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INCPAS Case Study: Knowledge Management



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Assumptions

- Current Customer Relationship Management methods are rudimentary and usually maintained by individual staff members independently as opposed to through a centralized firm wide system.
- All of MWT's clients' operations and subsidiaries are domestic.
- The 50 members of MWT's staff are classified as follows:
 - 7 Partners
 - 5 Support Staff
 - 5 Senior Managers
 - 10 Managers
 - 23 Staff
- Each partner serves approximately 14% of MWT's total customers and, in a worst case scenario without any knowledge management efforts or customer succession activities up to 50% of each partner's client base could be lost.
- The partner retirement timeline is spread out relatively evenly over the next 7 years, with a partner retiring every 15 months on average.
- SEC clients comprise approximately 10% of MWT's client base and 30% of MWT's fee income, mostly for non-assurance services.
- Average annual turnover is 10% for staff, 5% for managers, 2% for senior managers.
- There are no set promotion periods. Instead, raises and promotions are based on longevity and performance and are heavily weighted toward performance.
- Post retirement partner compensation is based on firm performance for the first 5 years following retirement.

Executive Summary

In just a few short years, the face of leadership here at Miller, Walker, and Thompson is poised to change dramatically. With the majority of our partners reaching retirement age we face a potential crisis in regards to the retention of a wealth of our organizational knowledge. In order to attempt to preserve this knowledge, the firm has undertaken the task of creating a Knowledge Management System (KMS) in order to codify and preserve in a digital format as much of our partners' expertise and knowledge as can be documented. In our exploration of options by which we can attempt to retain this knowledge in our firm, we started to see the broader application and benefit that the implementation of a KMS system could have if adopted and used consistently firm wide.

Organizational knowledge can be classified into two forms—tacit knowledge and explicit knowledge. Tacit knowledge is the sum of our staffs' experience and expertise. Tacit knowledge resides exclusively with our human resources. Explicit knowledge is documentary in nature and includes any number of archived documents in any imaginable form that are designed to pass knowledge from one individual to another. Explicit knowledge is the result of an individual's efforts to codify or externalize their tacit knowledge, converting it imperfectly into explicit knowledge which is then converted, again imperfectly, back into tacit knowledge by the consumer. Experiential learning or socialization allows for the transfer of tacit knowledge without the need to first encode it into explicit knowledge because the learner is gaining the knowledge through direct experience, observation, and action/interaction and not through attempting to decipher another's meaning based on the information encoded in the document.

Based on this understanding of knowledge classifications, we believe that a KMS includes not only the technical and media aspects of documentary information archiving and

retrieval but also the meticulous management of the knowledge development of our staff through experiential methods including socialization among staff members as well as partners and clients. Technological tools to facilitate all forms of knowledge transfer must contain a strong experiential/social element as well as provide a variety of ways through which knowledge can be encoded, archived, and consumed. To that end, the Ning network has been chosen as the central system for our KMS due to its nature as an “expanded field” for nature and communication that encourages the development and maintenance of “weak link” connections between participants which provides expanded opportunities for knowledge discovery and dissemination between members across the entire firm. The variety of communication and knowledge sharing tools within Ning provide for a variety of knowledge encoding options to expand the variety of ways that tacit knowledge can be codified into explicit knowledge with a higher level of precision and be internalized more accurately and efficiently

Finally, there are a variety of major changes being contemplated or currently being undertaken in the profession which could have a huge impact on what we do and on our clients’ businesses in the near future. Some of these include IFRS convergence issues, GAAP for private companies, and emerging technologies that are expanding our options for communication. These and other hot topic issues must be considered and our KMS must be designed so that we can more quickly disseminate information about these changes and react more rapidly once they do finally take place.

What is a Knowledge Management System?

When one hears the term “Knowledge Management System”, it most likely brings to mind images of complicated, state-of-the-art computer database and dashboard systems through which a firm or company’s data is continuously streaming under the watchful eye of armies of IT staff clicking away at their keyboards in a dark room filled with terminals. While the medium that a firm chooses to manage and document its data, whether a digital or paper based system, is an important aspect of that system, it is important to note that a true system is a much broader concept than just its digital or paper medium components.

While this examination is not intended to be a philosophical exploration on the varied theories and definitions of what knowledge is exactly, we feel that it is important to define knowledge as it has been defined in the knowledge research literature. A significant body of research on the nature of knowledge splits knowledge into two main types: tacit and explicit. Tacit knowledge is a form of knowledge internally developed by the individual. For example, the ability through experience and observation to be able to “read” the emotional state of someone well known to the individual or understanding what type of behavior is acceptable and unacceptable in different social situations is tacit knowledge. These specific types of tacit knowledge are what is known as cognitive tacit knowledge as they are formed and synthesized through our observation of and acting in the world around us. The other category of tacit knowledge is called technical tacit knowledge and it is the type of knowledge that is skill based and developed through experience and practice. Learned abilities such as driving skills or computer skills are forms of tacit knowledge.¹

¹ Alavi and Leidner, p. 110

Explicit knowledge, however, is data or codified tacit knowledge. Essentially, this includes lists of procedures, best practices, or any recorded data that can be read and disseminated. The creation of explicit knowledge is referred to as externalization, as it is the act of an individual attempting to externalize their tacit knowledge—that is, an attempt to faithfully convey what they’ve learned through experience in a format independent of themselves and that any other individual can read and internalize. Therefore, the creation and consumption of explicit knowledge is a process of transferring, as faithfully as possible, tacit knowledge from one individual to the other with varying degrees of success. The success of this transfer will be highly dependent on the transferor’s ability articulate the information, the transferee’s ability to interpret and internalize it, and the “knowledge base” that the two parties share. That is, the similarity of experience and knowledge that the two have in common that aids in the efficient transfer of the information. For example, a common native language, common profession and professional specialization, common level of experience, and common philosophy about the topic of the knowledge being shared all facilitate or distract from the effectiveness of the knowledge transfer.²

There are two main methods which we investigated through which this transfer of tacit knowledge through externalization can occur. The first method is through socialization. That is, through exposure of one individual to another, tacit knowledge and understanding can be transferred through observation and dialogue. Increased opportunity for socialization means and increased opportunity for the transfer of tacit knowledge through socialization.³

The second method is through documentation. In this instance, the transferor of the tacit knowledge attempts to identify all relevant aspects of the knowledge that he wishes to transfer,

² Alavi and Leidner, p. 110, 116

³ Alavi and Leidner, p. 116

encodes it (i.e. writes it down, records a video explaining or demonstrating the knowledge, creates an audio file explaining the knowledge, etc.), and then either disseminates the documentation directly to the recipient or places it in some manner of archive for later retrieval by recipients. This archive can act as a knowledge base where the firm can decide to what extent they wish to capture any documentable tacit knowledge and retain it in the firm as completely as possible.⁴

Based upon the preceding information regarding the classification and nature of knowledge, we believe in a more holistic view of what a Knowledge Management System (KMS) contains as well as its broader implications on the structure of the firm's operations and business strategy. In pursuit of a more holistic view of knowledge management, we are defining the term as the method in which all of our institutional information and knowledge is generated, retained, and disseminated. It is important to note a couple of points here. First, all tacit knowledge is embodied in the expertise of our people. Once tacit knowledge is codified/externalized for the purposes of dissemination it becomes explicit knowledge. Second, explicit knowledge is useless without a receiver to decode/internalize it and convert it back into tacit knowledge. It must be internalized and ultimately applied for the knowledge to bring value to the firm. For simplicity's sake we will refer to this process of encoding, disseminating, and decoding as the three pillars of the KMS. The KMS, therefore, is the method and medium through which these tasks are performed. What this means when applied to the specific operations of the firm shall become clearer in the following pages.

⁴ Alavi and Leidner, p. 116

What should our KMS include?

We believe that an efficient and effective KMS will have four basic attributes. First, it will provide a framework for professional development, advancement, and succession planning within the firm. Since our broad view of a system includes the three pillars applied through any medium, the system allows for considering the human component as a medium for the application of three pillar activities. Put simply, the policies we adopt to decide how our staff will advance at the firm, how they will be exposed to new technical knowledge and their increased exposure to client management, and how they will be groomed for succeeding our partners to lead the firm into the future are decisions that are all codified in this aspect of the KMS.

The second important attribute of our KMS deals with our Client Relationship Management (CRM) plan and policies. As with the first attribute, our CRM strategy and procedures also rely heavily on the human component of the system, the tacit knowledge management aspect. Simply stated, the partners and seniors, managers, and staff who routinely work with a specific client develop an experiential tacit knowledge of that client's needs and business operations. While they can and should attempt to document this knowledge in some transferrable format that can be entered into and maintained within the KMS documentation system, the fact is that no amount of documentation will completely cover the wealth of knowledge about a client that is gained through experience working with that client. What is more, tacit knowledge cannot be encoded 100% effectively nor decoded 100% effectively, so the act of documenting and then interpreting that data degrades the quality and completeness of the knowledge that the transferor intended to impart.

Relationships are built and maintained by people, not databases. There are non-documentable nuances in maintaining these relationships that develop through exposure, so as part of the KMS, this particular attribute is concerned with the documentable explicit knowledge of the client as well as with the tacit knowledge necessary for an efficient transition of the client from partner to partner for succession purposes. This is typically extremely essential with our smaller clients, particularly when one partner may have been working very closely with one of our client/owners for years and has built a level of trust and comfort that is not based on our firm but rather that individual partner.

Because of this it is important that this aspect of the KMS addresses how that relationship will be duplicated, specifically the method in which a partner's identified successor will systematically be given more and more exposure with the client as the partner slowly withdraws in preparation for their impending departure. Without this long term method of relationship duplication, the client may have little incentive to stay loyal to the firm and might see the retirement of their main contact at the firm as an opportunity for fee shopping. The preservation of client business, particularly with our smaller privately held clients, requires careful planning to maintain that relationship during a succession situation.

The third attribute of our KMS deals with the standardization of procedures and the documentation of policies as well as a method for managing internal relations. There is a wealth of knowledge one must have access to in any firm regarding that firm's method of approaching a given type of engagement. While working on an audit, a review, or any business consultation or valuation engagement each firm has developed a well-tested general approach to conducting these engagements. An efficient and effective KMS will include the documentation of these procedures as well as a method for making this content accessible to relevant staff members from

a convenient centralized location. This can aid in ensuring uniformity of service and maintaining and increasing service quality provided this procedure documentation archive is utilized.

Timeline

Five of our current partners will be retiring at the rate of approximately one every fifteen months over the next seven years, meaning that the development and implementation of our KMS must be strategic and focused on capturing specific knowledge from our partners who will be retiring soonest with our later to retire partners' knowledge capturing able to be handled at a more leisurely pace. The first step in this strategy will involve our more senior staff working with our most senior partner to ensure a smooth transition of clients to other partners and managers as well as ensuring as completely as possible the codification of any relevant institutional knowledge that they are able to capture given our timeframe. Over the first six months of the KMS implementation we will develop and roll out the Ning network at our firm including the development of staff profiles and the establishment of the internal structures of the system (groups, blogs, etc.). Over the first twelve to eighteen months, we would retroactively begin building links between our current documentation system on the MWT intranet and our Ning network. A longer horizon objective is to investigate internal document management software systems to replace our rudimentary intranet filing system that would allow for dynamic searching, display, and encoding of our documents using the XBRL standard. This aspect of our long range plan, however, is beyond the scope of our current objective.

Monitoring and Maintenance

Basic technical support and administration of our system would be conducted by our IT support staff. However, due to the interactive nature of the Ning network, which based upon our external consultant's recommendations we are planning to adopt, the task of monitoring and

maintaining the system is really the responsibility of all participants, particularly those who are adding content to it.

External Resources

Professional firms in the fields of Medicine, Law and Engineering have all engage in implementing a knowledge management system because of the vast and complex amount of information available to professionals in these fields. Throughout the Medical field there arose a need of a knowledge management system because The Institute of Medicine report suggested that more than a million injuries and as many as 98,000 deaths each year were attributed to medical errors.⁵

The Law profession required a knowledge management system so they could readily find concise answers to questions and relay consistent information to their clients. Also the Engineering profession wanted a knowledge management system so they could capture and share their engineering expertise among each other, even when exiting the company. No matter what the need for the knowledge management system they most often lead to a lower variable cost to the firm and readily higher quality of work for the client.

In the case of the Medical profession the quality of work was literally a matter of life or death. In the early years of implantation employee network were established and sharing among physicians was encouraged. These knowledge management systems were marginally successful. A more effective approach was to embed the knowledge management system into the technology that the professionals already used.⁶ The Medical profession did this because at the moment a doctor submits an order his judgments are translated into actions and this is when outside information is most important. The most logical way to implement this strategy was to heavily

⁵ Davenport and Glaser, p. 1

⁶ Davenport and Glaser, p. 2

rely on information technology professionals to develop in house software application which depends on a real time single database of clinical information and uses logic engines to run the doctor's orders through multiple decision rules.⁷

An example of this application is if a doctor orders a certain drug for a patient the computer checks the patient's medical history to see if they are allergic to it and if so the computer brings up a notification of this. At this point the physician can override the system if need be. The computer also compares the order to other orders in the past to compare results and searches for variations in trends. So this application not only involves clinical data but also patient records. As a result of this knowledge management system a controlled study found that it reduced serious medical errors by 55%. This system not only saved lives, but also money. The hospital found early data that suggested that malpractice reserves for a hospital which insured itself could be less because there are fewer drug related claims.⁸

However in the case involving Law profession it was not about saving money, but rather finding a user friendly platform that attorneys would use to communicate and disseminate consistent information to both clients and other legal professionals. Their knowledge management system contained a database which included articles, presentations, links to other legal resources and a best of practice sharing section. Another benefit to having this system was certain information could be accessed either externally or internally and stored frequently asked questions, memos and opinions. The ability to access information externally built relationships with customers through the sharing of this knowledge. This system also enabled the firm to cut back on paper cost by no longer sending out vast memos, but rather sending out emails to certain professionals when documents were posted. Overall the firm found that this knowledge

⁷ Davenport and Glaser, p.3

⁸ Davenport and Glaser, p. 4

management system made it more efficient at searching for information and at providing consistent answers to their clients.⁹

Similarly the Engineering profession wanted a knowledge management system that allowed them to systematically share their technical expertise and capture knowledge from exiting employees. This system involved a virtual community that professionals could contact each other and share their expertise. To help the facilitation of this process the firm held a two day work shop so they could address issue with the virtual community and so their professionals could network with each other. Another component of the knowledge management system was the transition of knowledge between exiting personnel and successors. The firm used a knowledge management facilitator which assists in the transition of technical knowledge and experience from the predecessor to the successor. The knowledge management facilitator used a three step process. This process consists of a one on one interview with the leaving party and their replacement in which they decide on knowledge topics to concentrate on. Next the facilitator develops a knowledge transfer plan and closely monitors the plans progress. Finally the exiting party has an exit interview to review the plans success.¹⁰

While each of these professions' knowledge management systems are tailored to their work the CPA profession can apply their basic fundamentals to their own knowledge management system. One of the most important fundamentals is the underlying culture of the firm. There must be incentives for knowledge sharing and a system put in place to evaluate it effectiveness.¹¹ Management at all levels has to be committed to the implementation and success of the system. Another fundament is what information should be shared and what is the most efficient and effective way of sharing it. However the most important aspect is the knowledge

⁹ Robbins, p. 3

¹⁰ Easterby-Smith and Mikhailava, pp. 3-4

¹¹ Robbins, p. 4

management system should be embedded in the technology making the knowledge readily accessible so that it cannot be avoided.¹² The system should make its employee's jobs easier by readily making information available, not harder. Finally the system should start off small and be focused on certain information, which should produce early results.¹³

Since there is opportunity for a successful knowledge management system the Indiana CPA society could develop their own general use knowledge management system, which could serve as a framework for other firms to use. The CPA society's knowledge management system would contain a database of general accounting related knowledge, the system could be categorized by topic and allow users to create threads based on discussion topics. The system would allow user to upload data files and allow for peer review, only after the content uploaded was approved by the systems gatekeeper. When users would log in the system would have home page with related feeds based on past searches. Using the CPA society's system as a reference other firms then would replicate the structure of their system, but tailor it to their specific firm's needs.

If the Indiana CPA society had a formal knowledge management system this would allow our firm to replicate the system and modify it to fit our needs. The systems would be similar in operating nature which reduces the operators learning time when using the new software. Given the nature of knowledge posted by individuals the system could act as networking tool for employers. If our company could not find a suitable replacement internally they could be located more efficiently than just using traditional job postings. Another way the CPA society could help our firm with the implementation of our knowledge management system would be for the CPA society to hold workshop to provide training using the system, networking for professionals,

¹² Davenport and Glaser, p. 2

¹³ Robbins, p. 5

and question and answer session to address going concerns. Therefore the firm would already have an idea as to what problems are likely to occur when implementing the system.

There many organizations that specialize in knowledge management systems. Some organizations specialize in knowledge management software and others specialize in full custom information technology design. Knowledge management software can be either web based or computer based. One company that would be able to help with knowledge management software is KnowledgeBase Manager Pro. This web based software allows for the systematic capture of knowledge and the ability to access it anywhere. Another knowledge management software program is Omnistar, which provides users with the ability to host their knowledge management system or just use their software on your server.

Rather than buying some pre-engineered system several companies specialize in knowledge management consulting. HCL is a knowledge management consulting that uses a 4 step KATS methodology. The first phase is a knowledge assessment followed by as-is analysis. HCL then provides a tech evaluation to see if you IT can support the demands of your new system. Finally HCL will create a custom strategy layout which implements the new knowledge management system. HCL primary business services are custom knowledge management system, but they also provide secondary support such as workshops that to foster a knowledge management friendly culture. However costs do play a major part in knowledge management software can cost several thousands of dollars and custom system the sky is the limit depending on what you want out of it.

Ning – the Knowledge Network solution

Based upon previous research and the recommendation from the firm's external IT consulting firm, Ning was identified as the software platform that should be used as a component

for MWT's knowledge management system. As noted by Grayson and O'Dell and echoed by Alavi and Leidner, the retention, dissemination, and application of knowledge even within an organization is often stymied by a lack of awareness of the full spectrum of information residing within different parts of the organization. One of several main obstacles to this sharing of knowledge is the lack of ongoing contact and relationships among different members within the organization.¹⁴ Grayson and O'Dell further note that by providing an informational technology platform through which virtual networks can be formed, they often will emerge organically.¹⁵ Alavi and Leidner express it slightly differently, noting that "An innovative use of technology for transfer is the use of intelligent agent software to develop interest profiles of organizational members might be interested recipients of point-to-point electronic messages exchanged among other members."¹⁶ Alavi and Leidner further observe that "By providing an extended field for interaction among organizational members, for sharing ideas and perspectives, and for establishing dialog, information systems may enable individuals to arrive at new insights and/or more accurate interpretations than if left to decipher information on their own."¹⁷ In other words, the development of a knowledge network, of the type Ning provides, provides an "extended field" through which organization members may externalize and exchange tacit knowledge. Through the simple fact that this tacit knowledge is exchanged by applying a social dynamic to the medium, there is more opportunity for this knowledge to be transferred more accurately and faithfully than through the creation and dissemination of a static document.

Ning's platform is designed to allow businesses and other individuals or groups to create their own social community. Ning will allow MWT to create a firm sponsored community

¹⁴ Grayson and O'Dell, p. 157; Alvari and Leidner, P. 121

¹⁵ Grayson and O'Dell, p. 162

¹⁶ Alvari and Leidner, p. 121

¹⁷ Alvari and Leidner, p. 118

where individuals connected with the firm in the past or in the present can communicate and share their tacit knowledge through interaction. End-users can share information via groups, forums, and chat as well as other methods. Using Ning allows MWT to create knowledge networks between past partners and present employees that will enable efficient knowledge transfer and also provide a repository for knowledge.

When MWT creates a knowledge network through Ning, the firm will create a private social network community in which only those invited to the network by administrators can participate. To create the exclusivity of a private social network community, Ning allows for a special domain name to be selected. For example, mwt.ning.com could be utilized for the firm. By choosing a unique domain name for the firm's community, end-users of the network can easily remember and access the network anytime and from anywhere. In addition, Ning allows the firm to be in total control of content, member data, and community privacy and access. Because of the sensitivity of the information MWT possesses, security and privacy are of the utmost concern. Since Ning is a cloud service, there is always the chance of a breach of security, however, based on the analysis of our consultants we have been assured that our data on the Ning servers would be as secure as or more secure than the data on our own servers. At any rate, the sensitivity of information stored on this network must be minimal to guard MWT against liability exposures.

A vital attribute of effective knowledge transfer, dissemination, and retention is ease of access. The systems adopted through which individuals within our organization can seek and share information must be widely accessible and simple to understand and use both for information searching and sharing. Ning will be of great value in terms of transferring and

acquiring knowledge, as it will provide a channel of communication between current and retired partners and current employees of the firm.

When members are first provided access to MWT's social networking community on Ning, they will need to create a profile. The creation of a profile is not only required to be a member of the community, but the member profiles will serve as the cornerstone of how each member of the community identifies themselves and makes others aware of their knowledge base. These profiles will contain general information, such as name, gender, past or current position, education, etc. Ning also allows for administrators to create unique profile questions that members must answer. For MWT it would be logical for the administrators to create fields for education, industry area, expertise area, special certifications, professional society memberships, and so forth. Administrators basically have endless opportunities to specify what information that they believe will best suit the community's information sharing and discovery needs. Ultimately, this will provide all members of the network a thorough view of what each present and past employee is or was involved in, which ultimately can help provide members with an efficient and convenient way to discover the wealth and variety of knowledge and expertise possessed by the firm.

Although this is a more formal method of discovering members' competencies there is also a more informal, and much more efficient, aspect to the structure of knowledge sharing within the Ning network. Current employees at the firm will likely know what each former partner's industry was, expertise area, client base, network contacts, etc. This can eliminate the need to search for who to contact for the needed knowledge, and thus makes the process much more efficient. What is more, due to Ning's various communication tools including chat, discussion boards, blog applications, etc., there are a variety of methods through which

knowledge may be sought, transferred, and consumed. The interactive nature of many of these tools provides expanded opportunities for a knowledge transferor to support the internalization and understanding of that information by the information consumer. Further still, Ning provides a medium through which casual weak link contacts between all members of the firm can be formed, expanded, and maintained. This social connection aspect of Ning provides expanded opportunities for intentional and unintentional knowledge discovery through informal interaction on the network.

After identifying who must be contacted for the required knowledge, a member will utilize other tools on MWT's social community to engage in acquiring the needed knowledge. This can be done through a variety of ways. Ning offers tools that allow administrators and members to create forums, belong to special groups, chat with and send personal messages to other members.

Of particular interest is Ning's group tool, as this provides an ideal platform for client service teams to develop a single virtual location for sharing client information and documentation. While sensitive files such as client permanent files and working papers will still be maintained on MWT's intranet, links to specific documents on the intranet can be gathered and organized using the various tools within the Ning group. The documentation will remain behind a password protected firewall on MWT's servers, but Ning can act as the discovery and organizational tool for that documentary information.

Functionality of MWT's Knowledge Network

The first key component of transferring knowledge and maintaining a knowledge network among current MWT employees and former partners is the creation of groups on MWT's Ning site. The proper group creation strategy for MWT would be to create groups based

on the types of industry the firm is involved with or perhaps in some cases even for individual clients. For example, MWT has several niche industries which include construction, manufacturing, multi-family housing real estate, and not-for-profit. Groups would therefore be created for each of these areas. These groups will serve as each industry's main location for knowledge transfer and storage. Each group would contain a member list, a discussion forum solely for the group, and a comment wall where members can post content such as links to important websites, interesting stories or articles, and examples. Members can also subscribe to receive messages in their personal e-mails when new content is added to groups, which will help employees keep up with what is posted on the firm's Ning site. The system can also alert former partners that a discussion forum post was added to the group and may be directed toward them.

By creating forums on MWT site, MWT members can post topics that they need to know more about or questions on topics for which they need further clarification. Other members can then offer their expertise on the topic. This is the second key component in MWT's knowledge transfer from the exiting partners to current employees. In these forums, general topics may be addressed, since there are already groups for specific industry knowledge. The forums will be kept for short discussion purposes.

Since much of the information posted on these forums and others is private, it is critical that posts are very objective and contain no client information that MWT could potentially be liable for. Because of privacy and liability issues, it is necessary for MWT to create a policy on how current members may interact on the site. Several administrators from different employment levels must also monitor what past partners post as well as what current staff post on the forums, comment walls, and chats. MWT proposes that the two youngest, current partners, three senior managers, and two upper level staff (such as staff – three years) become

administrators. This allows different levels of employees to judge what is being posted on the site. If a partner sees something they do not want divulged, they may choose to delete it and discuss it with that person who added the content. MWT also believes that all current employees should be given access to the Ning site, but only a select group of former employees should receive access to the site. Any partners or senior managers that willingly retire or leave the firm on good terms will be allowed to maintain membership on the firm's site after employment with MWT. If a partner or senior manager is terminated from their position due to lack of performance or improper conduct, their access to the site will immediately be revoked. In addition, managers and all staff accountants will lose access to the site upon termination of their employment.

Another important aspect of Ning is the potential to create blogs. Users that are granted access to the firm's knowledge network on Ning will be able to create and read other members' blogs. This tool will be just as useful as the forums except that the blog format will allow users to post more in-depth publications and analyses about industry topics, opinions on new FASB proposals, and responses to current news about or relevant to the accounting field.

By creating a site on Ning, MWT's knowledge network will be accessible via the web at any time and from any location. With the increasing amount of technology present in all fields of business, information is virtually available everywhere it is needed. To meet the needs of today's business world, Ning offers a smartphone application that allows members to log onto the application and access all of the site's content. This will be very helpful for MWT's staff in situations where they need to access the network but are away from a computer. This capability allows them to immediately access the network on their smartphone or other mobile device.

Customer Relationship Management

Before the retirement of any one partner, the senior managers, managers, and staff accountants must be adequately exposed to the partners' respective clients to ensure they are prepared to take over serving those clients after the partner retires. This process is referred to as the socialization of staff and client. Alavi and Leidner note that this method of immersing team members in the partner's client service activities is more efficient as it disposes of the need to externalize tacit knowledge into explicit which needs to be internalized once more by the receiver and in retaining the direct transfer of this knowledge, it eliminates the degradation inherent in the encoding and decoding (or externalization and internalization) process.¹⁸

In retaining the firm's client base upon the retirement of a partner, it is important that MWT practice effective customer relationship management by using the knowledge management system. When dealing with the knowledge management system for MWT, it is important to note the formal and informal aspects to it. Ning and the creation of knowledge networks via the firm's site are important in keeping retired partners and current partners connected. However, what knowledge can the current employees obtain from the partners before they retire? The answer is simple: get to know the partners' clients as much as possible and understand their unique needs and situation through the partners' experiences with the client and approaches to handling each client.

Practicing customer relationship management will require the firm to implement some socialization procedures for the current staff and managers. The socialization of the staff with an exiting partner's clients should begin as soon as five years before a partner retires. Naturally a socialization process occurs on a daily basis at any accounting firm. However, with MWT's socialization procedure, partners will be required to empower senior managers to a higher degree in dealing with client relations as well as get managers and upper level staff accountants more

¹⁸ Alavi and Leidner, p. 121

involved so they learn each client's philosophy, needs, and situation. In order to minimize the loss of knowledge from MWT's partners who will be retiring very shortly, it is recommended that the senior managers most familiar with the clients begin to interact substantially more in terms of client and partner interaction, while spending less time focusing on having lower level managers and upper level staff accountants interact. The socialization process can continue on to lower level managers and upper level staff via the senior managers after the partner has left. The goal of this socialization is to make the firm as a whole more valuable to the client rather than the partner being more valuable to the client. If a client knows that the senior manager has provided excellent results with the partner before, the firm is likely to retain that client, even after the partner retires.

“Empirical studies have shown that while organizations create knowledge and learn, they also forget (i.e., do not remember or lose track of the acquired knowledge).”¹⁹ Therefore, in addition to the socialization of staff with clients, it is essential that MWT implement a standard operating procedure for all levels of staff to document all interactions with clients. This will help to keep a strong knowledge base of what the firm knows about clients and how different interactions with clients have gone. For instance, it may be useful for a new staff accountant to read over any documentation in the customer relationship management documents before going and visiting a client with an upper level manager or partner. It would also be useful for MWT to keep some other client information and details such as spouses' names, birthdays, if two directors on the board do not get along well, how to handle a certain employee, indicate who are gatekeepers at the client's company, the best employees to get information from at the client's company, etc. Business relationships often become much more than just business, therefore there is a need to hold strong interpersonal relationships with the firm's clients. As MWT's

¹⁹ Alvari and Leidner, p. 118

current method of documenting and disseminating these customer relationship details is done primarily by individual firm members' who serve those clients, the development of this documentation system will be an important activity in laying a strong foundation for the customer relationship aspect of the knowledge management system.

MWT must also focus on preserving audit or tax documents in each client's permanent file in order to ensure that we can retain the necessary amount of knowledge about each client's individual audit or tax return and to properly meet regulatory requirements. Currently these files are maintained on MWT's intranet and are organized under folders by client then subfolders by document content. While it has been our common procedure to follow a strict policy and set of procedures to document and retain this content on our clients, it currently amounts to little more than a digital file cabinet with no searchable function through which to identify common content topics in specific documents. The implementation of Ning can be done over the current file management system as previously mentioned with links being built within Ning leading to the relevant document locations on MWT's intranet.

In addition to having one Ning network as a component of the knowledge management system, MWT will also find it to be beneficial to host another Ning network for external customers of MWT. This will mainly include our clients and their employees. By having a Ning site for the firm's external customers, some of the partners and senior managers can post industry publications, helpful articles and videos, FASB publications, etc. This gives the clients the ability to keep up to date on industry information and relevant developments in the accounting profession and other helpful items that may be beneficial to the client. It also provides MWT's clients with another resource that may be helpful in answering any of their questions that they may have.

MWT should implement the use of Ning as soon as possible, but should focus most of its attention on the socialization of employees and clients of the partners who are leaving in the very near future (less than five years). By focusing on getting the current employees the experiences they need with the clients, MWT should be able to eliminate some of the potential for knowledge loss when the partner leaves as well as still hold a strong ability to maintain the exiting partner's clients. MWT will need to purchase access to Ning. The version of Ning that best suits MWT is the Pro version. This version offers multiple domain names, Ning Apps, which ultimately will allow MWT to create groups, and also provides up to 20 gigabytes of storage. The purchase price of this version of Ning is \$599.90 per year. This plan also provides MWT access to phone support through Ning. This may be beneficial in case the MWT administrators have problems setting up their Ning sites.

This \$599.90 annual investment is minimal for the potential contribution it can have toward client service and retention, particularly as many of our current partners begin retiring. Thus, this minimal investment offers the potential for a worthwhile level of return.

However, implementation must be carefully planned and executed with full top-down support starting with the partners. If implementation is not handled properly there is a real danger that current employees may not adopt the frequent use of Ning or if former partners are not willing to provide any feedback or knowledge via the Ning site, it is expected that this project will ultimately not be a worthwhile investment. To avoid the possibility of this failure, this strategic plan must be installed effectively into MWT's company culture and be supported with a top-down approach. That is, partners and senior managers must take initiative immediately to ensure that staff members become fully engaged with the Ning site as the backbone of communication and knowledge dissemination at MWT. If there is support from

partners and senior managers, it is probable that the lower level managers and staff will work toward adopting the plan as well. At the same time, the senior managers and other chosen administrators must be working to develop the Ning site as well as drafting a plan on how to give the exiting partners an incentive to remain actively involved with the current staff at MWT. Once the immediate socialization and development of the Ning sites is completed, the new partners as well as current senior managers must then encourage those staff members below them to use Ning. It would also be useful to create an advisory board of past partners, present partners, senior managers, and some upper level staff that can help guide the growth of MWT's knowledge management system.

Future Issues and Challenges

In the CPA profession changes and propositions are constantly taking place. Whether it's through advances in technology, globalization, or changes to current accounting standards, we feel that these issues need to be addressed in order to be successful in the future. In our knowledge management system we will be constantly improving and learning to adapt to such changes in the accounting profession. Some of the issues that we feel are vital to our success include the topics that will be discussed in this next section.

Technology is vital to gaining an edge on competition or competing in an industry, and has had a huge impact in the CPA profession. It is changing the way people interact with one another. Face-to-face communication is the most effective way to communicate, but firms are being able to communicate face-to-face without actually being in the same room. These video conferences are replacing conference calls and new communication methods are taking over.²⁰ Instead of letters going out to clients, emails are being sent out to receive feedback as soon as

²⁰ CPA Horizons 2025 Project Report, p.16

possible and even emails are getting replaced by text messaging. This may lead to communication issues because you are not necessarily getting the feedback that you would if communicating face-to-face. However, the location of clients is almost not a factor anymore.²¹ Employees are being able to work and connect to their clients or offices wherever an internet connection exists. The advances in technology have led to the global workplace where accountants are able to work from and with almost anyone from anywhere.

The CPA Horizons 2025 project recognized 4 main points on how technology impacts the accounting profession, and we are focusing on these factors or looking to implement them into our Knowledge Management system:

1. CPAs must stay current with, embrace and exploit technology for their benefit for increased efficiency and expansion of services.
2. The profession must find solutions to offer investors and stakeholders up-to-date, real time financial information to increase transparency.
3. CPAs must embrace mobile technologies and social media to modernize and enhance interaction and collaboration with clients and colleagues.
4. Fraud may be easier to commit and more difficult to prevent and detect. CPAs must continue to be vigilant in ensuring data is captured and managed properly and protected from malfeasance.²²

There has been strong debate recently over merging the U.S. generally accepted accounting principles with the International Financial Reporting Standards. The Financial Accounting Standards Board is working together with the International Accounting Standards Board in order to come up with a standard accounting framework in order to facilitate

²¹ CPA Horizons 2025 Project Report, p. 16

²² CPA Horizons 2025 Project Report, p.17

globalization of business and investments. This framework will entail changes that will involve critical analysis on the final standards or principles. There are five convergence projects that will affect almost every industry and company.²³

These projects include:

- Determining how revenue should be recognized
- Changing how financial instruments are classified and measured
- Deciding when to consolidate related entities
- Changing the presentation of financial statements
- Determining how leases should be accounted for and reported

Three of our four main industries, manufacturing, construction, and multi-family housing real estate will be heavily involved with leasing, which is a strong topic of conversation. Recently FASB has decided to propose a new model for lease accounting. Leasing is an important source of finance and should be reported in financial statement in a way that is easily understandable. The accounting models we use now requires lessees to classify their leases as either capital or operating leases. This model has been heavily criticized for its inability to represent leasing transactions on financial statements (FASB-lease). Moreover, one of the main reasons why this change seems necessary is due to relevant information about rights and obligations in the lease which meet the definitions of assets and liabilities, but is omitted from financial statements.

The FASB and IASB have come together and are proposing an International Financial Reporting Standard and amendments to the FASB Accounting Standards Codification on this issue. The FASB and the IASB have stated that the standards will be re-exposed in the first

²³ Gallagher, p. 19

quarter of 2012 as decisions continued to be reached.²⁴ Most leases today are classified as operating leases because they are easy to account for since they only result in an expense and do not appear on the balance sheet of the lessee. However, the joint project, developed by FASB and IASB will focus on a new approach that will include the assets and liabilities formed under leases in the statement of financial position.

Under the new standard most of the leases would now be capitalized and the operating leases would nearly be eliminated. Now the lessees would need to recognize an asset and depreciate it. This leads to an estimated \$1.3 trillion dollars that would suddenly appear on U.S. companies' balance sheets. They would also have to recognize the present value of future lease payments as a liability and there would be two lease expenses, amortization and interest expense, instead of just one when the lease was classified as an operating lease. So companies would then have even more computations and financial disclosures that did not exist when they used current operating leases. This plan would cause more work and calculations, but it will provide a more faithful representation of assets and liabilities as well as align U.S. and international standards.²⁵

.Getting back to aligning U.S. and international standards, adopting IFRS could be an opportunity to expand or develop business. Jeff Deane and Stephen Heilman, partners at a small to midsized firm in Pittsburg, state that, "IFRS-related work in the U.S. has largely been the domain of major accounting firms thus far. While national firms are filling many of the needs, there's a large space that small and midsize firms can occupy given the right positioning, knowledge, and resources."²⁶

The void that Deane and Heilman discuss in their article "Using IFRS to Drive Business Development" includes U.S. subsidiaries of foreign-owned companies that are changing their

²⁴ AICPA 2011b

²⁵ Smith, 2010

²⁶ Deane and Heilman, 2009, p.30

reported standards to IFRS. This benefits the U.S. based companies by saving time, efforts, and costs due to one international accounting method for all their entities. Other CPAs are also agreeing with the move towards adopting IFRS (9). In the AICPA's latest IFRS Readiness Tracking Survey around 54% of members favor either the option or adoption of IFRS standards 9. Professionals are preparing for the changes that might occur because the same survey also showed that 79% of CPAs have at least basic knowledge of IFRS 9.²⁷

There has been a lot of talk about IFRS recently, especially coming from the SEC. One of the main topics that the SEC proposes is "Condorsement". This condorsement is an idea that involves convergence and endorsement of standards.²⁸ The SEC work plan explains the objective of condorsement as "the objective would be that a U.S. issuer compliant with U.S. GAAP should also be able to represent that it is compliant with IFRS as issued by the IASB. Incorporation of IFRS through the framework would have the objective of achieving the goal of having a single set of high-quality, globally accepted accounting standards, while doing so in a practical manner that could minimize both the cost and effort needed to incorporate IFRS into the financial reporting system for U.S. issuers. It also would align the United States with other jurisdictions by retaining the national standard setter's authority to establish accounting standards in the United States."²⁹

This was just one of the topics discussed in the SEC's work plan published in 2011, which focused on the issue of when, how, and if IFRS should be adopted. However, many are still skeptical on the changes that could take place. Susan Coffey, AICPA senior vice president claimed in a press release that, "It's clear that the profession is looking for more guidance from the Securities and Exchange commission, but whether or not the SEC decides to incorporate

²⁷ AICPA 2011c

²⁸ AICPA 2011c source 8*

²⁹ SEC 2011, pg. 6

IFRS into the U.S. financial reporting system through an endorsement approach, CPAs support giving U.S. issuers an option to adopt IFRS as issued by the International Accounting Standards Board.”³⁰

It is an issue that is going to be resolved one way or the other and firms should prepare for the changes that can or will be made. However, this task may not be easy and worth the costs if the client base is not there. Our clients are mainly small to medium sized privately owned companies mainly in Indianapolis. We have a few clients located in the surrounding states, but unless we have an increasing number of clients who do business globally, IFRS may not be the best option for our firm. On the other hand, U.S. firms and organizations are continuing to delay planning and preparation for global standards, so if we start training for IFRS early, and it becomes the accounting standard we will be more prepared and knowledgeable (9).

Now the incorporation of IFRS into GAAP isn't the only reporting issue that is on the rise, private reporting standards are in a pretty heated debate. CPAs believe that FASB should not be focused on amending changes to the private standards and that they are not doing what is best for private reporting. Barry Melancon, AICPA president and CEO, stated that, “The FASB has proven over many years that it cannot deliver meaningful improvement to private company reporting standards. FASB's primary focus has been and should be on the public company sector. Fifty percent of the U.S. economy comprises private companies. This critical sector of our economy deserves a board focused solely on their specific needs.”

In 2009 the AICPA, FAF, and the National Association of State Boards of Accounting (NASBA) established the Blue Ribbon Panel on standard setting for private companies.³¹ They were to recommend changes in their report to the FAF Board of Trustees. So after a year of

³⁰ AICPA 2011c

³¹ Williams, J., 2011

collaboration they sent their report with recommendations, but in October the FAF rejected their report and wanted to create a council similar to the Private Company Financial Reporting Committee (PCFRC). However, over 3,000 letters from private companies and over 30 state CPA societies wrote supporting the panel's decisions, so a lot of people were unhappy with this decision from the FAF, especially the AICPA.³² The AICPA felt very strongly on the panel's opinion and knew something had to be done.

The AICPA Council held a vote regarding this issue and decided to tell the FAF that either they would reconsider the panel's recommendations or the AICPA would consider other options. The AICPA did not identify the specific actions that would be taken, but this could mean that the AICPA would create a new private company generally accepted accounting principles or present a more company specific basis of accounting that would be consistent with the panel's findings.³³ Whether or not the FAF decides to go forward with the blue ribbon panel's ideas, there will soon be changes in the private companies reporting standards. Paul Stahlin, AICPA chairman, had this to say about the predicament, "The Council's resolution reaffirmed a long standing position that the independent board be established under FAF. But FAF seems unwilling or unable to take the steps. We hope they change their mind, because it is imperative that privately-held companies be better served in the near future."

³² AICPA 2011d

³³ AICPA 2011d

Solutions

Working with other firms to share information could really benefit our firm. It would enable us to obtain information from other firms as well as make connections or relationships with other professionals. Obtaining information from outside sources would help us get a wider range of knowledge and get up to speed on new issues. However, sharing information has both its advantages and disadvantages. One of the biggest disadvantages would be giving up valuable information to competitors. The system of sharing information relies on both giving and receiving information, but some competitors could take advantage of our willingness to share information and not return the favor by giving out valuable information. Giving out our expertise in a particular area would also make that information less valuable. Another factor to consider in sharing information would be how much to share because sharing too much valuable information could lead to other firms figuring out part of our business strategy. This would allow them to use part of our strategy and would be a huge disadvantage. So in sharing information we must be very careful with what we are sharing and make sure that we are getting insight from the firms participating.

Using Dropbox will really benefit our firm. Dropbox allows its users to receive documents anywhere that they can access their Dropbox folder. This allows employees to save documents at work and once they get home continue to work on them at their convenience. One of the most impressive features of Dropbox is its ability to work even when the user does not have internet access. Dropbox is a very valuable tool when working in groups. The user is able to specify the type of folder that the document, so they can have a public file open to only group members and exchange information easily with other Dropbox users.³⁴ There is also an iPhone

³⁴ Online Backups Review, 2011

application for Dropbox, which would also enable us to stay connected 24/7. Dropbox is a tool that will help use share information as well as give our employees more flexibility.

Keeping up with new technology is not an easy task. One way to stay up to date with technology would be to attend meetings or conferences that address new technology and how it is being used in the accounting industry. The AICPA has events that CPAs can attend on their website if you go to the AICPA store section. Some of these events or conferences are also worth credit for CPE requirements and would enable networking with other professionals. Networking with professionals at these conferences would provide a great way to learn new technology and pros and cons about new products.

The AICPA and Chartered Institute of Management Accountants are offering a new Chartered Global Management Accountant designation. This new designation promotes a higher profile in the United States as well as the professional development of managerial accountants worldwide. This is a designation that would be a big plus for some of our accountants that do managerial work. About this new designation Paul Stahlin of the AICPA comments, “This is truly a historic moment for management accounting and the accounting profession worldwide. Our joint venture with the CIMA creates long-term strategic value for our members and literally opens up the world for U.S. CPAs in management accounting.”³⁵

This new designation will open up a lot of doors and opportunity. It would be a great way for our employees to expand their knowledge in management accounting and meet other professionals from around the world. To receive this certification you must be a CPA, be a voting AICPA member, and meet various requirements based on experience.³⁶ The CIMA, who

³⁵ AICPA 2011e

³⁶ Indiana CPA Society, August 19, 2011

was part in creating the designation, also has a high reputation. Encouraging our employees to join their organization would also have its benefits, one being expanding their networks.

IFRS is a hot topic and many feel it will never be adopted, but if it is then we must have a plan for educating our professionals. We believe that bringing in someone who is an expert under IFRS at the partner level would be a wise move if this change takes place. This person would then be able to train managers who would then train the staff accountants. Maintaining a database with documents that describe how to change from GAAP to IFRS would also be a helpful tool that would complement the expertise of a new partner. Another possible solution would involve IFRS education for CPE requirements. In meeting each individual's CPE hour requirements, they would gain valuable information on the different standards to report information.

Another reporting standard that is in the process of being changed is private accounting. Since 90% of our clients are private companies, this is an issue that we really need to address, especially to our clients. As of now there are two solutions being considered. The first being the FAF decision which is the creation of a new committee, the PCSIC, to determine modifications or changes to existing U.S. GAAP, as long as they are deemed acceptable by FASB.³⁷ The second decision under the AICPA includes creating a separate standard setting body that would develop Private company generally accepted accounting principles (PCGAAP).³⁸ However, the FAF will probably make a decision soon because the FAF claimed that the separate standard-setting body would create two different U.S. standards, which is not what they want.³⁹

These are issues that we should be discussing with our clients as well as preparing for changes that will occur. The changes that will occur will include changes or modifications to

³⁷ Lamoreaux, M., 2011, p.92

³⁸ AICPA 2011d

³⁹ Lamoreaux, M., 2011, p.92

GAAP. One way we could handle these changes in GAAP would be to incorporate current changes into training sessions for staff and upper management. Looking at documents showing these modifications and going through simulations involving these changes will be a great way for our professionals to learn the new or modified principles. Discussing the changes and the implications of the changes with clients will also be crucial in maintaining our clients.

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