# PRODUCTIVITY

## A Primer for the Competitive Firm

By Bruce W. Marcus
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## SUMMARY

In an environment driven by four key factors – competition, regulation, radically new technology, and shortages of talent -- and in which the regulation of accounting and law firms is more stringent than ever before -- survival, much less growth, becomes increasingly difficult.

For a great many firms, particularly those best able to cope with these four factors, these are boom times. Thanks to Sarbanes-Oxley and other such regulation, the professions are soaring, even under the law's regulatory burden. Too many other firms, however, are drowning under the same burden.

But boom times in the professions can be dangerous times. Growth, for the successful firm, can be too rapid and lead to burnout and, as times change, rapid deceleration. In the less successful firms, it can mean being unable to cope with the new regulation and its demands upon clients, and in turn, upon the firms themselves. These firms are too often being swamped, struggling for survival, or merging in shotgun weddings. Nor can many of these overburdened firms compete well in this dynamic environment.

Moreover, when today's success is driven by conditions in the marketplace, then control of that success is in the arbitrary hands of outside forces, and not of the firm itself, further endangering continued success as the current regulatory situation matures. To not have control over a firm's environment can cost even the most successful firm dearly as economic conditions change.

## BSG RESEARCH

Evidence of this phenomena may be found in a recent study by the Bay Street Group of more than 400 accounting firms, in which the issues that most concerned the largest numbers of respondents demonstrated an anxiety in areas most critical to a successful practice today.

For example, of the 400 respondents, 73% of whom were in public accounting and 45% of whom were Chief Executive Officers or Managing Partners, 43% reported as important issues for the profession the potential shortage of the next generation of CPAs, and 38% were concerned with the current shortage. Information overload of new rules, regulations and standards concerned 46% of respondents, and 39% were anxious about Sarbanes-Oxley overload. Another 43% were concerned about regulation of the profession, and 43% were concerned about work/life balance.

## KEY TO SUCCESS

While the traditions of professional firm practice seem to preclude readily accepting changes or even adequate planning for the future, success loom for firms willing to do just that, while firms unwilling to face the future might well not have one. For the well-established firm, progress may require a measure of conscious and dedicated behavior modification may be indicated. Well worth the effort.

What, then is the best approach to use in building a firm strong enough to enhance success in a dynamic economy?

The one place in which the answer is most likely to be found is in **productivity**. Not just increased efficiency, which is a byproduct of productivity, but productivity itself.

Not being able to measure productivity easily in professional services is possibly at the root of a great deal of resistance to it. Like a rich uncle who's uncouth, it lurks in the background, not discussed in polite company. Not being able to improve productivity can make for a static firm in a dynamic environment. For a professional firm, standing still while others soar can mean atrophy.

## PRODUCTIVITY DEFINED

On a larger canvas, productivity might be defined in this way....

The resources of the world -- labor, capital and commodities -- are *finite*. There is just so much of each.

The needs of the world are *infinite*. More and more is demanded of the outputs and combinations of the limited world resources.

*Productivity is the degree to which the finite resources of the world can be leveraged to meet the infinite needs of the world.*

In manufacturing, productivity can be defined rather simply:

A worker is paid $5 an hour, and produces 5 widgets an hour.

A means is found to have the worker produce 6 widgets in the same hour, for the same $5.

The worker's productivity may then be said to have increased by 20%.

Now, increasing productivity in a competitive world is important, obviously, because the more you can get for the same or less investment, the greater the profit. When your firm is more productive, it's not only easier on the exchequer, it means you're better organized, more efficient, more profitable, and a better competitor in the markets for both clients and for talent.

But looking at the manufacturing example, which, for all its simplicity, is an effective economic definition of productivity, how do you increase productivity in a professional firm?

## PRODUCTIVITY AND THE CPA FIRM

The classic basic fixed and measurable factors that define productivity, in economists' terms, are …

- Time
- Labor
- Overhead (rent, lights, paper, equipment, etc.)

These factors would seem to be intractable. There is a finite amount of time during which a professional can work, even with a long day. The cost of labor is most frequently determined by the marketplace for labor, rather than the wishes of the employer.

Overhead is usually fixed as well. Where, then, are the variables that can be controlled by a firm to increase productivity?

Fortunately, there are quite a few. And they work better when they work together.

They are…

*1. Technology.*

Technology, in recent years, has always been a means to improve productivity. Unfortunately, there is too often a disconnect between what the firm can do and what the clients can do. Too often, a firm's technology is driven by the clientele, rather than anticipated by the firm. Too often, there is a lack of trust in the technology, as well as a lack of understanding of the broad variety of its uses, and of the technical skills of staff. Technology today feeds upon itself, and grows and changes rapidly. The blog, for instance, was rare just a few years ago, and is now ubiquitous, with millions of Americans participating. Law firms now use blogs on every level. Fewer accounting firms do. The Smartphone brings a new and salutary dimension to mobility and productivity. Technology not only simplifies and speeds tasks, its outreach moves a firm in new and profitable directions. There is no longer a place for technophobes in American business, much less in accounting or law firms.

*2. Fee structures.*

Traditional hourly billing is an anachronism that an increasing number of clients are objecting to. They are an archaic and time-consuming practice that fewer clients are accepting, and that many firms are gradually abandoning. Ultimately, they no longer reflect the economic value of a firm's work for clients. Newer billing structures are emerging that better reflect the worth of service to both the firm and the client, and that don't require the awkward and time consuming record keeping of the past.

*3. Effective use of staff.*

By carefully allocating the right work to the right staff person, and by calculating fees per each individual assigned to a client, there can be substantial control of productive work flow. The emerging two-tier structures, under which each of the firm's professionals are valued for skills rather than as potential partners, is emerging as a way to maximize the skills off all of a firm's professionals. Skill, not rank, is a better measure of the ability to contribute to client service.

*4. Recruiting.*

The competition for talent in each of the professions is intense, and can no longer be won with old-fashioned help wanted ads. New recruiting methods find and attract better talent faster and less expensively, as do new approaches to talent retention.

*5. Motivation.*

Recent surveys show that today's professional is not generally motivated by just salary or benefits. Without fair salaries, and a basket of benefits, a firm can't get or keep employees, including professional staff. What motivates professionals – indeed, all knowledge workers -- is a sense of participation…of understanding the firm's objectives, and management goals, of being a participant in making those goals a reality, and being recognized and rewarded for accomplishments. The team concept is not a cliché – it really works.

*6. Training.*

Any firm that doesn't foster or offer training in new technical skills, new professional skills, marketing skills, and new communications skills, is asking to be left behind. There's so much going on today, in new regulations, new client demands, and new technology, that training on a regular basis is imperative for a firm to have the talent it needs to survive and grow.

*7. Skill levels.*

In the old accounting firm, no effort was made to improve the skills of its professionals, beyond basic continuing education courses. It was assumed to be the responsibility of the individual. Today, there are few greater perks for good people than to be allowed to grow professionally, and to be rewarded for it.

*8. Internal communication and knowledge management.*

This is the age of the knowledge worker. And there is so much to know to function for today's clientele that the mechanism must be fostered in each firm to spread knowledge throughout the firm. This was not true in the age of the authoritarian firm of even a decade ago. In a dynamic world knowledge, at even the lowest echelons of a professional firm, is the fuel for growth and competing successfully. If your people, who have to make your plans a reality, don't know what the plans are, than how can they help you fulfill them? Internal communications mechanisms are as integral a part of running a professional firm today as is cash flow management.

*9. Client service teams.*

There has long been a territorial tradition among a firm's partners. ("This is my client, not yours or the firm's.") Today, we know more about effective client service teamwork. As a result both the client and the firm are better served, and everybody benefits.

*10. Organization and governance.*

Today's professional football teams use formations and play structures that are very different from those used a few decades ago. Organizations grow by being flexible, and willing to adapt as the needs of a changing clientele demand it. The traditional top down management structure is obsolete in most modern corporations, but, unfortunately, not in professional firms.

*11. Planning.*

There is no room in the professional firmament for random growth. Today's competitive environment doesn't allow for it. Many firms have grown through luck and serendipity. Serendipity is great, but you can't build a future on it. Planning is as much a professional tool as accounting or law, and if it isn't done professionally, it's a waste of time.

*12. Risk.*

Risk is a hard word for accountants to use in the context of traditional practice, but an important concept to understand in a competitive world. It helps, in firm management, to understand what risk really is, and to plan for it. If you understand that risk is embarking upon an enterprise in which the outlook is in large measure determined by factors beyond one's control, then you have a basis for defining and eliminating as many variable as possible. Risk is inherent in marketing, in trying new approaches to professional practice, in moving into new disciplines or new markets, in trimming away unprofitable clients, in trying new techniques of governance, of internal communication, in integrating new technologies into the practice -- in virtually anything you do to change the way you run the firm. But it's not a cliché to say that without risk, carefully considered and planned, with consequences considered, there's no progress.

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*13. Marketing.*

Today, when all your competitors are marketing aggressively, you no longer have the option. You must do it as well. As simple as marketing may seem to you, it's not – it's a complex and professional discipline. Do it in-house or with an outside consultant – but do it with marketing professionals.

*14. Client relations.*

A key factor in productivity, one most often overlooked, is effective client relations. An informed and satisfied client – one who is demonstrably assured of the effectiveness of the work on the client's account – is a guarantee of productive use of time and cost for that client.

*15. Competitive intelligence.*

Understanding what others in your market are doing is important, not just as a benchmark, but to understand what others are doing to compete against you. There are no accounting firms that function successfully in a vacuum. Understand your profession and your competitors. You are, after all, in a business.

*16. Objectives.*

In this interesting array of elements, perhaps the most significant is objectives, because output of any kind is meaningless unless it meets stated objectives. If you don't know where you're going, then how do you know how to get there? If the objective of an action is to produce a client, pure and simple, measurement becomes relatively easy. If the objective is to build a firm better able to function in an increasingly difficult environment, and to compete more effectively and cost effectively, then measurement is somewhat more complex. But without a clear set of objectives, there's nothing to measure, nor can you measure the effectiveness -- and cost effectiveness – of anything you do.

*17. Leadership.*

There is one overriding factor in the pursuit of increasing productivity – and that is management and leadership skills. It's the peculiar nature of professional firms that people who rise to the top management echelons do so without training, and without exposure to the full spectrum of management skills. The CEO of a corporation in all likelihood has risen through the ranks, wherein he or she has learned all aspects of business – administration, human resources, finances, marketing, production, and so forth. This is missing in most accounting and law firm leadership. It need not be. There are courses at virtually all colleges, there are books, there are seminars. Even reading much of the works of a Peter Drucker will put you ahead of the pack in management and leadership skills. While there may be a limit to how much one can learn from a book, a good management or leadership text can trigger an understanding of the management and leadership skills to which one may aspire. It pays off.

## CONCLUSION

As noted earlier, productivity in a manufacturing organization is relatively easy to measure. Count the increased gadgets within the time frame. But how do you measure increased productivity in an accounting firm?

First, the answer lies in looking at your firm objectives. It they've been cast in terms of the elements of productivity, you can readily judge the degree to which you've reached those objectives.

If you've succeeded, the improved efficiency and participation and enthusiasm of your staff should be palpable. You will see more work done in the same workday, and at lower cost.

If your marketing activities are showing a return on investment, and you're easily able to cope with the new business, then clearly, you've improved your productivity. You should see growth and an increased clientele.

If you find your people are functioning with greater enthusiasm, and freely contributing ideas, then you know your productivity has improved. You should see, as well, time better managed, and for you and your staff, better work/life balance.

And finally, if your bottom line has improved, without exhausting you and your staff, then you know you've made it.

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## LET'S GET STARTED…

There may have been a time, once, when accounting and law firms didn't worry about productivity. Not today, because your competitor is worrying about productivity. Now, improving productivity may be your best competitive tool.

In every traditional firm, there are myriad areas in which productivity – and therefore profitability -- can be improved. We have developed a proven technique for exploring those areas, and increasing productivity. We'll be delighted to share that technique with you . For further information, call (203) 610-7278, or write marcus@marcusletter.com.

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**Bruce W. Marcus** is a widely published author and consultant to many of the nation's leading corporations and professional services firms, including accounting, law and consulting. His latest book is "Client at the Core," co-authored with August Aquila, published by Wiley. As a marketing consultant and strategic market planner, he has served a diversified clientele that includes most of the Big Four accounting firms, many major law firms, and such consulting firms as Booz Allen Hamilton, Andersen Consulting, Towers Perrin, and Emerson Consultants, as well as many smaller firms.

He can be reached at (203) 610-7278, or at marcus@marcusletter.com.

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**Bay Street Group LLC**
13 Atilda Ave. – Suite 200
Dobbs Ferry, N.Y. 10522
USA
www.baystreetgroup.com

**Rick Telberg**
President, Chief Executive
Phone: 1 (914) 674-4531
eFax: 1 (425) 988-7736
rtelberg@baystreetgroup.com