is critically important. This piece of advice has been corroborated from my experience leading a roundtable group of IT directors for ten years and listening to them tell each other how they don't like to adopt first generation hardware advances and software releases. Let someone else debug them..

## DETAILED RESPONSES

*Numbers after statements represent the number of times people stating the item or something very similar. If there is no number after a statement, only one person said it.*

### Making the IT director an an integral part of management

- Include IT directors on the firm's **management team** so they are integrated into all firm issues; meet with them often, and have them report on technology objectives at management meetings. We want them to take a firm-wide view on keeping our people working at the most efficient level possible. (7)
- Form an **IT committee** consisting of our firm administrator, IT manager and two younger partners to continuously evaluate our IT structure. (6)
- Hold continuous discussions with IT director **projecting future technology** needs and creation of **technology budgets**. As MP, I am very involved at a strategic level in planning our IT. (7)
- Get our IT personnel engaged in **benchmarking with other firms to discover best practices** and attending conferences. (5)
- Assign **IT director at least one effectiveness and efficiency goal** to drive our future productivity. One firm establishes a performance goal for their IT manager based on response rates from users. (2)
- Stress to IT personnel to **treat our employees as their clients**; to be the solution, not the problem. Our IT staff know that keeping the staff productive is most important. (2)

### Usage of national IT consultants/experts

- Seek feedback and input from **CPA industry technology experts**. Regularly review our IT system by an external IT consultant. (9)
- **Don't expect objectivity from vendor sales people**. Their canned demos are superficial and most of them are not heavy-duty users of the product.

### Learn from others; don't live in a cocoon

- Observe **best IT practices** from other firms in our **Association** and roundtable group. (6)
- Before implementing new software, we **test it out on one or two people** in our firm.

### The MP's actions speak louder than words

- As MP, I act as a **role model** to all firm personnel, showing them how I personally utilize all aspects of our firm's technology to make me efficient. (2)
- **I listen to the staff** that use the technology and do the work. If they are frustrated or losing efficiency, then I need to respond quickly. They have greater knowledge of IT than I do. (4)

### Maintain awareness of what is available in the marketplace. (4)

Overcome resistance to change by fully exploring new technologies. Continually play the devil's advocate with challenging why or why not. (2)

## Stay current; ensure that wise decisions are made

- **Assign technology-literate partners** to coach our IT personnel and developing IT budget. (3)
- Don't be stingy on IT spending. Know it **won't be cheap**. Good solutions cost money and time to do it right. Falling behind and losing production will cost you in the long run. (2)
- **Don't be an early adopter**. Verify other firms' experiences before adopting something for us.

## IT spending, budgeting

- Make sure there is a **cost-benefit analysis** to any proposed new IT investment. (2)
- Create a formal, written **hardware replacement program**. Insist on providing staff with the latest technology. (3)

## Specific software

- Use **cloud computing** as much as possible. (4)
- **Go paperless**; use document management software. (2)
- **Client access to tax returns through secure portal**.
- Ensure that we have great **security** and reliable backup systems.
- Implementation of **CRM**.
- Improved financial **flash reports**.
- Make sure that technology is featured in our **intranet**.

## Ensure efficiency of firm personnel, especially in the field

- Provide **remote work** capabilities for all staff. (3)
- We do lots of audits, so we make sure our auditors **take advantage of technology in the field** by carrying laptops less than 3 years old, scanners, extra monitors and high speed internet connections.
- We have a **process committee** that reviews project workflow. (2)
- All accountants use **laptops**, not desktops, to enable mobile computing.

## IT training

- Include IT “**basic training**” at **staff meetings**. The biggest efficiency challenge is closing the knowledge gap between our team members – people can’t improve if they don’t know what they don’t know.
- We put on periodic **lunch and learn programs** in various software programs.

## Rosenberg’s additions to the list

Make no bones about it. I am not an IT expert. Not even close. But I love technology, embrace it and am always asking MPs from CPA firms what they are doing to harness the power of technology. Although the items that follow are generally less important than those listed on the previous pages, nevertheless, there is value in these ideas.

**IT Training.** The lack of formal training that firms provide their staff in operating hardware and software is a pet peeve of mine that experts are at a loss to explain. Throughout this forward, we have discussed the immense impact of technology on how accounting firms do their work. But for some reason, firms are

satisfied with pointing their personnel to computers and telling them to “figure it out.” Oh sure, if the firm has a halfway decent new employee orientation program, and staff are courageous enough to ask for help from knowledgeable staff, people learn from watching others and eventually grasp what they need to know. But to me, this is a lousy way of ensuring that firm personnel learn to master technology.

**Separate internal from external IT personnel** (the latter are known as consultants). By now, we all agree that efficient technology is critically important. As we all know, the nature of computers is that problems, questions and changes arise on a regular basis. So, CPA firms need to have a cadre of people – let’s call them internal IT personnel - who stand ready to support the rest of the firm as they use their computers.

Some firms, in a misguided effort to increase revenues and profits, use their internal IT people to do external consulting to clients. This is a huge mistake!

Take the case of your top IT person whose annual salary is \$80,000 - \$40 an hour. One day, the firm identifies a project for the IT person at a client, billed at a rate of \$160 per hour. The project takes 50 hours, which results in a nice, tidy invoice to the super-pleased client of \$8,000, at 100% realization. Well, the IT person isn’t stupid. He compares the kudos and self-fulfillment of earning \$8,000 for the firm vs. responding to a support call by Frank the Dumb CPA who barely knows how to turn his computer on. It’s no contest. As more consulting projects come in (but not enough to justify making this a full time position), guess what most gets IT people most excited about their jobs?

It’s only natural that the IT person’s first priority will be consulting to clients, at the expense of giving world class service to his most important clients – the firm’s personnel. Don’t mix internal and external IT – it’s a disaster waiting to happen.

**Dashboards.** Partners at CPA firms are extremely busy people. There are a lot of things that they need to keep track of – simultaneously:

- The status of 8 client projects, including how the actual time compares to budget.
- 14 client receivables that range from \$5,000 to \$20,000 and are all 120 days past due.
- 19 completed client projects that have yet to be billed.
- A stack of 4 workpaper files on completed projects that need to be reviewed.
- The lunch meeting at Rotary this afternoon.
- Follow-up phone calls to three prospects.
- Etc. Etc.

In an ideal world, all of the above should be monitored on a daily basis. But that's very difficult to do with traditional systems. Staying on top of key metrics and statistics is a lot easier with the use of a dashboard – a user interface that, somewhat similar an automobile's dashboard, organizes and summarizes information in a manner that is easy to read and updated on a real-time basis, thus making it easier for partners to keep current.

**Work in Process.** This is somewhat of a subset of the dashboard item above. One of the main reasons firms have WIP write-offs is that partners find it impossible to stay on top of all of their client projects that are simultaneously in progress. A write-off arises when, after a project has been completed, the partner finds out that \$20,000 of time has been accumulated on a job quoted at \$10,000. In almost all cases, it's too late to resolve the problem and the excess time is written off.

Perhaps if partners had been alerted of the *trend* of excess time being incurred *during the job*, before most of the excess time is incurred, they'd have been able to intervene and minimize the damage. The vast majority of CPA firms' systems do not provide partners with prompt notification of trends that will result in write-offs.

**Email. The incredible time waster.** Email hygiene at most firms stinks. Every day, it seems that we read about research showing the incredible amount of wasted hours spent on email. Who knows which study is accurate, but it's clear that, during the course of a year, dozens if not hundreds of hours are wasted. This is an easy fix, but firms usually adopt a "hands off" policy on monitoring how firm personnel use their email. The result of this neglect is lower productivity.

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You are now ready to begin reading Roman's epic book, *Quantum of Paperless*. I have known Roman for 15 years or so and regard him as the nation's #1 CPA firm IT consultant. This high praise doesn't just come from me. More importantly, it comes from my clients, in two major ways.

First, I have referred Roman to over a dozen clients from coast to coast. All of them rave about Roman's work.

Second, I run three CPA firm practice management roundtable groups in Chicago, each with roughly 25 member firms. Roman has presented a special half-day workshop to the roundtable firms for the past several years. Though we get a few IT directors and firm administrators, the biggest attendance block consists of managing partners and client service partners. To me, this is testimony to Roman's unique ability to deliver leading edge, highly usable recommendations pitched at a level easily understood by partners lacking IT expertise. Not many IT consultants have this talent.

Here's a brief summary of the feedback we have received on Roman from these workshops:

- "Perfect"
- "Great session."
- "Excellent"
- "Roman is someone I learn from over and over again."
- "What he offers is uniquely valuable."
- "I always get new ideas to bring back to my firm."

When asked what attendees particularly liked, one person simply responded "Roman."

Roman is the best and I am thrilled that he asked me to contribute to "*Quantum of Paperless*."

Enjoy.

A handwritten signature in black ink that reads "Marc Rosenberg". The signature is fluid and cursive, with the first name "Marc" and last name "Rosenberg" clearly legible.

Marc Rosenberg, CPA