



Tax & Accounting

# *Measuring Efficiency: Are You Tracking the Right Metrics?*

By Arianna Campbell and Amanda Wilkie

A firm had a problem. They were tracking certain metrics on two staff accountants but weren't sure what the data was telling them.

Here's what they knew:

- Employee #1 and Employee #2 had the same level of experience and were turning in work of relatively equal quality.
- Employee #1 had a high number of charge hours, while Employee #2's charge hours weren't meeting the firm's required minimums.
- Employee #1 took roughly three times the number of hours budgeted to complete a project, and Employee #2 was producing nearly twice as many completed engagements as Employee #1.

Let's say your firm had to promote one of these employees. Which one would you choose?

If you were looking solely at chargeable hours, it would appear that Employee #1 was the rock star, and Employee #2 needed coaching to improve their performance. But when you expand your measurements to consider efficiency, the data paints a very different picture.

The purpose of this white paper *isn't* to convince you to stop tracking billable hours. While we do feel that value pricing is ideal, especially as firms shift into more advisory and consultative roles with their clients, we also realize it's not as simple as changing your invoicing method. Metrics like billable hours and realization help firm leaders determine scheduling, manage talent and run the business.

Instead, we want to encourage you to add to the metrics you're tracking in your firm. Billable hours and realization can be starting metrics for measuring efficiency, but it's by no means the only metric you should be monitoring. In this white paper, we'll share the reasons traditional metrics fall short and provide suggestions on new metrics that will help your firm become more successful.

### Firm Metrics Are Changing

The profession has changed. Accounting firms and their services are changing. How firms measure efficiency must change as well.

#### Focus on client value

We're no longer just focused on compliance, so focusing solely on the number of hours people put in or the amount of tax returns or audits they can crank out just won't cut it.

Technology gives us the ability to do more with less, but smart firms aren't just looking for the ability to do more of the same. They're working to optimize processes so they can increase their capacity to deliver value-added services to their clients. The value you bring to clients isn't the hours you spend churning out a tax return or audit. It's the relationship you build with that client and the knowledge you share with them. As a result, we need to shift away from a focus on metrics that track just the hours it takes to churn out a compliance engagement.

#### Valuing results

The talent shortage continues to cause difficulties for firms of all sizes. The AICPA's 2019 PCPS CPA Firm Top Issues Survey showed that "finding qualified staff" is the number one concern for all firms with two or more professionals, as it has been for the last several surveys.<sup>1</sup>

One of the biggest factors driving qualified talent away from the profession is that too many firms focus on billable hours and realization rather than results.

Returning to the story from our introduction, it's not hard to imagine a scenario in which management asks Employee #2 for more charge hours but then complains about realization rates at their next annual review. Meanwhile, Employee #1 starts eating their own time for the sake of improving realization, only to be lectured on a lack of chargeable hours. Both employees wind up feeling undervalued and receive negative feedback on a single metric – and that drives them away.

Over and over again, we see talented professionals doing amazing work on jobs, increasing efficiencies, building relationships and adding true value to clients. But they leave the profession after a few years because they want to be valued for their mind, not their time.



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<sup>1</sup> AICPA, 2019 PCPS CPA Firm Top Issues Survey, <https://www.aicpa.org/content/dam/aicpa/interestareas/privatecompaniespracticesection/strategyplanning/firmstrategyandplanning/downloadabledocuments/2019-top-issues-survey-commentary.pdf>, accessed January 21, 2020.



### Metrics to Track in a Value-Based Firm

The technologies available today allow us to track more data. However, more data without a purpose is just more numbers on a dashboard or spreadsheet. You need data that tracks what is truly important to your firm and helps firm leaders make better decisions.

What is important to your firm? Is it growth? Talent? Client service? Here are some metrics to track that will help you focus on those priorities.

### Measuring Growth Efficiency

- **Revenue per full-time equivalent (FTE)** — This is the firm's total net revenue earned divided by the number of FTEs the firm employs. It shows how much revenue each team member generates and provides information on the firm's overall efficiency.
- **Revenue by service line** — Most firms today offer a wide variety of professional and financial services, with advisory and consulting enhancing their more traditional tax, audit and client accounting services. Tracking revenue by service line shows which services are the fastest-growing as your firm extends its offerings.
- **Average number of services per client** — The closer your firm is embedded with a client, the more attuned your people will be to their needs and the better equipped you'll be to address those needs. Improving this metric can increase client retention rates exponentially.
- **The lifetime value of a client** — This metric is essentially the sum of all revenues generated from the firm's service offerings over the lifetime of the client. It's a good idea to track how this metric changes from year to year for your biggest clients, how long those clients have been with the firm, and whether new service offerings have been introduced to those clients.
- **Income per equity partner (IPP)** — Calculated by dividing the firm's net operating income by the number of equity partners. According to the most recent Rosenberg Survey, average IPP in 2018 was \$449,485, an increase of 5.6% over the previous year.<sup>2</sup>

<sup>2</sup> The Growth Partnership, *The Rosenberg Survey: 2019 National Survey of CPA Firm Statistics*, <https://rosenbergsurvey.com>

### Measuring Talent Efficiency

- **Income generated by employee** — Firms need to know how much revenue each person in the firm generates to set salaries and assign work. This metric isn't perfect, especially when staff members work in teams. However, if you can assign a certain percentage of revenue to each individual, it's a good starting point for figuring out how to balance work in the firm.
- **Ratio of staff to equity partner** — This metric divides the number of a firm's employees by the number of its equity partners to show how successful partners are at pushing work down. Among Top 100 firms, the average ratio staff to equity partner is 15:1.<sup>3</sup> If yours is much lower, your firm leaders likely need to work on delegation.
- **The number of clients per employee** — This metric gives a general overview of the workload balance among team members. Of course, every client is different, and some take more resources than others. But along with other metrics, this ensures team members have enough to do without becoming overwhelmed.

### Measuring Client Service Efficiency

- **Work turnover** — This measures how many days it takes to complete an engagement, from when the firm receives complete information from the client until the client gets their deliverable. Clients value speed and efficiency, so the firm needs to know how quickly jobs are being completed to keep clients satisfied.
- **Number of cross-selling opportunities vs. those won** — A huge discrepancy between these two numbers indicates your team needs better training on servicing and cross-selling clients. This metric can also identify certain partners and team members who are adept at marketing to existing clients.
- **Meaningful client contact outside of normal deadlines** — How much time does your team spend talking to clients outside of busy season? As CPAs take on more advisory and consultative roles, they spend more time building relationships and understanding their clients' businesses. Track the time you're spending now to get a baseline and work on increasing that number by scheduling calls, video conferences and in-person meetings with your clients so you can ask questions and identify opportunities to deliver greater value.
- **Net promoter score (NPS)** — NPS is a client satisfaction benchmark that measures how likely your clients are to recommend you to others. You start by surveying existing clients to ask, "On a scale of 0 to 10, how likely are you to recommend our firm to others?" Ask clients to give specific feedback about why they gave the score they did. Clients who answer with a 9 or 10 are Promoters. Clients who respond with a 7 or 8 are Passives, and clients who answer with a 0 to 6 are Detractors. Calculate your NPS by subtracting the percentage of Detractors from the percentage of Promoters. Use the feedback you receive to identify areas of improvement.
- **Client responsiveness** — Responding quickly to clients is one of your team's most important responsibilities and a frequent source of client complaints. Most customer relationship management (CRM) software provides an effective way to track response time to emails, but tracking response time to other methods, such as phone calls and paper correspondence, is more difficult.

<sup>3</sup> Hood, Daniel, *Can't Someone Else Do It?*, *Accounting Today*, <https://www.accountingtoday.com/opinion/cant-someone-else-do-it>, accessed January 21, 2020.

### Wolters Kluwer Helps You Measure What Matters

Wolters Kluwer technology can help your firm focus less on hours worked and more on the value you're delivering.

#### CCH Access™ Workstream

Meet project tracking needs and efficiently manage all business deliverables with a full-featured solution that supports the way you work. CCH Access Workstream simplifies the tracking of work and ensures a consistent project management process.

Using built-in administrative workflow tools, you will:

- Increase accountability with easy to understand dashboards, notifications, and project pools that keep everyone informed and up to date.
- Manage resources more effectively with clear visibility into who is working on what.
- Improve efficiency with the ability to track project status and due dates through electronic routing sheets.
- Enhance client service with greater visibility into project details for both partners and staff.

#### Custom Dashboards & Reports

Since most firms don't have the time or skillset to create their own custom dashboards, the Wolters Kluwer Professional & Client Services team can create custom dashboards for you. This service is helpful for firms that want dashboards other than the 6 templates provided in Data Insights. Custom dashboards can be created based on your preferences, in almost any platform, including Microsoft Power BI or Tableau.

#### Power BI Training

Data Analytics skills are in high demand, and Microsoft Power BI is a leading solution. For firms that want to build their own dashboards and be able to customize them as needed, Power BI training can help them learn the skills necessary.

The Introduction to Power BI web-based training uses Wolters Kluwer product-oriented datasets in guided steps to help firms learn the fundamentals of Power BI. An additional Power BI Workshop provides specialized assistance for firms that want a consultant to help them create custom reports/data visualizations.

#### Conclusion

This white paper presents just a few of the metrics you can use to measure efficiency in a firm. There's no exact method for applying these metrics – each firm needs to track what they value most, collect feedback and continually look for ways to improve what data you collect and how you use it.

It's tempting to continue using billable hours and realization as your primary metrics because they're easy to measure and ingrained in the profession. However, "that's the way we've always done it" isn't a valid argument when technological and demographic trends are impacting the profession at a rapid pace.

As your firm expands its service offerings to include advisory and consulting, you'll need new methods for measuring performance that fit with the way your firm operates now and will remain suitable as the firm evolves in the future.

*“This all speaks to accountability on so many levels. The big change here is that it's really putting the power of accountability into the individual's hands.”*

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