

Making Change With Lean Six Sigma Generates Many Happy Returns for CPA Firm Rea & Associates

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What began as an effort to better understand the Lean Six Sigma practices in place at its manufacturing clients has paid off handsomely at the Ohio-based CPA firm of Rea & Associates. Its leaders found that the improvement techniques most commonly used on the factory floor could be applied to a white-collar setting to eliminate waste, ensure quality and timely service to clients, and boost the bottom line. A trial to improve the business tax procedures at one of Rea's 11 offices led not only to firmwide implementation affecting a host of processes, but also to the establishment of a niche consulting practice to share Lean Six Sigma with other companies throughout the accounting industry. © 2013 Wiley Periodicals, Inc.

Professional advisors help business executives successfully navigate the business environment. In the case of a CPA firm, the goal is to ensure that clients succeed while fulfilling all the requirements of the various national and international tax and regulatory authorities with which they must file reports. Although business leaders across the globe rely on such advisors to help them achieve their objectives, they generally do not look to their advisors' businesses as models of business efficiency.

Through its adoption of Lean Six Sigma (see **Exhibit 1**), however, Rea & Associates, a leading CPA firm with 11 offices across Ohio, has not only improved its own efficiency, but also has indeed become a role model for how a business in the accounting industry can add value and increase

client satisfaction simply by working more effectively. What began as a straightforward, outward-facing plan geared toward providing better client service morphed into an internal project that eventually became part of Rea & Associates' cultural fabric and led to the establishment of a niche consulting practice.

Daring to Learn From Another Sector

Like many of their peers in other businesses, some of Rea & Associates' leaders initially were reluctant to change how they operated. The company was listed on some "Top Firm" lists, and its principals believed they knew how things should work at a CPA firm. Why mess with success?

A significant number of Rea's clients were in the manufacturing sector. Rea's professionals had discovered that many of those companies had adopted Lean Six Sigma practices and were implementing Lean accounting methods to support their efforts. Rea's CPAs realized that to remain trusted business advisors to these clients, they had to understand this methodology.

In 2007, the firm's CEO and director of manufacturing services sent one of his staff members to a Lean Six Sigma Master Black Belt class. To obtain Lean Six Sigma certification, he needed to conduct an actual project on a business process. The head of the firm's consulting division suggested to the firm's operations committee that this project

Exhibit 1. Lean Six Sigma at Work

Lean Six Sigma uses a team-driven, holistic approach to help companies simultaneously eliminate waste (that is, steps that do not add value) and increase quality. It is a philosophy based on two proven improvement methodologies—Lean and Six Sigma—that work together synergistically to make businesses run more smoothly and at a greater profit while increasing client satisfaction. Lean is the purposeful elimination of wasteful activities in order to speed up processes over a period of time. Six Sigma is a metrics-based system that works to develop processes that are virtually defect-free while improving quality and removing as much variation as possible. Credit for the program generally is attributed to Motorola, which trademarked the term in 1986.

The two systems are used together to get maximum benefit. If Lean tools and concepts are applied to a process without a Six Sigma methodology, errors or defects may continue to be produced and at a faster pace. If Six Sigma is used without Lean, processes may still be producing waste. Put another way, Lean Six Sigma helps companies focus on the highest and best use of its assets. In the case of accounting firms like Rea & Associates, people are the company's most important assets. Used together, Lean and Six Sigma can create world-class processes and people.

As transactional and customer service-based companies began to recognize Lean Six Sigma's success, it moved off the manufacturing floor and into the C-suite. One of the essential elements of Lean Six Sigma is that it is not a quick fix. Companies that adopt its philosophy are committing to a cultural transformation that constantly seeks improvement in all its existing processes, as well as in new services or divisions that are added.

should be conducted on one of the company's own processes. Aware of the fact that Lean techniques were being successfully implemented in such non-manufacturing industries as health care, Rea's leaders wondered whether the accounting industry also might benefit from those methods.

By 2009, Rea had reduced charge hours (the time spent working on a client's engagement) by 7.5 percent and increased realization (the percentage of the amount billed that is collected) by 6 percent—all while maintaining revenue levels in a down econ-

omy. The reduction in charge hours translated to more than 100 hours of additional capacity per individual per year, which allowed the firm to complete more work in less time using fewer employees. Rea utilized the extra capacity of its staff in other areas. The company also found that it did not have to replace employees who left, and could reduce the number of new hires. Rea & Associates used their newly found time to develop strategies and game plans to better help clients and to tackle fundamental services more efficiently. Staff was working more effectively, and the dreaded tax-season work pace became more evenly distributed.

Strategic Implementation Is Key

Because Lean Six Sigma supports a process-driven, cultural philosophy that permeates the firm rather than a series of stopgap solutions, it works best when it is implemented strategically, preferably with a product with which the entire business is familiar.

In any companywide change, the most important step is gaining upper management's buy-in, which is not an easy task. Dave McCarthy, a principal at Rea & Associates who is now one of the firm's leading Lean Six Sigma advocates, said, "I admit it. I was a Doubting Thomas when the concept of Lean Six Sigma was first introduced. How could someone outside of accounting understand what we do and how we do it? How could they understand how our clients' businesses operate and how we service them? How could they make our jobs better?"

The process improvement project changed his mind. "I'm proud to say it didn't take me long to see that it could work," said McCarthy. "The cool thing about Lean Six Sigma is that it doesn't promise it will work. But it does. It didn't happen overnight, but our firm began operating more effectively. Processes we'd used for years were streamlined and changed. As a result, our external clients are more satisfied because they get better service and our internal clients are happier because they work smarter, not harder."

With firm leadership fully behind testing Lean internally, it was time to begin implementation. That, too, was easier said than done. There were a few things that the firm's staff quickly realized they needed to address.

Determining Where to Begin

Once the decision to embrace Lean Six Sigma had been made, the next step was determining which processes to begin with and where to physically start. The firm's leaders decided to test the techniques in just one location, and settled on the Wooster, Ohio, office. With the help of a Lean Six Sigma facilitator (the Rea consultant pursuing certification), a cross-functional team of employees in the Wooster office decided that their first project should address how the office handled its business tax returns. This process was eventually defined to encompass the gathering of documentation, the actual preparation and filing, and delivery to the client.

Overcoming Fear

Lesley Mast, principal and manager of the Wooster office, believed that staffers' fear of the unknown was an obstacle that needed to be overcome before any progress could be made. Employees feared they would lose their jobs because they were doing something wrong. Firm leaders had to make sure that the people who reported to them understood that Lean Six Sigma is not about being caught doing something "wrong," but about effectiveness. "Once we educated our people about what Lean Six Sigma can accomplish, we were able to help people overcome their fears," said Mast. "The time savings we saw translated into better work and greater profitability."

Using the Right Terminology

The idea of having an efficiency expert look at how staff members do their jobs can have a chilling effect on workplace morale. When Rea's leaders softened that image by saying they were bringing in an expert to look at the effectiveness of the firm's processes, it helped change the perception. This seemingly small

adaptation made it easier for people to realize that they—and their opinions—mattered. They were able to suggest process modifications that were acknowledged by management even if they were not implemented. They began to understand that the goals of Lean Six Sigma were job effectiveness and job satisfaction, not job elimination.

Now that the firm's leaders and the Wooster team understood and supported the project, it was time to focus on another important part of the improvement effort equation—clients.

Knowing What Clients Value Most

Lean Six Sigma techniques are used to generate sustainable, periodically refined improvements to create processes that achieve maximum client service and satisfaction. Consequently, the focus is on increasing client satisfaction through process improvements and improvements to customer service activities. Ultimately, increased client satisfaction leads to repeat business, widespread positive word of mouth, and overall business success.

It is important that the project team understand the voice of the customer before trying to improve current processes. Meeting clients' needs ("hearing the Voice of the Customer," in Lean Six Sigma jargon) is a main focus of each step in the improvement effort. The firm's Lean Six Sigma facilitator helped the cross-functional Wooster team understand that clients define the value offered by a firm, and then helped them determine what Rea's clients value most.

All companies have internal clients—their employees—and external clients—buyers of their products. Some companies view all employees as internal clients. For Lean Six Sigma purposes, however, anyone involved in the process downstream from a certain process step is an internal client. This nuanced definition is important because it implies that every job has equal value. The

functions of an administrative assistant who is responsible for mailing a tax return are looked at with the same eye toward efficiency and excellence as a principal's time spent meeting with a client.

Satisfying the needs of internal clients by ensuring that the firm's processes support them is the first step to a more successful company. External client satisfaction cannot be sustainable without internal customer satisfaction. At Rea, the firm's internal clients highly valued time and type of work. Accordingly, as new or revised processes were put in place, top priority was given to the length of time it would take to complete a task or assignment and to matching the level of work with employee competency. The cross-functional Wooster team developed a matrix that listed the different types of returns and their level of complexity. They then decided which staff person, by job title, was able to perform the preparation and review required at each level.

In client-centric businesses such as CPA firms, the value proposition for external clients is immediately clear: people time, and especially principal time, is the firm's most valuable asset. This means making sure internal clients are working at their highest level so that principals have time during tax season to have meaningful interaction with their clients.

The Real Work Begins: Finding a Better Way

With the initial strategy in place and internal and external clients' value proposition defined, Rea & Associates turned to the next few steps in the improvement process:

- identifying the value stream (that is, what is value-added work and what is waste),
- making the process flow efficiently,
- implementing "pull" to the process so that employees would not push work off their desk but, rather, would pull it from the prior step in the process, and
- striving for continuous improvement.

Maintaining the status quo is the natural default position for any process, but inefficient processes adversely affect the way a company operates. Lean Six Sigma recognizes that change is difficult, and it facilitates progress by outlining an organized way for finding better processes and/or refining existing ones.

At the beginning, Mast faced a number of challenges. For example, no one in her office handled paper in the same way. Files were placed wherever a person wanted to put them. This meant that a person picking up a particular file would not know what it was or what to do with it. The situation improved once employees understood the concept that, as Mast put it, "Everyone you work with is a customer of yours and every customer is someone you work with." The Wooster team came to recognize that coworkers were clients, too. During the five years that Lean Six Sigma has been part of the firm's growth and profitability philosophy, the staffers in the Wooster, Ohio, office have internalized the message.

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To initiate the tax-return improvement project, Mast and Rea's Lean Six Sigma facilitator asked the cross-functional Wooster team to assess the office's process for completing business tax returns. The team was asked to use the Six Sigma DMAIC problem-solving model in their assessment. What they did and discovered follows:

- **Define**—The team members determined the project scope and developed a charter that limited the project to addressing corporate tax returns.

This helped keep the team focused and controlled the number of variables to be considered. It also identified the resources that would be required for the project.

- **Measure**—The team used a value stream map to identify loops and bottlenecks. In this stage, the team members discovered inefficient back-and-forth work loops. For example, preparers would start the return, only to need to request more information from the client, prepare a little further, request more information, and so on. The amount of time wasted by having to set aside work that had been started and then picking it up again later was substantial and led to errors.
- **Analyze**—The team members applied Lean tools, such as failure modes and effect analysis (FMEA), to all the data collected, which highlighted the most immediate areas for improvement. The team identified the company’s review process and client communications as problem areas to address.
- **Improve**—The team defined the desired “future state”—a new corporate tax-return process that set a protocol for proactively interacting with clients on the front end of the process, incorporating a self-review checklist for the preparers, initiating a collaborative review process, and speeding up delivery to the client.
- **Control**—The team members monitored the new processes to ensure that the changes were indeed helping the firm realize gains. They also adjusted the processes as necessary to ensure that the gains would be sustainable. This required identifying new metrics to measure. New procedures and controls were also developed. For example, a quick check document ensured that the new procedures were followed and that the highest quality was built into the earliest step. It served as a self-review for the tax-return preparers and cut the time spent reviewing the return at the next level.

This DMAIC tool relies on a team-oriented approach toward distinguishing between value-added steps and wasteful ones. According to Mast, “No

one knows how the work gets done better than the people doing it. And no one else can recommend more effective processes—and champion implementing them—better than the people who are accountable for getting the job done. This is very different from the typical top-down model, which dictates how things are to be done. Using Lean Six Sigma, the people at the ‘bottom’ of the process have a voice.”

Identifying Waste

As the improvement team learned to rethink every step in the existing business tax-return process, they searched for waste and placed the wasteful practices they found into one of nine categories referred to as DOWNTIME+A. DOWNTIME is consistently used in Lean Six Sigma; Rea added an A for attitude. Some of the waste identified in each category is described in the list that follows.

- **Defects**—These were the errors that generated the most delays. Defects also included the amount of time wasted when a team member had to stop work and call a client for missing documentation.
- **Overproduction**—This is the time spent during the busy season, January 15 to March 15 of each year, on clients who typically file an extension rather than on clients who need immediate attention.
- **Waiting**—This is the time between the completion of one step in the process and the beginning of the next step. At Rea, the longer something sat waiting to be reviewed, the more time the team member needed to become reacquainted with the nature of the work.
- **Not Utilizing People’s Talents**—Principals were spending too much time on administrative tasks and project management—time that could have been used helping clients with more complex issues. As a result, staff members were not being used to their full capability or developing their skills.

- **Transporting**—Staff members’ physical location can contribute to optimal performance. Team members at Rea were not sitting close to those they worked with. In addition, there was a lot of file shuffling throughout the office.
- **Inventory**—The firm has approximately 3,000 business returns to complete in a short period of time. Although a lot of work had been started, there were not a lot of returns that were actually ready to be delivered to the client.
- **Motion**—A lot of time was wasted looking for both misfiled paper and electronic files.
- **Excess Processing**—Staff was doing work that was outside the scope of the engagement. The most common was fixing mistakes in the client’s bookkeeping before completing the return.
- **Attitude**—The implementation of consistent processes proved to team members that there was a more efficient way to accomplish their work. Attitudes changed as standardized processes were adopted, which improved the work-life balance for many.

The team used value stream mapping, a Lean tool that is very similar to a traditional workflow chart, to map every step in its business tax-return process to identify waste and recognize opportunities for new efficiencies. In other words, it measured the value of each step in the process to identify the waste described above.

Solutions in Action at Rea

Inefficient processes detract from the services provided by any CPA firm. Rea uncovered and remedied four main areas of waste to improve its overall processes and, ultimately, profitability.

1. Managing the Front Door

Before it began using Lean Six Sigma techniques, the firm accepted tax returns and the information related to them in whatever form they were presented. If something was missing, the preparer called the client and asked for it. In some cases, a single re-

turn could generate up to six phone calls. The returns always were completed in a timely manner, however—at least according to Rea’s definition of “timely,” which was six weeks.

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The team’s analysis of the value stream map for processing business tax returns led to a startling revelation: Clients wanted their completed tax returns in three weeks, not six. Determined to satisfy its clients, the firm set out to meet this expectation.

This led to an aha moment for the team members. They discovered that delays were partly the result of Rea’s failure to clearly tell clients what information would be needed to complete their returns. Clients often submitted unnecessary information and omitted relevant data because they were unsure of what information to provide. To rectify this situation, the firm developed “managing the front door,” a multifaceted process focused on communicating with the client early and often to eliminate the inefficient collection of information that inevitably led to wasted time and effort. Among other things, the firm:

- *Redesigned its tax organizer.* This document was sent to clients (electronically or via mail) to help them clearly understand what information they were expected to supply to the firm. The previous one-size-fits-all document was customized for each client. The new format included a set of questions for the client to answer addressing life changes that might have occurred during the past year, along with a list of specific documentation that might be needed to complete the return.

Clients were notified immediately if staff discovered an error or omission.

- *Categorized and prioritized incoming returns.* This was done according to the level of sophistication required of the preparer: category A for simple returns, category B for more complicated returns, and category C for complex returns.
- *Changed the nature of the workflow.* This ensured that all staffers assigned to a particular group had the knowledge and expertise to complete all returns in their category. This differs from the traditional workflow, where each staff person is responsible for a single function. Staffers no longer had to wait for someone else to finish a step; they simply worked on another return. In this way, wait time was contained or eliminated.
- *Eliminated uncertainty.* Before Lean Six Sigma, completed files could be put anywhere in a reviewer's office: on the principal's chair or atop any pile on the desk. Alternatively, the preparer might interrupt the principal and ask where to put a file, further wasting time and lowering productivity. Now, each reviewer has a bin with a bright orange label marked "To Review."

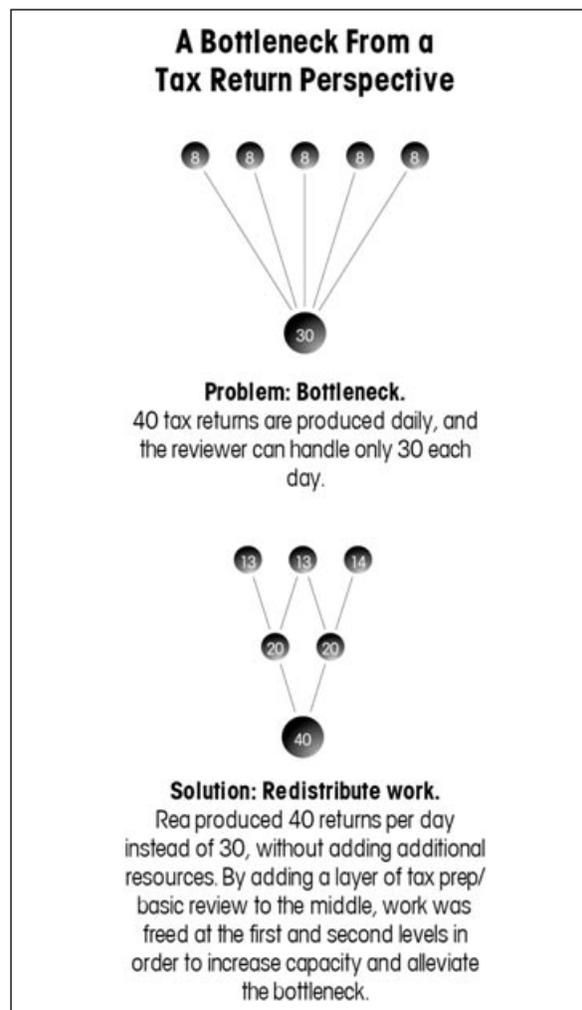
Managing the front door revolutionized how the firm took in and processed tax returns.

2. Eliminating the Review Bottleneck

Streamlined workflow is a hallmark of Lean Six Sigma. Bottlenecks—steps in the process where work gets backed up—are the biggest impediment to working smarter, not harder. Improving or eliminating bottlenecks in the system alleviates inefficiencies, since the throughput of a process is only as fast as the rate of the slowest step in the entire process.

Clearing up bottlenecks is a challenge for any growing company with a multistep or multiphase process. Inevitably, there is a point at which the company has to determine whether it will be more effective to alleviate a bottleneck by hiring another person or reallocating the existing workforce. Through Lean Six Sigma, leaders assess which solution is best for

Exhibit 2. Tackling Bottlenecks at Rea & Associates



the organization, bearing in mind that throwing additional resources at a step that is already processing work faster than the next step will only makes things worse. If a larger bottleneck is created at the next step, the result will be excess inventory and the performance of non-value-added tasks.

Exhibit 2 highlights the bottlenecks that can occur during the tax-preparation process. A description of two of the major bottlenecks that were uncovered in

the Wooster office and how the firm remedied them follows.

The Learning Curve. For tax-return processing, the biggest bottleneck was in the review process. Staff members were able to process 40 returns per day, but the reviewer could only get to 30 returns each day. The pile of returns awaiting review grew exponentially, and it could sometimes take up to three weeks for a review. Externally, clients were not receiving their completed returns in a time frame that they were comfortable with. Internally, the bottleneck created an ancillary problem, known as “the learning curve.” Every day that passed between the time when the principal or staff member put down a client’s project and he or she resumed work on it caused an ever-increasing lack of familiarity with that assignment. Consequently, additional non-value-added time had to be spent figuring out where the principal or staffer had left off, and what remained to be done.

Creation of the Tax Processing Center. At Rea and most CPA firms, tax returns fall into two major categories: simple returns and those that require special expertise. Technology has made the preparation of simple returns relatively routine, and it is inefficient to use high-value principal time to prepare them.

By slowing down the front end of the process, the firm was able to get more work out the door more quickly, without any backlog, without excess staff capacity or time, and without compromising accuracy or quality.

The firm decided to try to level its process so that the same number of returns being processed each day could be reviewed the same day, alleviating both the primary bottleneck and the learning curve. The result was an internal Tax Processing Center. The firm assigned five newly hired staffers to prepare

an average of about eight simple returns per day. Rather than add another reviewer at a much higher cost and, thereby, create a situation in which neither reviewer would work to capacity, the firm re-engineered its structure to support its goal. As a result, within two years, wait time was reduced to less than one week.

Two of the highest-level processors were trained on how to review completed returns for commonly made errors. That freed the principal who handled the formal review from having to spend time on resolving the most common mistakes. Instead, he or she could focus on less common mistakes that required a higher level of experience to address and opportunities to add value. By slowing down the front end of the process, the firm was able to get more work out the door more quickly, without any backlog, without excess staff capacity or time, and without compromising accuracy or quality.

3. Ensuring Efficiency and Satisfaction

“Lean Six Sigma gave us a new understanding of what it means to run efficiently. In some cases, the time savings we realized gave us time to meet with clients we might not otherwise have had the time to see in person during tax season,” McCarthy said. “These meetings, held during a time everyone knows is frantic for CPAs, have increased our clients’ value perception. In a number of instances, simply taking the time to ask our clients about their pain points has turned into new work. And that has proven to be a bonus in this economy.”

Internal client satisfaction increased as well. “I always thought we were efficient, but now that we have the right processes and tools to work more effectively, we are even better at what we do. It’s in our blood,” said Mast. “Now, when we make changes, we just call it an improvement.”

Lean has also helped Rea with next-generation leadership and staff retention. “No one is afraid to

suggest a change, and that makes everyone feel valued,” explains Mast.

4. Defining Metrics

The Lean Six Sigma process requires defining metrics. These metrics are the benchmarks against which improvements to existing processes are measured. The cross-functional Wooster team determined that the following metrics would provide a fair way of measuring the effectiveness of the tax-return preparation processes:

- *Cycle time*—The total time it takes a product or service to be completed from the starting time (when the project is first picked up) to finishing the service. This is measured through workflow software, which provides guidelines on when the cycle begins, as well as when a return is ready to move onto the next step.
 - *Value-added time vs. non-value-added time: external clients*—This can be tracked with the firm’s workflow software, which identifies both value-added and non-value-added time. The amount of time that staffers physically work on the return is considered valuable, while non-value-added time is the amount of time that the return sits until the next stage in the process. Another way this is measured is through increased capacity at the principal level, time that is to be used identifying tax-planning ideas based on the information in the return.
 - *Value-added time vs. non-value-added time: internal clients*—To help keep non-value-added time to a minimum, a limitation was placed on the amount of time that staff members can spend searching for an answer to a question on a return. In addition, a collaborative review process was implemented to help individual tax preparers share their expertise. Preparers are not always sure what reviewers may be looking for on a return or why something should or should not be included. The collaborative review allows for the reviewers to explain to the preparers what they are looking for and why. This helps the preparers review their own work in the future, which broadens their skill set and ultimately speeds up the review process.
- *Process-cycle efficiency*—This is a measure of productivity for a given process. It is calculated by dividing value-added time by total cycle time. Higher values indicate less waste and greater throughput.
 - *Number of review notes*—Though difficult to obtain, random samples from reviewers can be analyzed to assess for variations in preparation (quality) and bottlenecks (efficiency). If there are misspellings or transposed numbers on the returns, reviewers now do such quick fixes themselves, rather than writing a note for the preparer to address them. This eliminates one, if not many, work loops. The reviewers still communicate any changes that were made to the preparers, but such details are no longer handled at the client’s expense or at the expense of firm profitability.
 - *Level of review notes*—The firm wanted to ensure consistency in review notes by having everyone use a standardized approach that removed personal preferences for each individual reviewer. This eliminated wasted time, which does not add value to the return. The goal was to have each preparer make fewer review notes as they processed more returns. In addition, review notes are regularly reviewed to ensure that they contain only specific and clarified direction for the preparer and not any personal preference requests, which add several minutes to the time it takes to complete each return and create confusion for the preparers.
 - *Number of touches*—Getting to the heart of efficiency, this is the number of times the return is picked up and put down during the tax-preparation process. This metric also is measured through workflow software, as well as work-in-process reports. The greater the number of times the return is handled, the lower the level of efficiency and throughput.
 - *Chargeable hour reductions*—CPA firms traditionally bill clients based on the number of hours

Exhibit 3. Breakthrough Results at Rea & Associates

RESULTS OF IMPLEMENTING LEAN SIX SIGMA			
	PRIOR YEAR	YEAR 1 AFTER LEAN	YEAR 2 AFTER LEAN
Realization (i.e., percentage of amount billed that is collected)	87%	93%	101%
Rate per hour	\$168	\$185	\$199
Reduction in charge hours	—	8%	22%
Reduction in write-offs	—	51%	more than 100%
Increase in production volume by April 15	—	3%	5%
Average wait time for review	2 to 3 weeks	less than 2 weeks	less than 1 week
Average wait time to clear review notes	1 week	less than 2 days	less than 2 days

spent working on an engagement. The charge varies according to the level of professional attention, with principal time naturally being the highest. The goal is to have a large number of chargeable hours. Once Lean was implemented at Rea, the paradigm changed. The goal now is to reduce chargeable hours through the efficiencies instituted at all stages of the process. Valuable principal time is freed up so the principals can gain capacity. This is time that can be spent with internal and external clients, which in turn leads to greater client satisfaction and loyalty.

- *Amount billed per process-cycle day*—This measure is calculated per client per day. A higher number indicates that work is being processed efficiently and quickly.

These metrics supplement the ones that principals typically use to measure the success of the firm. In the first year, Rea’s leaders were happy to see substantial gains in areas like realization and rate per hour. They were ecstatic when additional gains in those areas, as well as reductions in charge hours and write-offs, were obtained during the second year of their use of Lean principles (see Exhibit 3). They appreciated the ability to deliver returns to clients more quickly, which increased satisfaction. They were most pleased, however, to see how Lean improved firm profitability. The firm was able to increase the amount it earned per tax professional per hour. Most impressive, the firm realized higher revenue from fewer working hours.

Two Key Tools Define Relevant Metrics

A kappa study and FMEA were key in Rea’s analysis of its processes. A kappa study measures the success and consistency of processes in which multiple people are making decisions. Twenty different decisions that have to be made during the tax-preparation process were reviewed. Members of the cross-functional Wooster team shared the decisions they would make in each instance. An individual’s decisions were then compared to the desired answer, as well as to how other members of the team responded. The goal was to determine the likelihood that different employees would work the same way and whether employees would do the same task in the same way every time.

The results of the kappa study defined Rea’s gold standard of how each task in the tax-preparation process should be performed—that is, the point at which staffers are sure that the work has been completed to the best of their ability before it is passed off to the next person in the process. “As we were beginning the Lean process,” recalls McCarthy, “a team member brought in a tax return and put it on my desk. I asked her if it was gold. She wasn’t sure what I meant, so I asked if it was perfect. I was taken aback when she said no, so I asked if it was silver, bronze, or some rusty metal instead. She replied that it was only bronze. I told her to work on it some more and return it to me when it was gold.”

Before the implementation of Lean Six Sigma principles at Rea, this type of scenario was common. To

accomplish tasks quickly, staffers were sacrificing quality. As a result, the next person in the process often had to spend time fixing errors that should have been previously addressed. Once employees understood the concept that the person who touched the return next in the process expected it to be “gold,” they spent more time ensuring that their work on it had been perfect.

The kappa study helped the firm gauge consistency at various decision points—for example, how to remedy procedural deficiencies or when to take a specific deduction. The results were helpful because decision points highlight preferences and uncertainties in the process. Lean Six Sigma strives for the elimination or containment of preferences and uncertainties by instituting standardized policies and procedures that everyone follows.

FMEA is a proactive, quality improvement process used to examine breakdowns in a particular process. This tool is used after a process has been mapped, to show the inputs and outputs at each stage of the process, as well as where failures, such as bottlenecks, are likely to occur. For Rea, any time a return was picked up, it was calculated as an input. An output was when it was put down. FMEA showed the firm that its review process was a failure.

At its most basic, FMEA is designed to highlight the most critical areas to focus on when re-engineering a process. The most frequently occurring and most severe failures are addressed first. Failures that have a lower score are typically left for a subsequent project geared to continuous improvement.

Taking Lean Firmwide, Nationwide

Although the initial Lean Six Sigma experiment focused on processing business tax returns, the benefits that resulted were so impressive that Rea’s leaders decided to expand the trial to include the preparation of individual tax returns and other processes,

such as payroll, audits, and certain bookkeeping functions. Eventually, the tax processes developed in Wooster became the standard throughout the firm. This led to an unanticipated benefit: Now Rea’s professionals are able to work effectively and efficiently at any of the firm’s locations, essentially increasing capacity. Over the first two years alone, production volume of individual tax returns completed by April 15 increased 5 percent, which allowed for invoices to be sent and collected earlier, enhancing cash flow. It also increased the firm’s capacity to bring in more business.

Lean Six Sigma has been so successful that the firm’s younger staff is clamoring to be sent for training in the subject. Currently, the firm sends five staffers to Lean Six Sigma Green Belt training each year, but the goal is to eventually send all new hires. All these individuals must complete a project to become certified, so more and more processes throughout the firm are being improved, including some back-office and administrative functions. For example, one team member worked with human resources to improve the firm’s annual performance review process. Rea’s dedication to continuous improvement shows that it is truly striving to be a lean enterprise.

When Rea related its success with Lean Six Sigma to colleagues in other CPA firms, the leaders of those organizations became eager to attempt similar improvements. To meet this demand for Lean Six Sigma in the accounting industry, Rea formed a new division, Lean CPA, LLC. To date, more than 35 projects have been completed at firms of all sizes across the United States and in Canada. Because of their own success in pioneering Lean Six Sigma, Rea and Lean CPA are helping to revolutionize the way accounting firms view process efficiency and effectiveness.

Buy-In From the Top Imperative

Requiring a significant amount of training and a great deal of trust between management and staff,

Lean Six Sigma will not work without the firm's top-down commitment. Management has to learn that the people actually performing the work are the most valuable source of information on what makes sense to streamline and what will result in bigger problems. Staff has to learn that Lean Six Sigma is not a blame game. There is no wrong way to do something, but there is usually a better way.

Rea principals originally thought that their clients were satisfied with the time it took them to deliver completed tax returns, but they were wrong. "Until Lean Six Sigma came to our firm, we didn't recognize that a client's call at the four-week mark meant we were late—at least in their eyes," said McCarthy. "We found similar issues as we began using Lean Six Sigma in our audit, accounting, and payroll functions."

Rea has seen a tremendous increase in both internal and external client satisfaction and retention. In 2010, after the first two years of implementation, the firm's realization increased to more than 100 percent, and the firm now reassesses its processes

at least annually. Lean Six Sigma has also helped management identify potential leaders.

Lee Beall, Rea's CEO, summed up the firm's commitment to Lean: "Implementing Lean Six Sigma has been a win-win situation for the firm and our clients. We look forward to continuously improving the processes we've already restructured and implementing Lean on more processes as we move forward."

By improving its processes through Lean Six Sigma, Rea & Associates has improved many of its functions, as well as its profitability. To people who live and breathe numbers and who are dedicated to helping their business clients become more profitable, it is no wonder that Lean Six Sigma is picking up steam in the accounting industry.

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