

Working Toward a Great Payoff: Using Efficiency to Improve Profitability

By Dave McCarthy

Increasing firm profitability has always been a priority for firm leaders. Generally speaking, firms do a reasonably good job of controlling expenses and holding down costs. That was good enough until the recession hit in November 2008. As firms realized the boom times of the past few years were no more, they started thinking in new ways: what else could they do to increase their profitability in an economic environment where work was not just coming in the door? It is ironic, but one answer lies with increasing efficiency in the processes used to complete the work.

Basically, improving processes means working smarter, not harder. At our firm, we decided to implement Lean Six Sigma, a unique, team-based problem-solving approach that comes from the manufacturing world. At first, our firm leadership was wary: how could something that helps manufacturers improve workflow on their assembly lines work in professional services? Eventually, they agreed to try it—and they saw that it worked extremely well.

What is Lean Six Sigma?

The name “Lean Six Sigma” describes the essence of the program. “Lean” is all about improving efficiency. “Six Sigma” is all about decreasing errors and improving the client experience for both internal and external clients. You can’t

have one without the other. A balanced approach is needed to maintain quality standards and, at the same time, remove the waste in processes.

Facilitators of the Lean Six Sigma process need to be trained in various process-improvement techniques. The training is intense, and leaders achieve certain ranks as they move through the learning process. The highest level is certified as a “Master Black Belt.” Master Black Belts bring a set of potential process improvement tools that are uniquely applied to each process and situation. Starting with a thorough measurement and analysis of all the current steps in each process being analyzed, the team identifies where efficiencies are being lost and uses Lean techniques to improve those processes.

Doing more with less

You may be thinking “That sounds great, but what does it have to do with me and my firm? We’re already operating lean and mean.” My answer is “That is exactly why using Lean Six Sigma is a good option for your firm.” Economic forces caused many firms to lay-off staff after April 15. While that may have eased financial pressure in the short term, it may cause a different set of problems over the long term: What are you going to do in January as you gear up for the next tax season? Is your firm capable

of doing the same amount of work—or even more—with fewer people?

Lean Six Sigma helps firms manage the workflow in such a way that staff members can accomplish more work in less time. We are not talking about making staff members work faster. It is just the opposite. By speeding up the process we slow down the frantic work pace. By implementing Lean Six Sigma processes during the 2009 tax season, our own firm realized an annualized time savings of 100 hours per staff member, which allowed us to complete more work in less time, using fewer staff than last year.

Measuring efficiency

We’ve been trained and rewarded historically in this industry to increase chargeable hours. Unfortunately, by rewarding increases in chargeable hours, we reward ourselves and our teams for being inefficient, rather than improving processes that will allow us to gain greater capacity and effectiveness. Reducing the emphasis on chargeable hours may seem contradictory, but it is a necessary goal to create greater efficiency within the firm. If you ask for charge hours, you’ll get charge hours. Instead, you should ask for effectiveness—provide the client exceptional service and value in an efficient time frame.

Many CPAs are skeptical that such improvements can

be gained. But consider this. Think back to tax season, when partners were being pulled in every direction answering questions, reviewing returns, finding the answers to problems, perhaps even searching for a return in a stack. What if that chaos could be decreased? By looking at the tax preparation process from beginning to end, staff members can find ways to work more efficiently.

If you were asked to rate your last tax season on a scale of 1-10, with one being a nightmare and 10 being painless, what would you say? Many CPAs rate their tax seasons between one and six. It doesn't need to be that way. Processes can be streamlined so that you can work fewer hours, have less stress and make more money, and your employees can experience the same benefits.

Every firm operates differently—when are documents reviewed, at what point in the process is the return prepared, when do client meetings begin, whether a cross-selling process is in place, *etc.*—but, however your firm operates, there are ways to reduce time and effort, while simultaneously enhancing the quality of the end product.

Lean Six Sigma changes your perspective and allows you to begin to measure efficiency in new ways. Becoming more effective at getting, completing and delivering work has a bottom-line benefit: you can bill more quickly, which increases cash receipts. At Rea, our Lean Six Sigma efforts increased our cash receipts by 10 percent during the 2009 tax season compared to the

same time the prior year. The increased cash flow this early in the year was a true benefit, particularly in a year in which the challenging economy has placed receivables and realizations under such pressure.

Improving processes

Every firm is unique—size, talents and facilities—so no two firms will have the same processes. However, there are three key things all firms should look at in coming up with their optimal process, including:

- *Client information management.* By ensuring most client information has been received before starting a tax return, your staff won't have to start and stop their work every time missing information is identified.
- *Visual management.* Passing information back and forth between staff and partners takes time. Placing returns in specific places based on status saves everyone time, and you won't have to search for missing information either.
- *Reducing bottlenecks.* Somewhere in your process, things get backed up. By finding ways to alleviate these bottlenecks, you'll keep your process moving so returns get out the door faster.

Here are two small ways we increased efficiency in our tax-preparation processes:

1. By developing checklists of information needed to complete each return, we were able to avoid collecting insufficient or incorrect information. It also prevented us from starting and stopping the project while we made

multiple calls to the client to get additional information.

2. One of our partners spent 15 minutes a day telling people who stopped by his office where to put files. By having a clearly identified place for each return that needed specific action, he gained more than one hour each week. That may not sound like a lot, but over the course of tax season, this partner saved over 10 hours—time he spent doing tasks that were more in line with his level and expertise.

Increasing realization

Small inefficiencies, such as the ones described above, add up. Alone, they may seem insignificant; when added together, they become major drains on profitability. For instance, what if there are two or three partners at your firm who could operate more efficiently and save 15 minutes per day. What if you have three managers who could do the same?

When these inefficiencies are addressed, it affects realization. For example, let's say you billed \$800 for an individual tax return in 2008. What will you bill for the same return in 2009? Whether you have \$750 or \$1,000 of time in the return, chances are you will bill \$800 plus a fractional increase for inflation. Firms that increase efficiency may have only \$500 of time in the return. They too will bill slightly more than \$800. Multiply this excess capacity by the number of re-

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a relaxed dress code must be prepared for the kinds of comments and horseplay more casual attire might generate—especially in an economic season when every minute on the clock is tremendously valuable. Regardless of a company's

appearance standards, it is imperative to have a solid written policy that is consistently enforced, especially in the summer months when casual dress could lead to a sexual harassment lawsuit. Aside from the company policy prohibiting harass-

ment, it's important to maintain a personal appearance and behavior policy to help deter issues before they lead to harassment claims.

Source: Fisher & Phillips LLP; www.laborlawyers.com.

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turns completed throughout the firm, and the increased profitability is huge.

At a time where everyone is trying to do more with less, firms that operate as efficiently as possible will have a definite advantage. It takes time, effort

and cultural changes to successfully use Lean Six Sigma philosophies. However, the payoff is great. Firms implementing these techniques have experienced more than a 400-percent return on their investment the first year. Not many investments can bring that kind of return, regardless of economic conditions. Now, it's more important than ever to increase efficiency—do-

ing so *will* improve the bottom line. Work smarter, not harder.

About the author: Dave McCarthy, CPA, CSEP, is a Lean consultant with Lean CPA, LLC, and a shareholder with Rea & Associates Inc. In addition to providing basic tax and accounting services, he helps CPA firms start their Lean journey. He can be reached at dave.mccarthy@reacpa.com. ✦

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