

Get Results: Improve Your Accounting Firm Processes Using Lean Six Sigma

Renewed focus on efficiency and quality can beef up profitability.

by Dustin Hostetler

Poor processes directly affect client service and client satisfaction. You see it in delays in completing jobs, responding to client requests, or when a partner fails to communicate a piece of client-related information, causing an unnecessary mistake down the line. Inefficient processes can result in your firm's inability to bill for all the work in process, which decreases profitability. If your firm has experienced any of these problems, it is a sign of inefficient work processes that are keeping you from maximizing talents and resources. Lean Six Sigma, a method often used by manufacturers to improve internal processes, can improve your firm's business operations while driving short- and long-term benefits to the bottom line.

Lean Six Sigma is a combination of the "lean" manufacturing concept that focuses on efficiency, and Six Sigma, which focuses on quality. The Lean Six Sigma concept is a balanced approach of these two methods.

In an accounting firm, Lean Six Sigma focuses on adding client value by eliminating non-value-added steps and inefficiencies in client service processes, resulting in more time to be proactive. It is a holistic, team-based approach that requires time and commitment to detect

waste and inefficiency. Skilled facilitators (certified Black Belts who are trained experts in applying Lean Six Sigma concepts within an organization) lead teams through a thorough analysis of the "current state" of the firm's processes. Waste and inefficiencies are identified, and lean techniques (tools that are focused on process effectiveness and understanding client value) are applied to eliminate waste and improve processes.

My firm, Rea & Associates Inc., an Ohio-based CPA firm with 11 locations

and 250 employees, embraced this approach in its quest to better serve clients and to become an improved trusted adviser firm. As a certified Lean Six Sigma Master Black Belt, I led the firm through a Lean Six Sigma tax program beginning in the fall of 2007. Initially, we had about a year of startup costs, including tuition for the Black Belt and Master Black Belt program, initial test project and modifying of the improvement model specific to a CPA firm. Starting with a handful of our offices in the fall of 2007, we slowly rolled out a Lean Six Sigma tax program. We saw enough gains and benefits to warrant a firmwide rollout beginning in the fall of 2008. Although we applied the approach to all of our processes (see sidebar “Areas Where Lean Can Improve Firm Processes”), this article illustrates its application to our business tax return process, and how we ultimately reduced our write-offs by

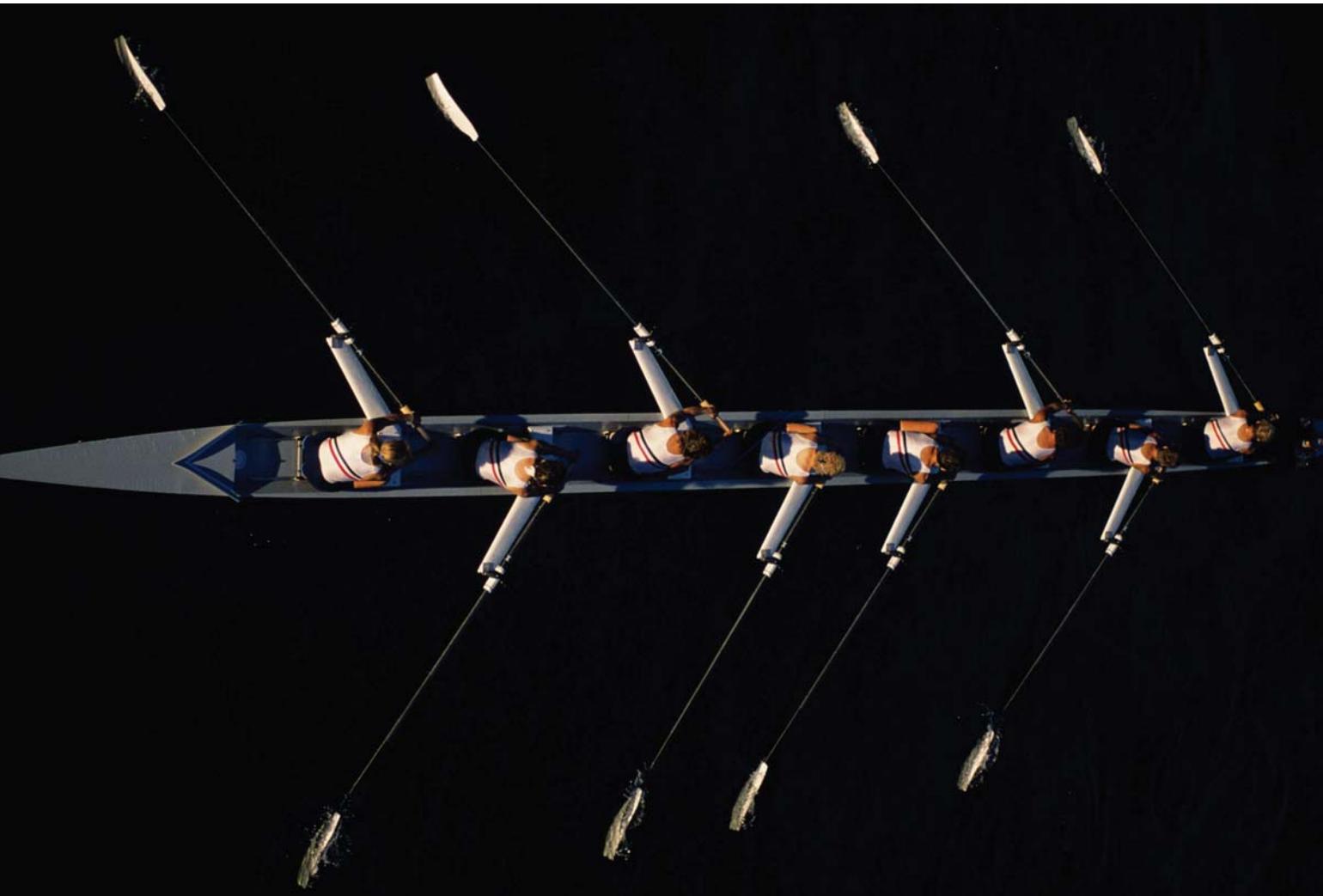
Areas Where Lean Can Improve Firm Processes

Implementing the process improvement techniques of Lean Six Sigma can improve effectiveness in many areas of your firm or company. The same principles discussed for the tax preparation function also apply to audit, payroll, bookkeeping and pension administration, to name a few.

In the audit function, your leaders must employ good project management skills to produce a quality audit product. They must objectively review the process your firm uses when conducting an audit. They will also need the input of team members from all levels of the audit process in order to receive not only pragmatic ideas to improve efficiency, but also to achieve buy-in, allowing the new processes to be quickly adopted so credibility can be gained among your team.

In some of the other unique segments and services in your firm such as payroll, pension or bookkeeping, these principles apply if you have the desire to improve efficiency and quality to remain competitive. This approach also works well when applied to internal administrative tasks, such as billing. Regardless of the internal service being performed, this method can be used to analyze and improve the process.

By keeping your top priority in mind at all times—to better serve your clients—you’ll be well on your way to making effective and efficient improvements to your firm’s functions. Your clients and your team will greatly appreciate your efforts.



more than 50% in one year (see Exhibit 1 for other results).

**LEAN SIX SIGMA IN ACTION:
THE TAX PRACTICE EXAMPLE**

Much of the waste in tax processes is viewed as small in nature and therefore overlooked. Nearly every step of a process has some form of waste—it is important to identify this (however small) and be able to quantify it to show the entire impact to the process. Before you know it,

“minor” wastes can add up to 20% or 30% inefficiency. Lean Six Sigma seeks to identify and quantify globally these wastes and implement simple solutions to drastically improve the effectiveness of the overall process.

IDENTIFYING CATEGORIES OF WASTE

To make lasting improvements, everyone at Rea & Associates had to thoroughly understand the impact of poor processes on

the firm and clients. When looking at our business tax process, for example, several areas of inefficiency were identified. They fell into the categories of waste that are standard in Lean Six Sigma, known as DOWNTIME + A:

- **Defects.** Following the 80-20 principle, by identifying and focusing on the 20% of mistakes that generated the most delays, 80% of the time the reviewer and tax preparer needed to make corrections before completing the return was reduced.
- **Overproduction.** Jobs were ineffectively prioritized. Excessive time and resources were used during the heart of busy season to work on clients that file extensions every year. Instead of focusing on what needed to be done at that moment—to effectively take care of the client from an extension and estimated payment standpoint—more work was being done on the return. Meanwhile, other clients waited.
- **Waiting.** Wait times, a symptom of bottlenecks, were found at several steps, including first review. A “learning curve” was identified—the longer something stayed in the review queue, the more time the preparer needed to become reacquainted with the client and the thought process that took place during the previous touch.
- **Not utilizing people’s talents.** Partners did too many administrative activities,

Exhibit 1 A Summary of Rea & Associates’ Tax Division’s Year-Over-Year Results

Historical Metrics:		
Increase in Realization	6.0%	
Decrease in Write-Offs	51.6%	
Increase in Revenue	1.9%	
Increase in Cash Receipts	10.0%	
Decrease in Chargeable Hours*	7.5%	
*Translates into more than 100 hours of additional capacity per individual annually		
Lean Metrics:		
	From	To
Waiting Time for Review	Two-week average	Less than one week
Waiting Time to Clear Review Notes	One-week average	Less than two days

EXECUTIVE SUMMARY

■ **Inefficient processes affect** the services your firm provides and, ultimately, client satisfaction and overall profitability. The Lean Six Sigma concept is a holistic approach that can be applied to your firm’s processes to help identify waste and increase efficiency.

■ **Measure efficiency based on a new system** of metrics that includes: understanding the voice of the client, both internally and externally; identifying the steps that your firm is taking that add or

do not add value; and using lead and cycle time more efficiently.

■ **Identifying and quantifying waste is a step** toward helping your firm implement solutions that can improve the effectiveness of the overall process. Examples of categories of waste include: defects, overproduction, underutilized talent, inventory and excess processing.

■ **The Lean Six Sigma method includes:** identifying the needs of your internal customers and making sure your processes support

them; increasing the work flow by identifying and eliminating non-value-added steps, bottlenecks and the potential for errors; choosing a person in each office, work team or group to participate in ongoing workflow analysis and to encourage continual improvement; and driving improvement by defining, measuring, analyzing, improving and controlling the process.

Dustin Hostetler (dustin.hostetler@reacpa.com) is a Lean Six Sigma

Master Black Belt for Lean CPA LLC, a division of Rea & Associates Inc., a top 100 accounting and business consulting firm with 11 offices in Ohio and an independent firm associated with Moore Stephens International Ltd.

To comment on this article or to suggest an idea for another article, contact Loanna Overcash, senior editor, at 919-402-4462 or lovercash@aicpa.org.

did too much project management, and spent too much time in the minutiae. They weren't staying at a high level and focusing on ways to better serve clients. Younger team members weren't being developed, stretched and trusted.

- **Transporting.** Too many paper folders were being transferred throughout offices, resulting in time delays. Individuals weren't optimally located to work with their primary teams.
- **Inventory.** Excess work in process occurred. This led to a lot of started and partially completed work, but fewer finished products getting out the door to clients. Bottlenecks and delays in client service were also created.
- **Motion.** Hard copies and electronic copies of documents were not being filed properly. This led to "Easter egg hunts" in which time was wasted searching for certain pieces of information or communication.
- **Excess processing.** Time was spent outside the scope of the engagement on things such as cleaning up bookkeeping and fixing mistakes. People didn't realize the scope of an engagement and performed more work than the client engaged the firm to do—and was willing to pay for. Put simply, the firm wasn't matching client expectations of the scope of the engagement.
- **Attitude.** If each office developed its own process, consistency would not be viewed as important. By unveiling a consistent, firmwide process, everyone understood the benefits of Lean Six Sigma, such as improving profitability and work/life balance. Attitudes changed and individual employees adopted a one-process mindset regardless of location.

DEFINING METRICS

To improve the results, we must first define some new metrics:

Voice of the client. The lean concept of efficiency and client value is based on understanding what the client desires. The client is both internal (the next person in

your firm to touch the service after you) and external (the person who receives the final product). You must ensure that your firm's processes can meet their demands.

Value-added and non-value-added steps. Look at value through the eyes of your internal and external clients. Non-value-added steps do not contribute to the satisfaction, needs or qualities desired by the client. An analysis of value-added vs. non-value-added time in processes is a must.

Lead time. This is the entire time from when the clients' work comes in the door until the work is complete. Your firm can gain efficiency by reducing the lead time (which differs from cycle time below).

Cycle time. Cycle time is the time a project is actually in process. Cycle time starts when the client's work is picked up and ends when the final product is deliv-

you're growing your client base at a rate of 20% or more, for example, which would of course mean that you would not be reducing chargeable hours.

Traditional metrics. Besides chargeable hours, other traditional metrics can still be used to judge the success of a Lean Six Sigma project. Rea & Associates' tax division experienced the following results during the 2009 tax season: realization (amount billed/WIP) increase of 6% year over year, chargeable hours decrease of 7.5% and a 2% increase in revenue—all amid the worst recession in 25 years.

LESSONS LEARNED

Throughout the lean process, Rea learned many things that may apply to all CPA firms:

Technology doesn't always help efficiency. Throwing technology at a process

The lean concept of efficiency and client value is based on understanding what the client desires.

ered. Don't confuse this with lead time. Lead time includes the time before cycle time—when the project was dropped off. If you don't have all the info you need from the client upfront, this will add to both the lead time and cycle time.

Review notes. The level and number of review notes can also help measure efficiency. This data typically exists in the mind of a partner and isn't tracked. It is a valuable way to improve your processes and gauge your improvements.

Chargeable hours. One final measure of process efficiency is reducing your chargeable hours—taking less time to do more work. Historically, chargeable hours have been an inefficient metric for CPA firms to use when gauging effectiveness because it promotes the wrong behavior. If you ask for chargeable hours, you'll get chargeable hours—but those hours may not be efficient or productive. The mantra in your firm should be to reduce your chargeable hours and become more effective—unless

isn't the complete answer. Software best practices tend to be one-size-fits-all and, if they have not been optimally integrated to your global process, you won't see much of an increase in efficiency, despite the salesperson's best pitch. Rea struggled internally with software rollouts in the past because processes were not aligned with the new software, resulting in loss of effectiveness and efficiency. The process is the backbone of a firm, while technology is a tool to help the process. You have to understand how the software fits into an optimal overall process—not how the process can fit into the technology. Many firms go awry by allowing software to drive their processes, rather than aligning it with existing needs, resulting in an enhanced process.

Throwing manpower at a nonbottleneck step doesn't help. Hiring additional resources to prepare tax returns increased the volume of returns at the review stage. Since the number of reviewers didn't

change, only a finite number of tax returns could be reviewed each day. Therefore, the bottleneck increased at the review stage. Resource redeployment was key to improving this inefficiency. Firms are wasting money adding resources in non-bottleneck steps and not fixing the process.

Failure to engage the work force. For effective, efficient processes to be developed, you need input from the front lines. Using a top-down approach, like

ual improvement of your processes.

Drive improvement through DMAIC Model (a Six Sigma concept). Define, measure, analyze, improve and control the process. By using a cross-functional team, you can promote continual improvement. Start by *Defining* your project. Determine who's on the team and their roles, list objectives, and define the scope of the project. Next, *Measure* how the work currently flows through the process. This helps to identify the pre-

The Lean Six Sigma approach can help your firm objectively review and improve the processes your team performs every day.

a small management team dictating procedures, will not generate the buy-in you need.

GETTING STARTED WITH LEAN AND SIX SIGMA

To get started Rea used the following tools. These can be big contributors to success before delving into the changes that impact actual work product:

Identify internal customers. Identify the needs of your internal customers and make sure your processes support them. You can't have 100% external client satisfaction if you don't focus on having 100% internal customer satisfaction.

Increase work flow. A value stream map (similar to a workflow chart with various types of process shapes connected by arrows) can help identify value-added vs. non-value-added steps. The map can also provide those involved with a common language or reference point when working through improvement ideas. Your process will flow better after identifying and eliminating non-value-added steps, bottlenecks and the potential for errors.

Assign a champion. By picking a person in each office, work team or group to participate in ongoing workflow analysis, you can level the workload and respond to client needs in a timely and effective way. Champions also encourage contin-

liminary sources of waste. Then, *Analyze* the current state. Put the steps under the microscope and zoom in on your wastes and inefficiencies. Only after thorough analysis can you work to *Improve* the process. Implement simple, targeted solutions to eliminate waste and improve effectiveness. Keep in mind your top priority—to better serve client needs. Lastly, *Control* the process by documenting the procedures, providing training and getting everyone on board with the new way of working.

FINAL RESULT

Lean Six Sigma can be an effective tool for improving the efficiency of your firm's processes. Viewed holistically, this approach can help your firm objectively review and improve the processes your team performs every day.

With the appropriate time and commitment from all levels of your firm, your firm can enjoy the benefits—distinguishing itself from the competition by providing better value to its employees and clients. If you do what you've always done, you'll get the same results. Make a change. Get results. ❖

For additional information on the steps Rea & Associates undertook, see the version of this article at journalofaccountancy.com. Enter 20091484 in the search box.

AICPA RESOURCES

JofA articles

- "Pricing on Purpose: How to Implement Value Pricing in Your Firm," June 09, page 62
- "Developing a CRM Strategy in Your Firm," Aug. 08, page 68
- "Unleash the Power of Lean Accounting," July 08, page 60

Use journalofaccountancy.com to find past articles. In the search box, click "Open Advanced Search" and then search by title.

CPE

- *Lean Accounting and Management: Improving Profitability by Streamlining Operations*, a CPE self-study course (#731275)
- *Shaping Up Your Accounting Function: Trimming the Fat and Going Lean*, a CPE self-study course (#733042)

For more information or to place an order, go to cpa2biz.com or call the Institute at 888-777-7077.

On-Site Training

- *Business Sustainability: Keeping Lean but with More Green for the Company's Long Haul* (#SKLG)
- *Doing More with Less: Lean Accounting and Management* (#CL4LAMA)
- *Lean Accounting and Management: Improving Profitability by Streamlining Operations* (#LAMA)
- *Lean Accounting for Service and Nonmanufacturing Businesses* (#LASN)
- *Lean Accounting: Transforming Your Accounting Function for Maximum Performance* (#CL4SUAF)
- *Shaping Up Your Accounting Function: Trimming the Fat and Going Lean* (#SUAF)

To access courses, go to aicpalearning.org and click on "On-Site Training" and search by "Acronym Index." If you need assistance, please contact a training representative at 800-634-6780 (option 1).

Private Companies Practice Section

The Private Companies Practice Section (PCPS) is a voluntary firm membership section for CPAs that provides member firms with targeted practice management tools and resources, as well as a strong, collective voice within the CPA profession. Visit the PCPS Firm Practice Center at aicpa.org/PCPS. For additional resources, visit the PCPS Client Service Resource Center and read the PCPS newsletter *Seasonality Success: Winning Strategies for Profitable Firms*.