CPA.com White Paper

SEVEN HABITS

of Highly Successful Firms

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XCM Solutions

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EXECUTIVE SUMMARY

Five years ago, Bay Street Group LLC conducted an online survey, "Top Tech Strategies for 2011," in which about 300 randomly chosen practitioners participated to compare distinguishing attitudes and behaviors of high performing firms with lower performers. The research identified seven common characteristics or practices that appeared consistent with achieving superior business results at multiple owner accounting firms.

The profession has undergone a great deal of change in the time since the original survey, particularly with regard to technology adoption. Our goal in revisiting the survey was to determine whether or not there has been a shift in behaviors and attitudes among high and/or low performers in that time. Based on the popularity of the results at the time, we expected to see the achievement gap narrow between high and low performers, and that more firms would adopt the high performers' attitudes and behaviors.

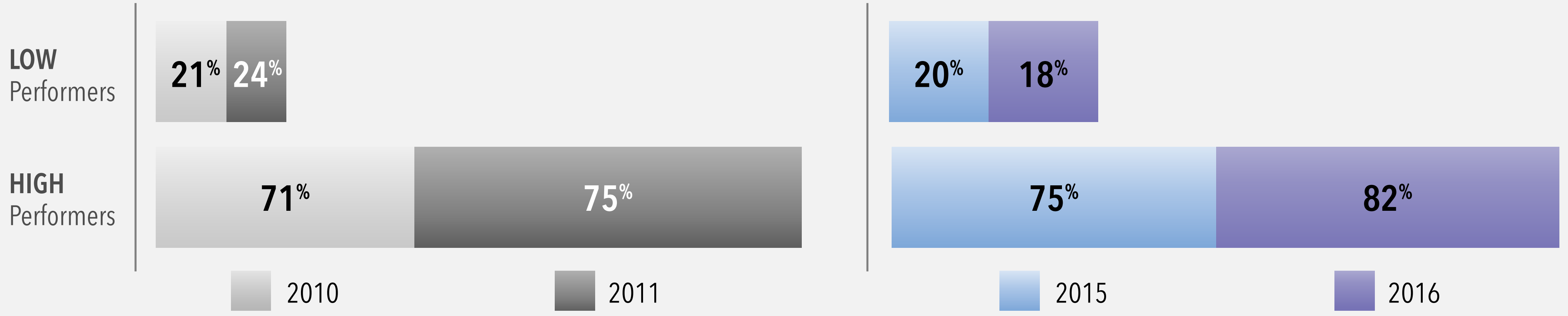
Bay Street Group LLC, in conjunction with CPA.com, conducted the 2015 "Top Tech Strategies" online survey. The survey consisted of about 500 randomly chosen practitioners and included minor changes to account for technology trends that have had a major impact on the profession, like increased mobility. Interestingly, though high performers were distributed evenly among firms of all sizes, low performers were disproportionately small firms.

While we did see some increase in the number of high performers, the achievement gap between high and low performers remained relatively constant – increasing slightly (see Table 1). We saw a similar trend in the gap between high and low performers in attitudes and behaviors across the same seven characteristics. In fact, in this way, the 2015 survey results provided further validation of the Seven Habits consistently associated with high performing firms.

In 2011, high performers reported outpacing low performers by a ratio of 3:1, responding excellent or very good when asked how well the firm achieved its goals in the past year. At that time, the same firms had expected to do even better in the year ahead, with an increase of about 9% in the number of practitioners responding that their firms are in excellent position to achieve their goals.

The gap between high performers and low performers is widening. Some 75% of high performers are hitting their goals in 2015, and that number is expected to increase to 82% for 2016. At the same time, more low performers are losing confidence – with only 18% expecting to meet their goals in 2016, down two percentage points from 2015.

TABLE 1 **Achievement Gap**



Charts illustrate the disparity between high performing and low performing firms in achieving their goals in both the past year and confidence in their ability to achieve them in the coming year.

GOAL SETTING

This research project was designed to uncover attitudes and behaviors among high performing firms characterized by their own measure of success – as opposed to a predetermined measurement, such as size or revenue. The understanding is that not all high performers are Top 100 firms, nor do all low performers have negative balance sheets.

The survey asked practitioners to first identify their primary goals, then asked them to evaluate how well they achieved their objectives. Though the method may not be as scientific as looking at balance sheets, the results are supported by more quantifiable metrics.

So, if success is defined by how well an organization achieves its goals, what are those goals? Goals primarily fall into a handful of categories for most public accounting firms (see Table 2). Though the disparity in goal selection between high performers and low performers is not great, it is worth noting some key distinctions.

A firm's goals may vary from year to year, as a situation or successfully achieving the previous years' goals may alter priorities. A firm may have more than one goal, but one is typically the most important goal, and is therefore the one that leadership will consider when asked if the organization had a good year.

High performers are making high-level investments in the future, while low performers are struggling with the basics of operations and revenue generation. In the past year, high performers focused on staffing, whereas low performers focused on financial results and productivity. Going forward, high performers will focus on client relations and reputation, whereas low performers will continue to focus on financial results and market share.

Similarly, when asked what will be the essential ingredient to successfully achieving the firm's goals, answers varied widely, but most fit neatly into key attributes: focus/commitment, people development (i.e., training), client service, marketing/business development and efficiency and productivity improvements.

Here are some of their responses ...

TABLE 2 Primary Goals for High Performers vs. Low Performers

Table illustrates the disparity between high performing and low performing firms that stated primary goals for last year and the year ahead. The figures at the top represent the percentage of respondents identified as high performers and low performers; all other respondents were average.

	2015	2016
Of the sample, **high performers** represent: Of the sample, **low performers** represent:	12% 19%	12% 19%
Financial Results (revenue, profits, shareholder earnings, etc.)	20% 32%	21% 29%
Reputation (become more widely recognized as an authoritative, prestigious, expert thought leader in our markets)	10% 4%	15% 3%
Client Relations (improve client satisfaction and retention, develop new niches, offer new services, etc.)	10% 15%	20% 13%
Staffing and Management (add new talent, improve staff satisfaction and morale, enhance training and education, etc.)	23% 7%	10% 14%
Market Share (add new clients, win more business from existing clients)	12% 9%	8% 16%
Enhancing Productivity (improve efficiencies, reduce write-downs, enhance workflows and internal operations)	23% 31%	23% 22%

"Use the workflow and efficiency improvements to improve the client experience."

"We focus, we hire the best we can, and we leverage tech."

"Investing in innovative technologies that help us to become more efficient and accountable. Recruiting and retaining qualified talent."

"Serve current clients with excellence and spread the word about the firm through networking and referrals."

Another fact also becomes clear in this self-actualization exercise: Top performers are confident in their ability to successfully achieve their goals in the coming year. They are well positioned to dominate in their respective areas of expertise, and can clearly articulate the reasons why. Similarly, some practitioners who rated their firm lower can also clearly articulate the reasons why, but there's a sense of powerlessness in their responses.

HIGH PERFORMERS: *Confidently facing future goals*

"We are doing things for growth and development that no other firm is doing. In 30 months, we have grown from 18 to 75 people and will do well over $12M in 2016 – without partners being rainmakers. Everyone is doing the job they are best suited for. Partners are best for client service, not selling. Biggest mistake our profession has ever made – making partners the rainmakers and giving them the power when client service is the #1 need in our profession. We have solved that."

"We are on the front edge of tech normally. We take on technology that sometimes isn't quite ripe yet. But we feel we have to for maintaining a competitive edge five years down the road. By the time competitors catch up, we are on to the next improvement – particularly in workflow."

"Everyone who works for our firm believes that being the best at what they do makes [us] the best public accounting firm. We encourage and embrace change. We listen to our employees. We provide top-notch services to our clients."

"Continuing to meet and exceed clients' needs and expectations will take care of all the other goals. Productivity is the key for us."

"Create a level of client service that the CPA profession has yet to see. We believe this is the key to our future. Out-service the competition."

"I believe in 100% of my firm's directional goals and vision. We also have a wonderful culture that creates a great atmosphere to work in."

LOW PERFORMERS: *Recognizing the gap; sense of powerlessness*

"Slow to adopt new technology."

"We are not on the cutting edge of technology, but we do believe in it."

"The firm needs to move into the 21st Century. All partners act independently of one another."

"Our firm is very much [of the attitude] 'Let someone else try it out and work out the bugs, then we will implement it.'"

So, what's our take-away from all of this? Responses validate the common themes to why firms have experienced success in achieving their goals, as well as for those who failed to do so. Though we can certainly learn from our mistakes and the missteps of others, let's take a look at the common characteristics and habits of high performers as a benchmark for success.

"We have a long way to go!"

SEVEN HABITS COMMON TO HIGH PERFORMERS

Some of the characteristics high performers have in common may be attributable to their size and market position, and not represent a standard to which all firms could aspire. Other behaviors (or habits) offer us a much better understanding of the blueprint for success. What are those common characteristics or habits?

HABIT #1: High performers embrace change

High performers not only tend to be early adopters who embrace positive change, but also they take it a step further to create a culture of curiosity in which individuals are encouraged to innovate. This attribute, while it can be applicable to technology adoption, is certainly not restricted to it. In fact, it tends to be pervasive in a firm's culture – applying broadly to service offerings, management techniques, employee benefits and so forth.

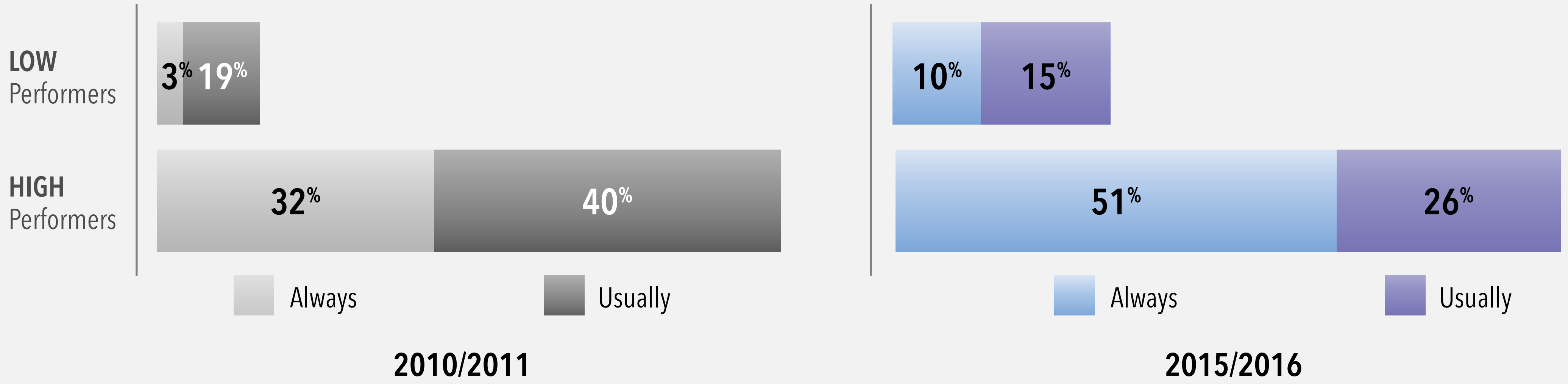
HIGH PERFORMING FIRMS ARE FIVE TIMES MORE LIKELY THAN LOW PERFORMERS TO ENCOURAGE INNOVATION. (See Table 3).

In the last five years, low performers have been making some progress in building cultures that foster innovation, but not as fast as high performers. The number of high performers that consistently support new technologies and processes has expanded to 51% (up from 32%).

This culture of curiosity naturally leads to a higher instance of early adopters of technology among high performing firms. High performers are also five times more likely to "Always" be early adopters, whereas low performers are hardly ever early adopters (see Table 4).

The number of low performers who are early adopters has declined, standing at 19% today, which is down from 24% five years ago. At the same time, the number

TABLE 3 **Encouraged to explore new technologies and better ways of doing things**



Charts illustrate the disparity between high performing and low performing firms in encouraging employees to explore new technologies.

of high performers who are early adopters is shifting into high gear, with the "Always" category doubling to 21% from 10%.

Qualitatively, high performers express a strategic approach to technology adoption vs. technology for technology's sake. They perform due diligence to ensure that the new technologies they adopt are mature and have a clear business case.

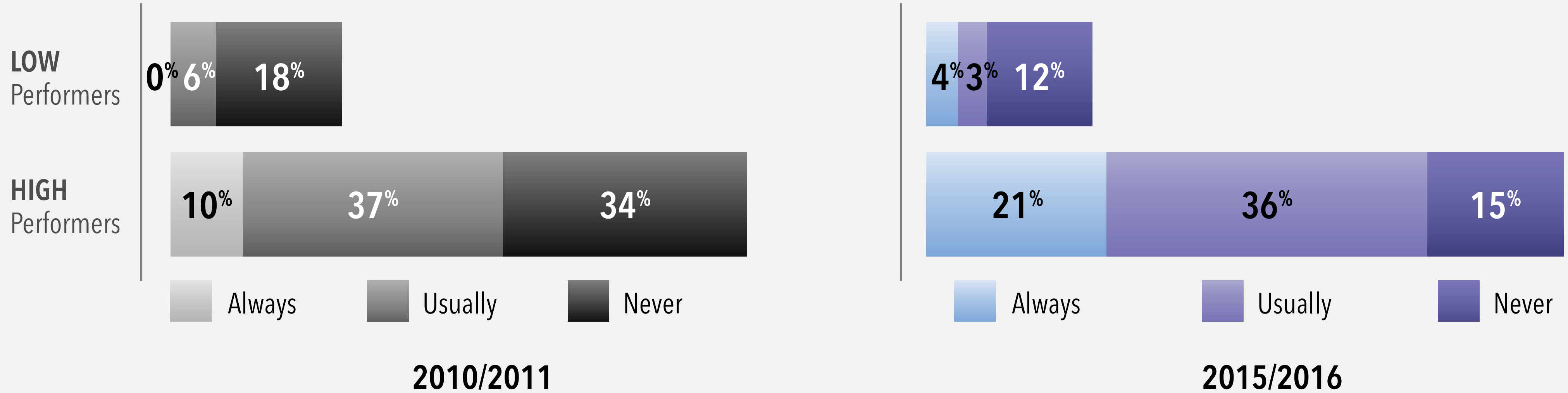
HABIT #2: High performers view improvement as a continuous cycle

In the open-ended questions, high performing firms expressed great confidence in their strategy and ability to achieve goals, while repeatedly noting that there's always room for improvement. High performing firms continuously measure their results and modify their plans accordingly. They view improvement as a continuous cycle – always seeking better practices as opposed to best practices.

The following are a sampling of high performer responses:

- *"I believe we are very good, but there is always room for improvement."*
- *"Zero tolerance. A culture of continuous improvement and change. Those who can't or won't will have to move on. Continuing to hire staff right out of college and follow their lead. Listen to them."*
- *"Make it a continuous process of exploring and adopting new technology."*
- *"I believe we do lots of things well, but need to improve workflow management and improve business to become a 10."*
- *"Although there is room to grow in some areas, we offer more services (42) than most firms and have a true continuous improvement culture."*

TABLE 4 **Adopting new technology**



Charts illustrate the disparity between high performing and low performing firms in being among the first to adopt new technology.

This attitude lends to a culture that embraces change, as setbacks are expected and overcome through consistent, continuous commitment to improvement. High performing firms know their efforts will likely yield year-over-year, measurable incremental improvement. After years of process and technology improvements, high performers may be reaching the limits of their ability to make significant productivity gains. However, they are still miles ahead of low performers (see Table 5).

HABIT #3: High performers see technology as a strategic endeavor

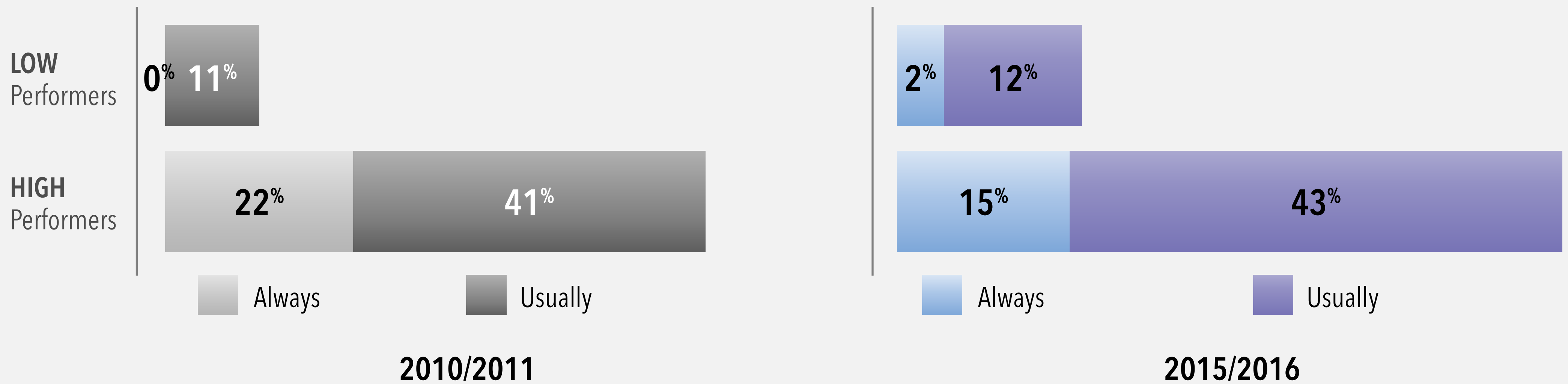
In high performing firms, leadership recognizes the significance of their technology investments to the overall business strategy of the firm, giving the CIO or partner in charge of IT the authority to help guide the firm's direction. Those firms are more likely to view their technology strategy as a competitive advantage (by an overwhelming margin) (Table 6) that can help them achieve their goals – whether goals are financial, client service, market share, new service offerings and so on.

High performers know that if a new technology fits into their IT strategies and they commit to its adoption, the return on investment will naturally follow. In fact, more high performers are getting more serious about viewing technology as a competitive advantage – with the "Always" number growing to 38% from 27%. The numbers for low performers have remained unchanged and barely material, as they hover around the survey's margin of error.

The key ingredients to a successful IT strategy most often cited by high performers are leadership, planning, communication, education and time.

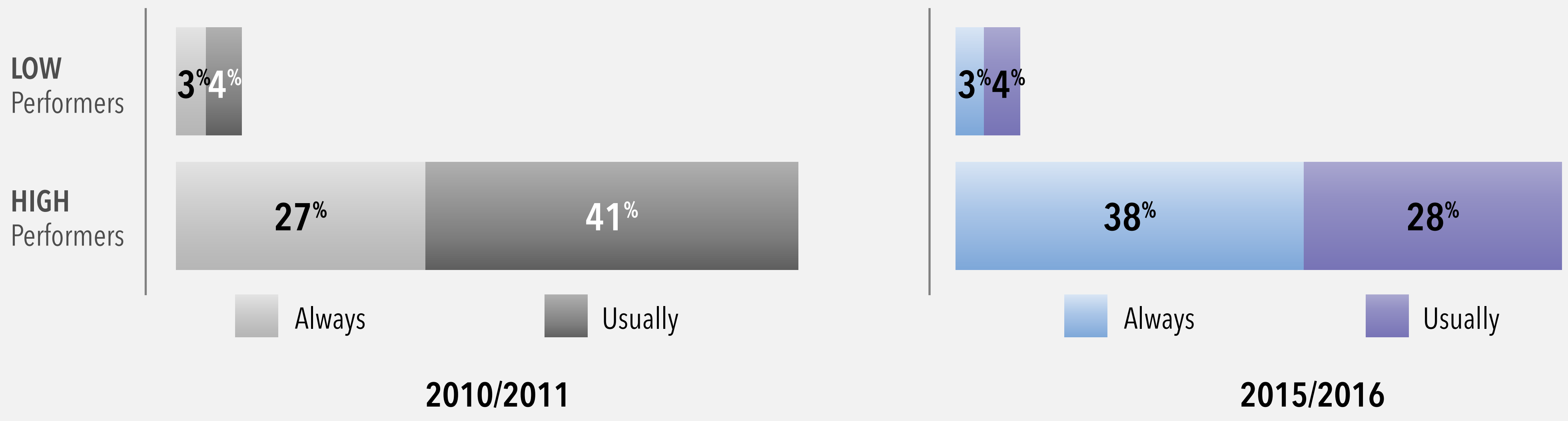
> *"Leadership from the top down shows change in processes and that technology is necessary and doable at every level."*

TABLE 5 **Continuous, measurable productivity improvements**



Charts illustrate the disparity between high performing and low performing firms in realizing continuous, measurable productivity improvements.

TABLE 6 View technology as a competitive advantage



Charts illustrate the disparity between high performing and low performing firms in viewing technology as a competitive advantage.

Because high performing firms are far more likely to view technology as a competitive advantage, they also understand that there's an opportunity cost and a risk of losing that edge in delaying adoption of new technologies (see Table 7). Understanding this reality in an era when the pace of change is staggering and encouraging a culture that embraces change, gives high performing firms an unmistakable lead in evaluating and acting on new opportunities presented.

Though the data on high performers hasn't shifted much, the results for low performers are markedly weakening in this area. These results might suggest that perhaps low performers are surrendering the competitive battlefield to high performers as aging partners plan their exit strategies.

> *"If you're casual about embracing new technology, you'll end up a casualty in the marketplace."*

So, what are those strategic technology initiatives that high performing firms consider a high priority in the long-term? The results (2010 vs. 2015) are surprisingly similar to five years ago, with two fairly significant leaps:

Topping the list for high performing firms are:

- Workflow tools: 70% vs. 74%
- Security and authentication: 50% vs. 67%
- Paperless technologies (like scanning and storage solutions): 68% vs. 67%
- Application integration: 55% vs. 54%
- Client portals: 38% vs. 46%

Which technology initiatives do high performers see as delivering a competitive edge in the short term? Software spending in the short-term (1-3 years) focused more on expanding use of key applications, including workflow automation (38%), document management (30%), practice/business intelligence (30%), client accounting (28%) and write-up or bookkeeping (25.5%).

The most significant difference between high and low performers with respect to software spending was in regard to adoption. While the majority of high performers planned to spend their dollars on expanding the use of software, low performers were spending more dollars on adopting software for the first time in areas like workflow automation (24.4%), document management (18%), contact management or CRM (15.5%) – with plans to expand others, including write-up or bookkeeping (24.4%), client accounting (22.6%), document management (21.4%), payroll (20%) and tax preparation (20%).

> *Firm leaders who have moved to a paperless environment, offer sound, urgent advice to those who have not yet made the transition:* **"JUST DO IT!"**

HABIT #4: High performers understand increased productivity is a byproduct of empowering people

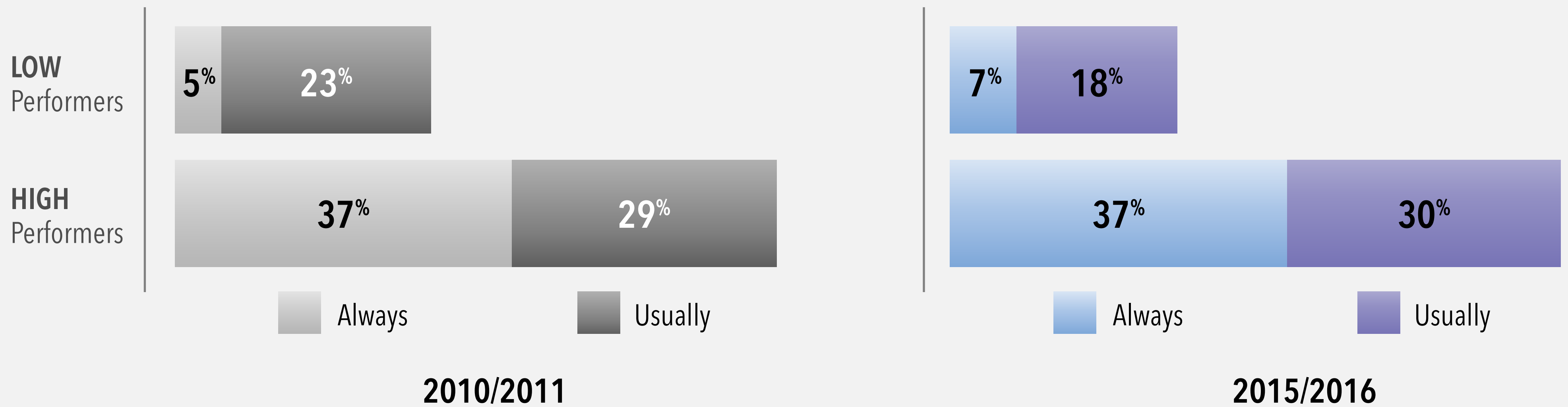
The profession has steadily been adopting paperless technologies in an effort to reduce reliance on paper, increase efficiency and provide instant access to information outside the confines of the physical office. Not surprisingly, high performers have made a more concerted effort to do so.

Of the high performing firms, 80% report that more than half their practice is paperless, compared to 58% of low performing firms, which is almost exactly the same gap as five years ago. The gap is most significant among firms reporting that they're 100% paperless, with high performers 2.5 times more likely than low performers.

Paperless is a term that means different things to different people. To some, it's using document management software or some other electronic filing system, as 76% of high performing firms do. To others, it's scanning all paper documents as soon as they come into the office – a practice high performing firms are two times more likely to engage in than low performing firms.

Though both high and low performers will reduce the amount of paper in the office, high performing firms understand that technologies that empower people to work more effectively and efficiently are the firm's mission-critical applications.

TABLE 7 **Understanding the opportunity cost**



Charts illustrate the disparity between high performing and low performing firms in understanding the opportunity cost in delaying technology adoption.

"We like to use the slogan 'work smarter not harder.' We need to move away from old methods and adopt new methods that will enhance our productivity so that we can spend our time on more valuable tasks like servicing our existing clients and obtaining new clients."

The ability to work digitally, not simply access information electronically, yields significant increases in productivity. High performing firms are four times more likely to use a full workflow solution than low performing firms. Fifty-eight percent (up from 46% previously) of high performing firms currently use a workflow solution vs. 14% of low performers. As previously noted, 50% of high performing firms plan to make additional investments in this area in the future.

When asked to give advice to firms that haven't yet gone paperless, many practitioners expressed a sense of urgency and urged their peers to "just do it." Leaders have been there for several years and understand that focusing on the firm's processes through workflow automation is the first step to a paperless practice. Here is a sampling of the practitioners' responses:

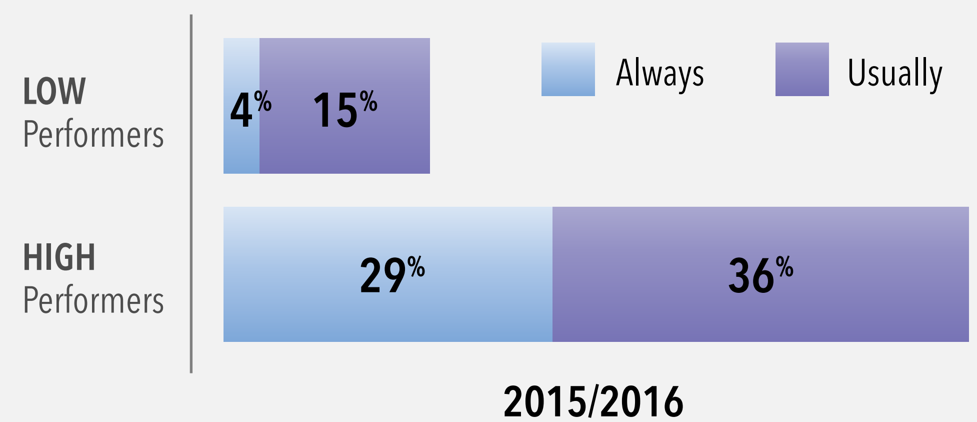
- *"Rip the Band-Aid off. No concessions or compromise or transition."*
- *"Do it; invest the time, and the benefits will be substantial over the cost of doing it."*
- *"Concentrate on getting the right workflow management system. Frankly, anybody who isn't scanning already, had better have retirement soon in mind."*
- *"You will never want to go back."*

- *"Only go paperless in the areas in which it will improve workflow. Going 100% paperless will cause inefficient processes and will have a lot of blowback that offsets many of the improvements made by going digital in the areas where it's needed."*
- *"Don't give up! Don't be overwhelmed! There will be hurdles, but in the end you'll wonder why you didn't do it sooner. And ask for help. Find someone who can help facilitate the process because you already have a full-time job."*

HABIT #5: High performers invest wisely in the best solutions for each function

Not surprisingly, because high performers view technology as a competitive advantage, they are six times more likely than low performing firms to always invest wisely in the best solution available for each particular task (see Table 8).

TABLE 8 **Best-of-Breed Software Selection**



This chart illustrates the disparity between high performing and low performing firms in choosing the best solution available for each particular function.

For the most part, high performing firms "always" or "usually" select the best software solution for each particular function, vs. committing to a single vendor strategy. A hallmark of a high performer is to overwhelmingly prefer best-of-breed solutions.

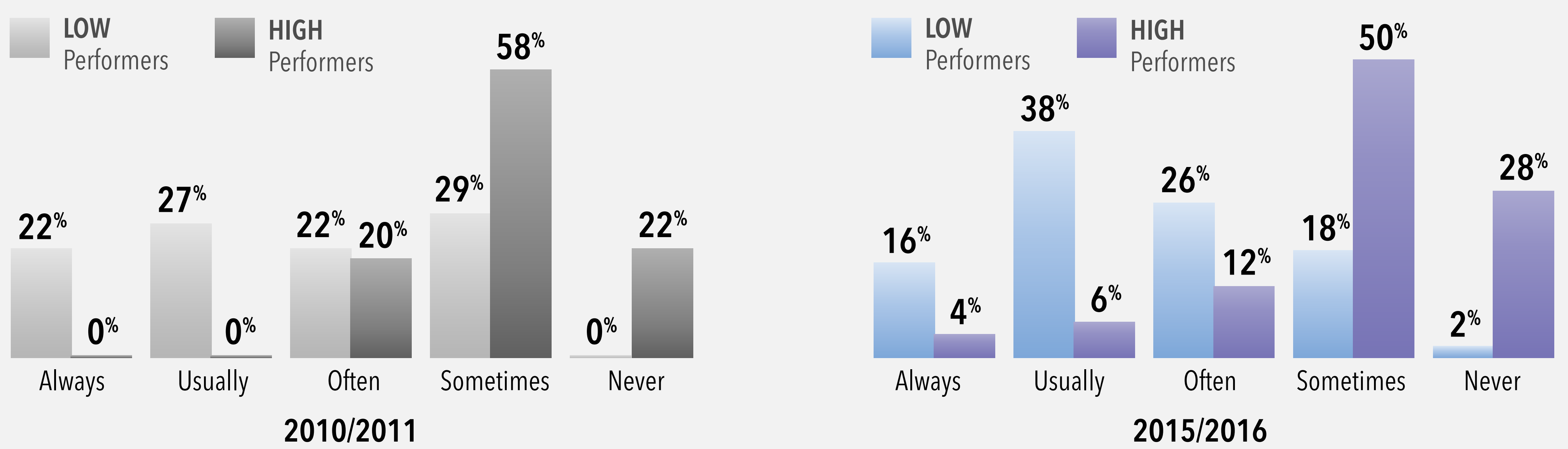
"We have positioned ourselves with optimal software and will continue to expand and implement."

HABIT #6: High performers invest in their people through education and training

High performing firms understand that testing and training is an important component of change management – whether it's a new process or a new technology. In comparing the results from this year to five years ago, we can see that low performers are becoming more active in providing regular technology training; however, they still lag far behind the high performers. Within high performing firms, 54% of employees reported that they get thorough and continuous technology training, while only 10% of low performers claimed this (see Table 9).

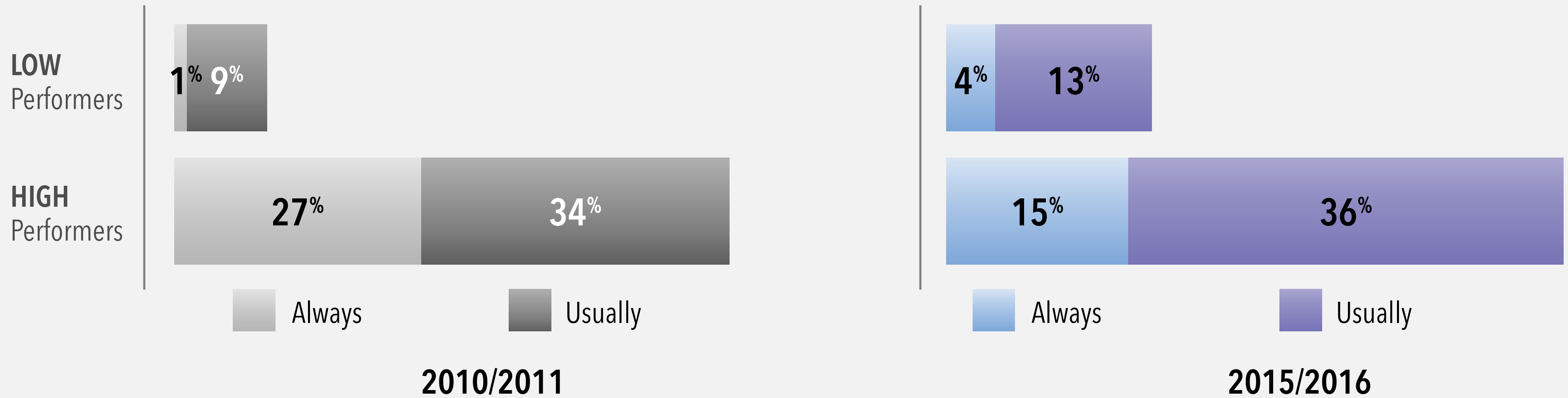
Additionally, high performing firms know that adopting in time to train and test without pressure will greatly increase buy-in and user comfort-level to yield even greater results in year one. As such, high performing firms are four times more likely to allow plenty of time for people to implement and learn new technologies (see Table 10). In the last five years, low performers have stepped up their game in implementation planning, but high performers remain significantly ahead.

TABLE 9 **Receive thorough and continuous technology training**



Charts illustrate the disparity between high performing and low performing firms in providing thorough and continuous technology training.

TABLE10 Time to Implement and Learn New Technologies



Charts illustrate the disparity between high performing and low performing firms in providing plenty of time for people to implement and learn new technologies.

Practitioners of high performing firms offered this advice to peers adopting new technologies:

- *"Create an open work environment where employees embrace knowledge sharing."*
- *"Provide frequent training with a champion leading the way."*
- *"Introduce technology during the slow times (August/September) and not just before tax season begins."*

HABIT #7: High performing firms seek out opportunities to learn

The final behavior that the survey found common among high performing firms is a proactive approach to learning about new technologies as opposed to the more passive approach favored by their lower performing counterparts.

So, how do practitioners learn about new technologies? Most professionals say that they read newsletters, professional publications and journals, blogs and other education-based pieces. Top performers also get outside of their offices and talk to peers within networks and associations. They also participate in technology events like tradeshows, webinars and user conferences – as well as keep an open mind.

Here are some of the ways practitioners from high performing firms say they learn about new technologies:

- *"Seeing what technologies other firms are using and what's new and if it can help our firm."*
- *"I am a CITP, so I receive a lot of magazines and emails that describe new technologies. I also talk to other CPAs about what their firm is doing whenever I get the opportunity."*
- *"Reading, Boomer group, XCM group, CPA society, discussions with fellow CPAs."*
- *"Through networking with other firms, attending software and conferences and listening to the software reps, we already know and trust what's out there. Also having our IT guys research new products for us."*
- *"Read and network with peers at accounting technology related events, meetings and online forums."*
- *"Membership in Leading Edge Alliance, Boomer Network, reading IT publications. Working with outside IT consultants."*

AN ERA OF INCREASED COMPETITION

As stated at the outset, we have entered an era characterized by tremendous change in the way practitioners run their businesses – thanks to the accelerated pace of technology adoption.

This research suggests that firms that embrace change are in a superior position to capture new opportunities and overcome competitive threats and other challenges presented by fee pressures, talent acquisition, service specialization and increased M&A activity among firms. As such, high performing firms will continue to widen their lead in many areas over average and, particularly, lower performing firms.

Identifying and understanding some of the attitudes and behaviors most commonly shared by high performing firms, particularly those that offer the widest disparity between high and low performers, can help us all evaluate and improve our own practices in meaningful ways – and ultimately, achieve our goals. Though change won't happen overnight, particularly to deep culturally rooted habits, it's clear that small changes in a firm's posture toward technology adoption can have a measurable impact.

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CPA.com is the technology subsidiary of the American Institute of Certified Public Accountants (AICPA), the world's largest member organization representing the accounting and auditing profession. The company, through its website CPA.com, as well as online webinars, conferences and training programs, helps firms position for success within the digital transformation that is revolutionizing the competitive landscape.

About XCM and the Author

XCM is a web-based workflow management solution that automates and standardizes workflow processes across the entire firm, in all departments, including A&A, tax, consulting and HR. Whether you're a small, mid-size or large firm, XCM works with your firm's unique processes to increase efficiency, productivity and profitability. The author, Cathy Foley, CPA and Director of Client Development with XCM, has over 25 years of public accounting experience with both tax and audit at local and national firms. Cathy is a workflow software expert and currently consults with clients implementing web-based workflow technology. XCM is a Preferred Partner Solution of CPA.com, an AICPA company.

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