

Miller, Walker, & Thompson LLP Knowledge Management: Strategic Plan

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Adam Durm

Kelcie Lyons

Kristen Krauss

Jack Macon

Butler University

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Executive Summary

The changing climate of the accounting profession has made knowledge management a vital piece to remaining competitive in the marketplace. The objectives of this report are to convey the importance of implementing a knowledge management plan. Then to provide a recommendation for the technology, people, and processes that should be utilized. Finally, to provide a strategic plan for implementing a knowledge management plan into our firm.

I first will introduce our firm, providing basic knowledge of Miller, Walker, & Thompson's current situation in the marketplace. Additionally, I will provide a introduction to the current CPA environment. After the introduction I provide a list of assumptions and methodologies used in creating the report.

I have then created a SWOT analysis to demonstrate MWT's current level of knowledge management. The analysis will help develop the basis for determining the actions MWT should take to stay competitive.

In order to convey the necessity of a knowledge management plan, I will first address the current climate of the CPA profession, specifically in regards to globalization, mobility, and technology. This information will help to provide an important background to support the implementation of a knowledge management system.

Included in this background is a conceptual framework of an effective knowledge management plan. The conceptual framework addresses the categories and types of information that our CPA firm should be trying to retain, as well as the processes that the plan should provide. These processes are knowledge capture, knowledge seeking and distribution, and knowledge creation. Additionally, the concept of Security and its importance in maintaining data privacy for clients is identified.

After the conceptual framework for our knowledge management system has been produced. I then make recommendations as to the physical people, processes, and technology that could be utilized to develop an effective knowledge management plan.

First, the two technical systems are analyzed for the software platform onto which to implement our knowledge management system. The strengths and weaknesses of two products are analyzed, Ning(a social networking platform) and Microsoft Office 365. Despite previous recommendations for the Ning software, I describe why Microsoft Office 365 is a better alternative for our firm.

Next, I identify the people that should be involved in the implementation and development of our knowledge management firm. I first recommend the creation of a Chief Knowledge Officer within the firm. Then I recommend the creation of a committee that will aid in the initial implementation of our knowledge management plan.

Then, I continue on to describe the processes that should be implemented for our plan. These processes include the development of a succession plan, training of employees, how to combat resistance, providing compensation, feedback and evaluation, and efficiency and benefits.

Lastly, I provide a cost-benefit analysis and strategic timeline for the implementation of a knowledge management plan. The cost-benefit analysis compares the advantages and disadvantages of implementing a knowledge management plan versus a “Do-Nothing” approach. Additionally, a Return on Investment calculation is provided. The strategic timeline identifies the steps, processes, and time involved in creating an efficient knowledge management plan. To supplement the time line a PERT chart is provided in the Appendices.

Introduction

Current Situation

Miller, Walker, & Thompson (MWT) is a CPA firm located in Indianapolis, IN. MWT specializes in attestation and assurance, tax compliance, general business consulting, and basic accounting services for small to medium sized business located in or around Indianapolis. MWT is considered to be an expert in various niche industries, including construction, manufacturing, multi-family housing real estate, and non-profit.

Currently MWT is in a state of transition, as five of the current seven partners will be required to retire in the next seven years. Upon the departure of these partners, the firm will be faced with a loss of years of intellectual capital. Presently, MWT does not have an effective means by which it captures and retains the immense knowledge of its professionals.

The potential loss of intellectual capital poses a major problem for the continued success of MWT. It is imperative that the knowledge of the retiring employees be captured and retained so as to maintain MWT's current level of excellence.

Additionally, the retention of this knowledge has implications for the future expansion of knowledge and improvement of operations. The firm also needs to consider future changes in the CPA profession to ensure it is able to continually capture and retain ever-changing information. The approaching retirement of the five partners generates an urgent situation where MWT's management of knowledge needs to be addressed.

Current Environment of Accounting Profession

As publicly-held corporations continue to push towards a global economy, the standardization and sharing of knowledge across the accounting profession has become a timely issue that the industry must address. Soon, this effect will have "trickled down" and is likely to be the norm for companies both public and private and of varying sizes (Crowe). Consequently, the eventual implementation of international standards, particularly the International Financial Reporting Standards (IFRS), will have significant implications for the profession, resulting in a number of changes to its

current policies and procedures. A chart detailing the advantages and disadvantages of globalization for the accounting profession can be found at the end of this section.

Moreover, this normalization of reporting standards is likely to be reflected in the job requirements of CPAs as determined by state and federal governments. The move towards IFRS will facilitate the integrated industry practices across state as well as national lines. While the benefits of this newfound mobility are momentous, the costs of the United States failing to progress in this area are even greater. The development of a set of universal standards is critical due in large part to the fashion in which business is conducted. The advancement of technology has allowed business to facilitate at an increasingly alarming rate. The ability for CPA's to provide services across state and national lines without additional documentation prevents the competitive advantage from shifting overseas.



Advantages	Disadvantages
<ul style="list-style-type: none">• More access to raising capital• Improved Comparability• Effecient utilization of resources• Possible improvements to existing policies• Additional disclosure of relevant user information	<ul style="list-style-type: none">• Cost and time devoted to education/training as well as conversion• Increase in size of annual reports• Variations of user needs in different countries• New way of thinking (Deloitte & Touche LLP, 2009)• U.S. CPAs behind international CPAs with experience in IFRS adoption (Pounder, 2006)

Assumptions

- Weeks for timeline for project in actual weeks (7days) and not work weeks
- The firm will not be significantly growing in size, in terms of number of employees, in the next five years.
- Throughout the paper, the term “knowledge management plan” refers to the entirety of the program, including the people, processes and technology to be utilized. The term “knowledge management system” refers solely to the technology implemented for knowledge management purposes.
- Assume that MWT’s business is similar to that of Katz, Sapper & Miller LLP in Indianapolis, IN. To scale this model, the difference between the numbers of employees was used as the basis for this model. This model can be found on page 44 of the Appendix.

Methodology

The methodology for gaining insight into knowledge management was gained by performing interviews of local experts. The interviewing process is the methodology that led to the development of the conceptual system.

1. Kimberly Burke: Executive Director of Human Resources Ernst & Young LLP
2. Chris Stump: Project Manager CFO services Butler Business Accelerator
3. Priscilla Arling: Content Expert and Butler University Professor
4. Holly Pantzer: Partner at BKD LLP.

Additionally, In order to gather information about the benefits of software platforms, I subscribed to trials of the software and spent several hours working with both technology platforms.

SWOT Analysis relating to KM

This SWOT analysis relates to how MWT currently manages its knowledge.

Strengths

MWT's main strength is the expertise they have accumulated in various niche industries including construction, manufacturing, multi-family housing real estate, and non-profit.

The managing partner is committed to the development and implementation of a knowledge management plan.

Weaknesses

MWT's competitive advantage lies in its expertise in providing high quality accounting services. It is likely that our employees know little about knowledge management and its importance. Five of seven partners are due to retire over the next seven years. In our smaller firm critical knowledge of our business may only be known to few people. Thus, as our partners leave the firm may be losing knowledge. The main weakness of MWT's knowledge management is there is no means of retaining their intellectual capital. When new knowledge is gained or acquired, there is no effective way to distribute that information throughout the firm.

Opportunities

We have the opportunity to implement a knowledge management plan that will allow us to minimize the future loss of knowledge from the departure of our employees. If we were to apply an advanced knowledge management plan, we could become a model for other CPA firms. A high-quality knowledge management program could improve our services and competitive advantage. As new partners join in the next seven years,

there is potential for new knowledge and expertise to be brought to our firm. The firm also has a few clients in neighboring states, leveraging their knowledge of the unique needs in those areas could help us to expand our business in those geographical regions.

Threats

In order for any knowledge management plan to be effective, it needs to provide useful and relevant information to employees. The major threat to the development of any knowledge management plan is that information is not collected, shared and readily available. Another threat is the ability of employees to navigate the plan in order to obtain useful knowledge. A plan that does not effectively distribute relevant material is ineffective. With only a small amount of clients out of state, capturing knowledge pertinent to those clients is more challenging. Only one or two people might know the details and nuances of operating in those geographical locations. Lastly, the knowledge in our profession is constantly changing, making it difficult to keep abreast of new knowledge that is needed to remain competitive.

Background

Changes in the CPA Profession

To provide a context onto which to explain why it is important to develop a knowledge management system, it is important to provide some background on the current changes undergoing in the CPA profession. The major changes underway are related to the globalizing economic climate, mobility, and improving technology. With a basic understanding of these concepts as it relates to the CPA profession it can become clear as to how knowledge management can address these changes.

Globalization

A growing trend towards the globalization of business is greatly impacting the accounting industry. This stems from the call to create a uniform financial reporting standard across the world. With this comes the adoption of IFRS, the International Financial Reporting Standards. Approximately ninety countries throughout the world

have already fully converted to IFRS reporting, with several more in the transition process (IFRS FAQs, 2011). This increases the need for U.S. accountants to support a convergence of United States Generally Accepted Accounting Principles in order to maintain in solid economic position.

The AICPA is already working to help share what knowledge they can provide about the IFRS, while making it beneficial to the accounting professionals. One example of a program already in place is the AICPA's IFRS Certificate Program. As described on the AICPA's website, this program,

Will help build the knowledge you need in International Financial Reporting Standards for success in today's global business world... Developed with input from subject matter experts from across the globe, the program is designed to provide CPA's and accounting professionals with the training, knowledge, and practical guidelines needed to use IFRS (IFRS Certificate Program, 2011).

This course contains twenty five only, self-study training courses that are advertised as interactive, engaging, scenario-based, multimedia courses. After finishing all twenty five courses, CPA's will be rewarded with a Certificate of Educational Achievement and forty two hours towards continuing education credit. Non-CPAs will be rewarded through an Award of Educational Achievement. This helps make being proactive even more beneficial for the accounting professionals who work to stay on top of the game.

Furthermore, AICPA endorses a program specifically for Small and Medium Sized Entities (SMEs). The IASB is developing thirty five stand-alone training modules, one for each section of IFRS for SMEs. This is not yet approved by the IASB, but can be accessed for free at this time (IFRS for SMEs Training Modules, 2011). The AICPA, IASB, and IFRS are all working to provide training materials to help share the knowledge and ease the transition into IFRS.

In an article published by Crowe Horwath entitled "The Implications of IFRS for Small and Medium -size Entities" they state, "Although the actions of the SEC generally apply only to public companies, they often have a trickle-down effect on private companies, leading some private company managers to wonder whether they will eventually be required to adopt 'full IFRA'" (Bossenga & Rudolf, 2010). This stresses the need for accountants of all size firms with all different clienteles to understand IFRS.

After IASB released of IFRS for SMEs in July 2009, private U.S. companies are able to use IFRS for SMEs as their financial reporting standard (Fitzpatrick & Frank, 2009) The process is lengthy, requiring implications throughout many departments. The benefits that SMEs can access through the adoption of IFRS include simplified financial reporting and facilitating the ability to access capital from foreign investors who normally have used IFRS instead of US GAAP. The difficulty though, is that adoption is an all or nothing process. There are several potential issues that Crowe's article list when private companies adopt IFRS for SMEs such as, "lack of knowledge by U.S. lenders, differences in the meaning of terminology under IFRS and US GAAP, loan agreements and covenants that currently require the use of US GAAP, the initial time and effort require to convert, including potential significant changes to internal reporting plans, the elimination of LIFO inventory accounting, and additional adjustments required to arrive at appropriate tax accounting methods" (Bossenga & Rudolf, 2010).

All companies of all sizes in the United States need to begin looking at the effects that using IFRS as their standards of financial reporting will have on their company and begin planning for them now. Plans need to be developed to handle these changes. There are many resources available from the AICPA, IFRS, and IASB that discuss what needs to be done and further details changes and differences when switching from US GAAP to IFRS. Even though complete transition may still be years down the road, it will be a complex and lengthy switch, so in order to not fall more behind foreign competitors, US accountants need to be proactive and take advantage of the training materials available to them. Due to the apparent future support of the SEC and G-20 nations and increasing call for globalization in the accounting industry, IFRS is not an issue that will be going away.

Mobility

Mobility is currently one of the more important issues facing the CPA profession. Over the last couple of years, movement throughout the country has taken place in order to help enact a uniform practice mobility system for CPA's and CPA firms. Since then, over forty legislative bills have been passed and the focus has shifted to the implementation and navigation of this system (Mobility News).

CPA mobility can be defined as the ability to reduce the occurrences of obtaining a firm registration or license (Mobility News). CPA mobility allows licensed CPAs as well as CPA firms, the opportunity to practice across state jurisdictions more conveniently. Many states have adopted mobility legislation, which is a “practice privilege that generally permits a licensed CPA in good standing from a substantially equivalent state to practice outside of his or her principal place of business without obtaining another license” (Mobility). CPA mobility recognizes that most CPA’s are substantially equivalent in terms of their education and experience, thus allowing members to practice freely across borders (Nasba.org). Advances in technology have made conducting business across state borders much easier and convenient for firms, thus creating pressure to establish a uniform set of standards so CPA’s do not have to obtain another firm registration or license when practicing outside of state borders. With the implementation of the knowledge management plan, retrieving information regarding different organizations as well as providing services to companies across state lines is made much easier.

Advantages of mobility include: allows businesses to effectively assess how various teams are performing in all niche areas; a unified set of accounting principles allows you to compare different business entities, which aids in the decision making and investing processes; and lastly it requires only one license to practice across state borders.

There are numerous disadvantages of mobility. Rick Anderson, Chairman and CEO of Moss Adams, gives his opinion.

The concept is good. But there are a couple real-world issues to resolve. The first is that many countries that have already adopted, or are expected to soon adopt, International Financial Reporting Standards have country modifications. If this is prevalent, we do not really have common standards. A second issue is that standards must be relevant and useable. Currently, there is a legitimate question as to whether one set of standards can meet all needs of public companies, private companies, etc. and that must be resolved (Anderson, 2010)

According to the journal of accountancy, additional registration is no longer required because mobility statues recognizing CPA licenses and jurisdictions have been enacted in forty-seven out of the fifty-five U.S. jurisdictions (NASBA and AICPA Announce Launch of CPAmobility.org). Since the uniform set of standards is not instilled in all U.S. jurisdictions, the AICPA and NASBA have created a website to assist CPA’s in

determining whether they may exercise mobility in a certain jurisdiction or not. The site is organized around three questions:

- Where is your principal place of business?
- Where are you going to perform services?
- What type of services will you perform?

Technology

In today's culture, conducting business via electronic media is becoming increasingly popular. Communicating using differing modes of technology is important because knowledge can be obtained in various ways. One example is Dropbox, which is a sort of cloud technology that is used to externally store files and documents for the purpose of sharing amongst users. Other examples could be recording by video, audio, or podcasting. This is useful for instruction because you can perform various tasks such as screen captures, which helps users comprehend and retain the material in an effective manner. It is also helpful that videos, audio recordings, and podcasts are stored for later use, so if the user does not fully understand the material the first time, they may go back and watch or listen to it later. iPad and iPhone apps allow the easy sharing of information, as well as the ability to remotely access documents from any location. The ability to send information on the go is an added convenience for the traveling CPA.

External Resources

Although knowledge management is a surfacing topic in the CPA profession, other lines of work are also working on development in this area. While the content will vary, CPA's can still look towards these other profession for recommendations, improvements, solutions, and collaboration efforts to gain a better understanding of and improve knowledge management. Three examples of industries working on implementing knowledge management systems into everyday job activities include law enforcement, healthcare, and law firms.

Throughout the law enforcement profession, knowledge management systems have been a way to collect and analyze criminal based information that assists in investigation and prediction of criminal activities. As in any knowledge management system, law enforcement agencies have seen information that is organized and

accessed more efficiently. By utilizing the internet, collaboration is encouraged between law enforcement organizations (Gottschalk, 2007).

Because of the increasing involvement of internet, a major area of concern is security and access controls. In law enforcement, investigative and criminal information are private matters. Similarly, CPA firms deal with confidential and non-public information. Sharing this significant issue leads to opportunities for collaboration efforts on increasing security. The main issues that face secure knowledge management systems revolve around protecting from vile insiders, safeguarding against sabotage attacks and creating correct policies, enhancement and implementation. Current techniques to increase security include the use of passwords for authentication, cryptography programs, intrusion detection systems or access control systems (Secure Knowledge Management, 2008).

Additionally, the law enforcement industry has found for themselves that the most effective way to access knowledge is through the use of interrogation (Secure Knowledge Management, 2008). If there are issues in facilitating forced communication of partners to access knowledge, interrogation and questioning techniques used by the police can be researched and adopted to fit the situation in the accounting firm.

The UK National Health Service, or NHS, which is made up of three of the four publically funded health care systems in the UK is developing an advanced technology called the National Program for Information Technology (NPfIT). Through this elaborate system, the goal is to provide all management services (such as patient booking, service provider choice, and information sharing between primary, secondary, and tertiary sectors) electronically. Currently, NPfIT is in the implementation stages (Bali & Dewivedi, 2007).

The way that NPfIT is aiming toward containing patient information and preferences under one roof and by doing so electronically and efficiently in a knowledge management system is a development that should be carefully watched by the CPA profession. The parallel to the health care profession's patients is the client companies that the CPA profession provides their services to. The ideas of NPfIT could be adopted to fit the needs of the accounting field.

Lastly, several comparisons can be made between knowledge management system implementation in accounting firms and law firms. While specific tasks are different in the two fields, both work with service and consultation of client businesses and individuals.

In law firms, one main issue is fitting the technological advancements into the everyday work array. History has shown difficulty introducing innovative technologies into law firms if those changes directly alter the way professional tasks must be completed by lawyers. Adoptions generally are made only if an obvious increase in productivity can be gained from implementing the new tools. Specially, technologies must increase efficiency of professional activities including research, writing, or communication (Staudt, 2003).

Accountants work every day in many of those same professional activities. Because of this, it would be a value to form focus groups between trainers and system developers for both law firm and accounting knowledge management systems. The goal would be developing ways to prove efficiency to the employees and ways to implement knowledge management system usage as a part of everyday work instead of an additional burden. For example, a paraprofessional could be used to sit in on meetings with important clients or while working on large projects to capture the knowledge as it is being performed.

While the specific tasks of different professionals are dissimilar, the same service concepts are utilized and similar techniques can be used in the implementation, usage, and recording of knowledge in knowledge management systems. It is important for CPA professionals to not only look at what other CPA firms are doing in their knowledge management systems, but to also look for similarities and common problems of knowledge management systems in other industries. At first, a direct comparison may not be obvious, but it is more than likely that other professional companies will be facing similar issues somehow involving their knowledge management system.

If the Indiana CPA society had a knowledge management system available to its members, knowledge could be shared throughout the CPA profession. The impact that this would have on the development of our knowledge management plan is that we

would be able to learn what other firms are doing in the field of KM. Through analyzing the strengths and weaknesses of other systems we could use that information to develop our own. Content wise, knowledge sharing throughout the profession will help add to the content capture for our system. The CPA's KMS would help us to identify changes in the accounting profession and adjust our firm accordingly.

There are other firms that can assist our firm with KM. IT consulting firms can help with the building of the technical aspects of a system. Consulting with other accounting firms about their use of knowledge management can allow us to identify strengths and weaknesses in their systems and leverage that knowledge in the development of our own system.

Conceptual Framework of Knowledge Management

To develop a context onto how we should implement a knowledge management plan, provided first is a background of what our plan should focus on conceptually. I recommend that for efficient knowledge management our plan focus on these processes.

- Knowledge capture and retention
- Knowledge distribution and seeking
- Knowledge creation

In order to address these processes, we must first consider the types of knowledge that need to be dealt with. In the next section I discuss two general categories of knowledge: explicit and tacit. Within this framework, I then will highlight the types of knowledge that are specific to our CPA firm.

Explicit and Tacit Knowledge

There are two main categories of knowledge, tacit and explicit. It is necessary to understand the meanings of tacit and explicit knowledge to provide a background to the specific types of knowledge our CPA firm should be trying to capture. An understanding of tacit and explicit knowledge will also provide us with a basic framework onto how to conceptualize an effective knowledge management plan.

Explicit knowledge is the knowledge that can be easily codified or written down. It is contained in documents, spreadsheets, and manuals. Several tools can accomplish capturing explicit knowledge. Historically, CPA firms have maintained extensive physical libraries where knowledge was stored in hard copies. In today's modern society, CPA firms minimize paper usage by storing this information in electronic databases. The current tools for capturing knowledge include word processing software, procedural videos, podcasts, etc. For example, word processing software is used to capture what was previously stored in hardcopy manuals. Explicit knowledge is easily organized by relevancy, and typically stored in separate databases based on main topic areas.

Tacit knowledge can be identified as the knowledge stored in people's heads, it is typically gained by experience. A typical example of tacit knowledge is knowing how to ride a bicycle. This type of knowledge is difficult to describe, as it is hard to express, codify, transfer, and share. Capturing tacit knowledge is not a clearly defined process. Some tools used can be interviews, online discussions, forums, blogs, and seminars. One of the best and most effective ways to maintain tacit knowledge is to provide the means for open face-to-face dialogue between experts and people seeking expert information. In addition, another effective means to capturing tacit knowledge is to develop a succession plan. As stated earlier, tacit knowledge is generally gained through experience; thus, establishing policies that facilitate people working and learning together allows for knowledge gained by experience to be transferred through a permanent cycle. For example, Ernst & Young requires that in dealings with clients more than one person be in attendance. Therefore if one person leaves or retires, there are other people within the firm who have the same knowledge to maintain relationships.

Tacit knowledge is important to preserve because it facilitates the maintaining and building of client relationships, as well as developing expertise in an area. The knowledge that accompanies how specific clients like to be treated and dealt with are forms of tacit knowledge that can be difficult to transfer, but are critical to maintaining relationships and providing exceptional customer service.

CPA Specific Knowledge

For a CPA firm, there are three main types of knowledge that we should try to capture and retain. The first type is Internal Processes and Procedures (PPS), which is information relating to the internal functioning of our firm. The second knowledge

form is technical. Technical knowledge contains information and instructions for the proper performance of MWT's various services. The third knowledge form is Business and Client Relationship Knowledge, which is specific to each individual client. Both technical and business and client knowledge focus on obtaining tacit and explicit knowledge, whereas PPS focuses almost entirely on explicit knowledge.

1. Internal Processes and Procedures (PPS)

The first knowledge that a CPA should try and capture and store in databases is its Internal Processes and Procedures. This knowledge is critical to capture because it contains all of the internal functioning of our firm. Examples would include how employees are evaluated, payroll information, or how our firm trains our employees. PPS should be its own database, and the knowledge captured is mostly explicit. Thus, it is the easiest type of knowledge to maintain. Effective ways for capturing this knowledge are online manuals or procedural videos. This information, however, should be accessible to all employees. The content should be arranged in a highly organized database to allow the information to be readily accessible to all employees.

2. Technical Knowledge

The second type of knowledge that a CPA firm needs to capture is the technical knowledge. This is the knowledge that is directly correlated to the service of our clients. Technical knowledge is difficult to capture because of the sizable amount of information. Technical knowledge contains both explicit and tacit knowledge. The explicit knowledge that needs to be retained includes all relevant laws and regulations related to accounting practices. These would range from GAAP standards set by FASBA, to tax laws, and Sarbanes-Oxley legislation. As the world progresses, legislation standards and accepted practices are constantly changing. To counteract this, we want a plan that cannot only capture the knowledge effectively, but also be easily updated for the fluctuating professional climate. Information regarding rules and regulations should have its own database because of the massive amount of information and its constantly changing nature.

Secondly, we want to store knowledge specifically relating to our clients. An example would be client financial statements for our accounting services. It is imperative this data is protected with the highest amount of security. This is due in large part to the ever-increasing complexity of data privacy laws as well as the demand from clients for their information to be secure. Our client specific service procedures should also be stored along with other client data. Client data should maintain its own database. Access to the database and its files should be limited to the employees who are

working with the specific clients. Password protection is an effective method for preventing restricted users from accessing non-pertinent information.

Explicit Technical Knowledge. Explicit knowledge that would be relevant to a CPA is the progression of practices of certain industries. Industry relevant information should also have its own database because it is not client specific, nor does it relate to rules and regulations. It is important to stay up-to-date on this information because we practice in niche industries. One of our main competitive advantages is our expertise in these industries, so capturing and retaining this information is critical to MWT's continued success.

Tacit Technical Knowledge. There is also a vast amount of tacit technical knowledge that we need to capture and retain. The main type is our technical expertise. Technical expertise is primarily obtained through experience with specific clientele in specific industries. Technical expertise is the knowledge gained by continually working with the same clients, and it allows us to develop faster production at a higher quality. Due to the complexity of tacit knowledge, it is exceedingly difficult to transfer. In the case of our retiring partners, the first step is to create a succession plan. The succession plan entails assigning a senior manager to a partner, in order to transfer the expertise or tacit knowledge of the retiring partner to the senior manager. This allows the retiring partner to be interviewed by his replacement.

3. Business and Client Relationship Knowledge

Business and client relationship knowledge is the knowledge related to creating, developing, and maintaining customer relations. Obviously, customer relations are important to maintain for any CPA firm. The tacit knowledge is related to catering to clients' needs. An example would be if a client prefers to be called back within four hours of leaving a message. This knowledge helps us develop positive relationships. To capture this knowledge, the succession planning plays an important role. An example would be if someone were to retire, there would be more than just the retiree who would know about the nuances of dealing with specific clients.

Business and client relationship knowledge is the most difficult to manage because of the differences between personalities and innate behaviors. For example, Tiffany performs tax returns for Company A. As Tiffany retires, Bill assumes her responsibilities. Company A is dissatisfied with how Bill operates, therefore Company A terminates the contract. To avoid this situation, we want a succession plan so that the replacement learns from the beginning how the client prefers to be interacted with.

The Three Knowledge Processes

1. Knowledge Capture

Knowledge capture, is the process of collecting and retaining all the knowledge of the firm. Both explicit and tacit knowledge relating to PPS, Technical, and Business and Client relationships needs to be stored. The tools that our firm can use to capture knowledge are numerous. First explicit knowledge needs to be codified or written down. For example all Internal Processes and Procedures should be written down and stored in a database. A organized database will provide a location in to which to capture all explicit knowledge, and will aid in the second knowledge process of Distribution and Seeking. To capture tacit knowledge, I recommend that a succession plan be put in place. In addition, a process should be created to facilitate employees to seek and find expert knowledge.

2. Knowledge Distribution and Knowledge Seeking

Knowledge distribution is taking knowledge captured from PPS, technical, and client relationships, and distributing it to the people who need it. The first aspect of knowledge distribution deals with effectively organizing the explicit knowledge into separate databases. Organized databases allow for effective knowledge distribution because it inserts information into a location where people can easily locate it. For example, an advanced semantic search function would be ideal because we want our employees to quickly find what they are searching for. Additionally, there should be a process in place where new information can be directed to the appropriate end users. For example, if new tax legislation is enacted, then our tax personnel can be updated and notified of the changes to their job. An effective knowledge management plan should also be able to aid in the distribution of tacit knowledge. Conceptually, we want an expert plan that has the capacity to connect people who need knowledge to those who possess it.

3. Knowledge Creation

An effective knowledge management plan should capture, retain, and share knowledge, in addition to facilitating and creating new knowledge. The main aspect of knowledge creation is to improve our services. Knowledge creation should allow for ideas to be created, built upon, and shared. The process for building upon these ideas would work through collaboration. Two people, normally constrained by their physical locations, through a knowledge management plan can collaborate and create new knowledge more frequently. This allows for the continuation of improvement within

the accounting profession. The development of best practices is what will allow us to drive down our costs, while improving our profit margin in the future.

Security

In addition to considering the types of knowledge relevant to a CPA, a critical issue in knowledge management is data security. Data privacy should be among top priorities for any CPA or consulting firm. Data privacy laws, as well as customer demands for their financial information to be kept private, should have a great impact on how our knowledge management plan should operate. In order to achieve our desired level of privacy, the organization of our plan as a whole should be analyzed. According to the AICPA's professional code of conduct:

01 Rule 301 -- Confidential client information A member in public practice shall not disclose any confidential client information without the specific consent of the client.

This rule shall not be construed (1) to relieve a member of his or her professional obligations under rules 202 [ET section 202.01 ⁴] and 203 [ET section 203.01 ⁴], (2) to affect in any way the member's obligation to comply with a validly issued and enforceable subpoena or summons, or to prohibit a member's compliance with applicable laws and government regulations, (3) to prohibit review of a member's professional practice under AICPA or state CPA society or Board of Accountancy authorization, or (4) to preclude a member from initiating a complaint with, or responding to any inquiry made by, the professional ethics division or trial board of the Institute or a duly constituted investigative or disciplinary body of a state CPA society or Board of Accountancy.

Members of any of the bodies identified in (4) above and members involved with professional practice reviews identified in (3) above shall not use to their own advantage or disclose any member's confidential client information that comes to their attention in carrying out those activities. This prohibition shall not restrict members' exchange of information in connection with the investigative or disciplinary proceedings described in (4) above or the professional practice reviews described in (3) above.

The first step in accomplishing complete privacy is restricting access to data to the people who use it. In order to achieve this, we should establish two separate networks, an internal network and an external network.

The internal network consists of all the employees in our firm. Within our network, we have the three types of captured knowledge, PPS, technical knowledge, and client relationship knowledge. The PPS should be accessible to all employees, but restricted from public access. There is no reason to limit information to users inside the company. On the contrary, the technical and client information needs to be much more restrictive. Employees should only have access to the client information for whom they provide services for, whereas the industry information and rules and regulations should be made available to all. Creating password protection or taking other preventative measures helps ensure the privacy of our client's information.

The external network should consist of our clients. Our clients should only have access to data that pertains to themselves. For example, clients should only be able to access their own financial information or rules and regulations, not separate client information. In between the two networks, there should be limited data flow between the client and our internal network. Data should be secure between clients and their network. In the sending of emails to our clients, we should have the utmost confidence that the information would stay private between the client and our internal network.

System Recommendations (Technology)

Ning: Strengths and Weakness Analysis

MWT based on previous research and recommendations from an external IT consulting firm. The Ning software has been identified as the platform for our knowledge management plan. The software is marketed as a platform on to which you can build social networks. The framework for the social network is in place that allows for easy implementation of the plan. As a result, the cost of implementing the plan would be low. There are many specific features of a social network that are desirable for our KMS. However, as well there are certain risks that come along with a social network as well. Social Network is a great place to start.

Advantages of Ning. The first main benefit of using a social network as the platform for our KMS is that it allows for analysis of the firm's social networks. This analysis would allow us to map how knowledge flows through our firm. We would be able to see who typically works with who as well as identify where in our firm expert knowledge lies. This capability is specifically affective in helping to identify what specific knowledge we need to identify and transfer before our employees leave or retire from our firm.

The private network functionality provides a desired security feature that limits the information the public can learn about our firm. Furthermore, the grouping of social network members is an important function to establish both an internal and external network, an important step in providing adequate data privacy. Additional internal grouping helps to only allow authorized users to access posted data. A plan manager or the CKO would have the capability to determine the access of the plan users. In this sense, a level of data privacy can be maintained.

Additionally, many of the tools provided by a social network would prove useful in developing an effective knowledge management plan. First and foremost a social network opens the door for communication among employees online from remote locations. The social network would aid in people seeking expert information and the subsequent transfer of tacit knowledge. The specific tools that allow for this transfer come from the platforms features. First, the social network allows for people to be grouped together. Within these groups private discussions, forums, blogs can occur. Other functions include video conferencing and instant messaging. Additionally, Documents can be posted to allow for online collaboration between employees. Here not only knowledge be transferred but also created. Furthermore, development of best practices can occur online. Ideas can be posted to discussion groups where they can be commented on, and improved upon. The new knowledge would then be in a place where it could be posted and spread throughout the firm.

The video conferencing and instant messaging capabilities also can provide useful links to clients in real time. Clients can log on to their account and set up a videoconference or instant message the employees providing services for them. These capabilities will help improve our customer service and build better relationships.

The organization of a social network is also advantageous in its ability to distribute knowledge to end-users. In my previous example, of new tax legislation enacted, the new legislation would be able to be posted to a tax practice page. Through the use of notifications or other methods, we would be able to ensure that our employees

providing tax services saw the new legislation and could be aware of how they are affected. In this sense, the posting of new information to groups can be an efficient and powerful way to share and distribute knowledge.

So far many of the benefits of a social network as a knowledge management plan discussed have been tangible benefits, but an important factor to be considered about a social network are its intangible benefits as well. A social network within a firm has the opportunity to help facilitate a closer family environment. People should enjoy where they work and a social network would allow for employee's to develop personal as well as professional relationship. This benefit is conducive for creating a positive work environment that can boost productivity.

Disadvantages of Ning. However, despite the many benefits of Ning and a social network. There are many desirable functions of a knowledge management plan that it does not provide. First, the security of Ning as a social network is questionable. Secondly, is the social network does not provide an organized database with large storage capacity. Lastly, stored information is not easily searchable.

As previously stated, ensuring client data security is a top priority for our firm. As Ning is relatively new software, the extent of its security features is still to be determined. Our clients might prefer that the way in which we share their information be on a more tested plan. Even if security functions are substantial enough to operate to data privacy law standards, the connotation of a social network and its public access could provide worry to our clients.

The inability to provide an organized database or repository is the social networks most glaring flaw. It is essential to the efficiency of operations that data and knowledge captured be stored in an organized manner. Information regarding our internal processes and procedures, technical knowledge, and client relationship knowledge would all be comingled. It is vital to create separate databases in order to distinguish this information, thus making the plan more useable. Especially for the storage of reference knowledge, a social network would provide no means to which to quickly find information. Additionally, a social network does not allow for data to be backed up. This flaw is both an organizational and security concern.

The search abilities of a social network are also limited. Employees would not be able to search for and find information (specifically explicit information) easily. Knowledge distribution in this manner is totally ineffective. The most effective knowledge management plans provide a search function in which data is easily findable, rather than having to search through a whole database. In social network knowledge

management plan employees would have to either know the source of what they are looking for, or spend countless hours searching through history to find old documents.

There are many tangible and intangible benefits to implementing Ning as the software platform onto which to build our Knowledge Management Plan. However, due to its untested security performance, its inability to provide databases, as well as its very limited searching ability. I recommend that we use alternative software that better suits our firm's needs. In my research the software that seems to more accurately meet the needs of the prior described conceptual plan are offered in Microsoft office's 365 package for mid-size businesses.

Microsoft Office 365: Strengths and Weaknesses

Advantages of Microsoft 365. Microsoft office 365 addresses several of the issues posed by implementing Ning. First Microsoft 365 guarantees the security of sensitive data. To ensure our clients that we are keeping their information private, we can demonstrate to them the security qualifications of the software. First, there is data use limits, Microsoft ensures that the only data used is data needed to provide the services our firm desires. We can know where our data is being stored, and will immediately be notified if there is unauthorized access to our information. The software also obtains third party audits to ensure that tough safeguards are in place. Additionally, Microsoft will comply with any further regulations we deem necessary.

Microsoft office 365 also addresses the need for organized databases. Through Microsoft Sharepoint (a function included in the 365 package) we can database our collected knowledge and set appropriate access restrictions. The contents of our databases are highly searchable allowing employees to search by key words. As Sharepoint stores all data online information is remotely accessible from any physical location. Through the use of multiple websites, we can organize our knowledge according to the conceptual model previously established.

Microsoft office 365 additionally can achieve many of the same benefits that a social network would provide. Many of the knowledge distribution functions are not only maintained but also improved. Since, Microsoft 365 provides database functions, knowledge is in a place where it can easily be found. Secondly, through the software provided in Microsoft Lync, Sharepoint, and Exchange employees can share tacit and explicit knowledge online in real time. The key technical tools that are used are videoconferencing, instant messaging, online meetings and presentations, and e-mail.

Microsoft office 365 also allows for analysis of knowledge flow through the plan. By analyzing data usage and how employees interact on the plan, expert knowledge of retiring or leaving employees can still be identified for capture. The software is much better than Ning software at integrating technology with succession planning. The ability to organize online meetings and video conferencing decreases the time that replacements need to spend physically shadowing the person they are replacing. The crucial tacit knowledge of technical expertise and customer relationships is still transferred and retained, just more efficiently.

Knowledge creation also would be more efficient on the Microsoft Software versus the Ning software. This is due to the fact that online collaboration is easier as it takes place within the organization of a database. Furthermore, the same idea sharing that develops best practices can still occur. Instead of posting ideas on to a forum or blog, ideas can be sent out through group e-mails or posted onto a designated web page.

The main weakness of the Microsoft Office 365 software again relates to security issues. The storage of data using Microsoft software is not maintained on internal servers. Again questions about the actual security of data can be raised. However, when comparing the two platforms, Microsoft office ensures more reliable information about the security of data.

An additional, but much less crucial weakness of the Microsoft software in comparison to the Ning platform, is that you cannot group people into groups. While internal and external networks can be established, as well as setting proper access controls, individual users are not grouped together. The main benefit of grouping people together is new knowledge can be filtered easier to relevant end users. While the Microsoft software provides effective means for filtering and delivering knowledge, some people may be distributed some extra knowledge that is not pertinent to them.

People Recommendations

Chief Knowledge Officer (CKO)

MWT should appoint a Chief Knowledge Officer (CKO). The CKO will lead the group in the initial implementation of the knowledge management plan, and to be the lead manager of the plans development after implementation. I recommend the CKO's

status within the organization be close to the level of partner. In order for our knowledge management plan to be effective, it is important that the plan have lots of support from upper management. The CKO should have an IT background, but should also well be well versed in accounting practices. There are many skills that an individual must possess in order to be an effective CKO. These skills and activities include, but are not limited to the following:

- The CKO should help employees realize the nature and value potential of knowledge,
- Should sell the concept of knowledge management to both corporate and line and local management.
- Should have a broad mindset
- Should have a visible and successful track record of achievement in organizational reputation and credibility
- Should have a high level of enthusiasm for what they are trying to achieve
- Should be very driven
- Should be motivated to prove knowledge management can improve corporate performance
- Should be highly sociable and energetic, yet tolerant and pragmatic
- Should possess leadership skills by being goal-oriented and interested in change
- Should be even-tempered
- Should be Considerate and modest, yet able to promote their own interests
- Should have IT background

Knowledge Management Team

To implement the knowledge management plan, a committee of employees should be formed. These employees should be pulled from various areas of the organization. The CKO should lead a team that involves a member from both the Human Resources department as well as the IT department. In addition, at least one member of manager level from the various industries should participate. Furthermore, our larger practices should have more representation on our team, therefore, as our tax practice is the largest, they should have the most representation on the committee.

The committee's focus should be on determining exact user needs. They should ensure that the technology used meets end user's needs as well as develop a standardization of processes for the firm. They should work closely with the IT consulting firm used to develop the technical system, as well as draw feedback from our users to identify issues with the system. The knowledge management team is critical to the smooth implementation of the system, and its success.

Process Recommendations

Succession Plan

A crucial part of our knowledge management plan should involve the installation of a succession plan. A succession plan identifies people within the organization who have the potential to fulfill key leadership positions within the company. Once these individuals have been identified, they are developed to be capable of stepping in to leadership positions upon the retirement or exit of key personnel. An example would be to cultivate a manager to replace one of our retiring partners. To implement an efficient succession plan, successor should be identified at least two years prior to retirement. The successor should work closely with the retiring partner to allow for the transfer of tacit knowledge. By working closely together, the retiring partner can be interviewed by his successor as well as review his successor's work in order to provide meticulous analysis. This process will ensure that upon the partner's retirement, the quality of services will be maintained.

In the case of the unexpected exit of employees, an efficient succession plan will also provide techniques to minimize the knowledge loss to the firm. These techniques include requiring a many to one relationship between our employees and clients. In regards to our firm, we should require that no employee provides services to a client individually, thus, even on the unexpected departure of an employee; there is still someone within the organization who would still know the nuances and idiosyncrasies of servicing particular clients.

A succession plan is critical to knowledge retention, especially in regards to the transfer of tacit knowledge. The process of changing jobs within the firm becomes smoother and less costly. Client relationships are better maintained. Lastly, our services can maintain their same level of excellence.

Training

Before implementing our knowledge management plan, we, the knowledge management implementation team, need to address a couple issues that could facilitate the adoption of our system. First we need to promote the deployment of our knowledge management plan. There are several ways we can accomplish this. Sending out an email or memo, or gathering our employees for a short meeting to inform them of the impending knowledge management plan and how its functions will relate to the mission of the company, as well as organizational goals. During this time, expectations and benefits of the knowledge management system will be introduced. Providing background information about the knowledge management plan will allow our employees to gain a grasp on the idea, instead of being entirely caught off guard (Awad & Ghaziri, 2004)

Feedback from our retiring partners is crucial to the development of our knowledge management plan. The intellectual capital the partners possess is what we strive to capture, their input as to how the system should be organized and ran is vital. Receiving feedback should be accomplished after the initial introduction of the plan. Since I am the liaison, all questions and suggestions should be filtered to me. This process should continue throughout all phases of development (Awad & Ghaziri, 2004).

Developing a strategic education plan and well developed training for our employees that illustrates how the knowledge management plan relates to the organizational goals is crucial (Awad & Ghaziri, 2004). In order to achieve true volume, employees not only need to understand how to use the system, but why they are using it. The amount of complexity of the knowledge management plan determines the meticulousness of the training. The willingness to adjust and adapt training to specific user needs and learning pace is key to successfully preparing employees. According to

James D. and Wendy Kirkpatrick, seventy percent of learning takes place on the job (Kirkpatrick & Kirkpatrick, 2010).

The preliminary training in terms of technology is executed by an outside consulting team. The consulting team's main objective is to teach our knowledge management team and IT department the ins and outs of the technology. In terms of the types of policies and procedures, our HR department will be in complete control. The combination of the two provides MWT with an efficient and thorough understanding of the knowledge management plan.

The training should be segmented so as to not overwhelm the partners and employees. If there is an overabundance of information taught all at once, frustration, lack of retention, and overall resistance to the plan will occur. Training should begin with a very simple first session about showing the user how to turn on the system, enter a query, load files, display solutions, update rules, etc. and advance from there in subsequent training sessions (Awad & Ghaziri, 2004).

After the initial training has been conducted, the efforts do not cease. It is important for employees to be reminded of the skills previously learned. Reinforcement of these skills can translate into sustainable on the job behavior. Fifty percent of learning effectiveness is a result of following up the initial training sessions (Kirkpatrick & Kirkpatrick, 2010). In addition to follow-up training, quick guides and references should be available for use of all employees (Parsons). Online and print versions should be available to fit all user preferences and familiarities. Help features and an index detailed with graphics, photographs, and templates will aid in answering questions effectively.

Combatting Resistance

It is undisputed that human beings naturally resist change. Allowing input in the organizational process and ensuring proper training from the outside consulting firm occurs will help alleviate the impulse to resist change. Another characteristic of the introduction of the plan is to focus on the technology, knowledge, and usage aspects. An additional feature of the plan is to make the system as user friendly as possible. User friendly features such as an easy to follow menu, is one example (Awad & Ghaziri, 2004). Resistance is less likely to occur when knowledge management usage is

directly correlated into employees' job descriptions. Also, ensuring that employees' jobs will not drastically change will reduce the likelihood of resistance. Finally, support from upper management to reinforce proper usage will be instrumental in the complete implantation of the plan.

Compensation

Knowledge hoarding is a problem that MWT could encounter if proper measures are not taken to avoid it. Senior managers who are seeking to advance farther in the company might be less motivated to share the knowledge if motivated by incentives. Ways to resolve this include monitoring articles or comments and referring to how the users accessed the articles helpfulness. If the article is viewed as helpful, through comments on the article or a "was this article helpful button", the employees' name is entered in a drawing to win a prize designated for each quarter. Contributing and usage of the knowledge will be included in the annual reviews.

According to Awad and Ghaziri, "those on the way to retirement worry less about hoarding knowledge but they may still lack motivation unless they are properly compensated for their efforts (Awad & Ghaziri, 2004). Including partners in the drawing (as mentioned above) is an effort that can be taken to facilitate continuous input. If the partners are actively contributing to the repository, it is likely that they could provide future input after retirement. Due to the vast amount of experience the partners have accumulated, it is unlikely they will complete thorough sharing of the knowledge. In order to retain any leftover knowledge, partners could opt to continue contributions to the knowledge management plan and be compensated on a consulting basis for up to one year after retirement. For all employees in the entire organization, the knowledge input and usage will be required as part of their job description. However to encourage excellence, compensation will be utilized accordingly.

Feedback and Evaluation

Effectively assessing the knowledge management plan is very important to continued usage. Surveys containing how users feel towards the system and its functionality can help the organization improve upon the plan and adjust to meet employee needs. The plan can also be evaluated upon performance by determining whether the organization is meeting required goals and requirements (Awad & Ghaziri, 2004). Users are

encouraged to communicate with the CKO regarding ways to improve the plan that correlates with daily job responsibilities.

Efficiency and Benefits

The combination of marketing the efficiency and benefits of using the knowledge management plan will encourage effective practice. Highlighting to the employees the ease of use, as well as how the usage can be incorporated in the employees' daily tasks will result in the willingness to participate in the plan. One example of integrating partners' daily tasks by extracting their knowledge is giving partners iPads to give them a place to always jot down notes as work progresses throughout the day. Partners can document their knowledge when it is fresh in their minds, and go back later to transfer the information in a more detailed format. Another way to make usage easier for partners is to have a paraprofessional sit in on the partner's work and meetings (primarily on major clients) to capture knowledge as it is happening. Partners can also be facilitated by the CKO to address specific areas where exposing knowledge is needed. Discussions can take place over meals in a more relaxed setting with a paraprofessional present to take minutes. This method has a higher probability to extract knowledge out of the partners, as they are more likely to engage in comfortable conversation. Furthermore, good employees will want to do their job correctly. Making effective usage of the knowledge management plan a part of the job description will make employees more conscious of utilizing the plan.

Cost– Benefit Analysis

Before embarking on a project as substantial as a knowledge management system, it is important to perform sufficient analysis of the costs and benefits of the implementation. For this reason, I have prepared a return-on-investment calculation for MWT's project for the first year or the year in which the KMS is implemented. This calculation is presented below and the calculations on which the numbers presented throughout this section are based can be found in appendix on page 44.

Moreover, in order to better demonstrate the benefits of a knowledge management plan, I provide in this cost–benefit analysis compelling evidence in support of a KMP and is intended to combat the corporate tendency towards inertia.

Benefits of Knowledge Management Plan

- Retention of five partners’ intellectual capital
- Preservation of Customer Relationships
- Reduction in unbillable time
- Decrease in employee turnover rater
- Decrease in the training time of new employees

Retention of Five Partners Intellectual Capital

The greatest and most obvious benefit of the implementation of a KMP within MWT is that the firm will be able to preserve its current level of intellectual capital. Intellectual capital “is knowledge that can be converted into profit” (Alexander, 2011). In the accounting industry, the knowledge of a worker is valued by the market. In other words, the worth of a worker’s knowledge is determined by the price at which the knowledge can be sold in the marketplace. Accordingly, it can be reasoned that an employee’s salary is the price at which the market has valued his or her knowledge.

Using this model, the loss of the knowledge of the partners can be quantified. Assume for purposes of this paper that each partner receives an annual salary of \$150,000. Thus, over the next seven year the loss of the five partners’ knowledge can be valued at \$750,000. However, with the implementation of a KMP a portion of each partner’s knowledge can be retained. As time goes on, it is expected that through continuous improvement of the KMP the portion of knowledge retained by the firm will increase.

Preservation of Customer Relationships

The building of customer relationships is imperative to the continued success of any accounting firm. Client relationships are built and established over time. For this reason, our partners, as the face of the organization, are typically responsible for the maintenance of these relationships. This valued relationship is at risk following the

departure or retirement of a partner. With knowledge management initiatives, this relationship can be preserved through the passing of careers. Relationships with customers are intangible assets that are not easily enumerated. Despite this, the preservation of customer relationships is still a benefit that can be realized through a KMP.

Reduction in Unbillable Time

In a firm that does not utilize a knowledge management, countless hours can be spent searching for knowledge by working through a web of contacts or valuable time can be spent inventing “new” knowledge that in reality already exists within the firm. The issue is that the information source is not made readily available to the employee seeking the information; consequently, the employee spends hours tracking down the expert source through a string of phone calls and e-mails. The majority of this time cannot be billed as it is spent waiting for responses. Similarly, situations may arise where an employee creates their own knowledge and information based on extensive research because he or she was unaware that this knowledge, likely tacit, already existed. Following the creation of knowledge, the employee tends to hoard the knowledge rather than share and distribute it across the firm. Holly Pantzer (2011), a partner at Baird, Kurtz, Dobson LLP, estimates that each employee spends on average around five hours completing “unbillable” work per week. This unbillable time represents lost profits for the firm.

Companies have reported benefits of a KMP as “improved decision making, improved response to business issues, improved customer service, and improved productivity,” (Boomer, 2004, p. 22). The idea behind these improvements is that a KMP gives the employees immediate access to a pool of information. For one, this immediate access allows them to make better decisions and more efficiently resolve issues. Secondly, it permits real-time communication between multiple employees and between the employee and the client. As a result, response and resolution times are shortened. Thirdly, a KMP reduces task redundancy, as ideally after an issue is resolved the available information is updated to reflect this addition. This new addition can then be used by the next employee that encounters this problem. Furthermore, if the answer does not exist in the current information pool, the KMS should direct the employee to the appropriate source for the solution.

This reduction in investigative work has two possible effects. One result is that the KMP reduces the amount of time that an employee spends researching an issue, or doing “investigative” work, and instead this time is used to complete billable work. Secondly, this time can be used for innovation or used to increase revenue through the attraction of new clients. However, the losses in revenues resulting from unbillable work or the potential for growth in revenues are two figures that are difficult to measure.

In order to value this benefit of a KMP, it must be assumed that revenues are directly tied to employees in an accounting firm. This assumption is supported by the fact that human capital is the asset that is leveraged by accounting firms in order to generate revenues. Using the Katz, Sapper, & Miller LLP model, (see appendix on page 44) I have calculated a figure that provides revenues generated per hour per employee. For MWT, this figure is \$122.41 which is representative of the revenue generated by each billable hour of work that is completed by an employee. This figure assists in the calculation of the total benefits of the KMP and is discussed further in the Return on Investment section of this report.

Reduction in Employee Turnover Rate

One additional benefit of the KMP is that it can reduce the employee turnover rate within a firm. According to Kimberly Burke (2011), executive director of HR at Ernst & Young, a KMP leads to more satisfied employees who feel as though they are directly contributing to the firm’s success. This is because the KMP allows lower-level employees to make decisions without first approaching management. In turn, more satisfied employees results in fewer turnover and a greater retention rate.

Employee turnover and retention of employees is an issue that has continued to plague the public accounting industry. According to an article in “The CPA Journal,” one study found that the employee turnover rate in public accounting is 16.6% (Hiltebeitel & Leaby, 2001). For MWT, this means that every year eight staff members have to be replaced. Moreover, one employer in the public accounting industry revealed that “hiring and replacing an existing employee costs 150% of that employee’s annual salary” (Hiltebeitel & Leaby, 2001).

The cost of employee turnover for MWT can be calculated using the above measures as well as the mean salary of an accountant in Indiana. According to the Bureau of Labor Statistics, the mean salary of an accountant or auditor in the Indianapolis area is \$64,960 (Bureau of Labor Statistics, 2011). This means that the turnover cost per employee is \$97,440. Moreover, the cost of employee turnovers per year for MWT is \$779,520. The KMP can reduce this substantial cost for MWT by reducing the turnover rate of employees.

Decrease in Costs of Formal Training

The cost of training new employees and of continued training for existing employees is significant in the accounting industry, as it is time that is unproductive in the sense that it is not generating revenue for the firm. Again, this is a result of the direct correlation between human capital and revenues in the accounting industry. However, KM has been shown to significantly reduce the amount of time required to train new hires and to review and update existing employees. According to Tim Tobin (2004), Director of Business Analysis for ServiceWare Technologies, training costs can be reduced by 30% through the use of a KMP.

These reductions in training costs are the results of the KMS technologies. These technologies often include podcasting and video technology that allow employees to visually see the processes being explained. Additionally, these technologies allow the employees to revisit the training sessions and programs. Finally, the KMP allows for quicker knowledge transfer and retention is quicker as the training instructions are supplemented with the use of case studies. By seeing, hearing, and then doing the procedures that are being instructed, the employees are more likely to comprehend and recall this information.

Costs of Knowledge Management Program Implementation

- IT Consulting Team
- Cost of Technology
- Increase in Salary for CKO

- Additional Training Costs

Return on Investment Calculation

The ROI for the KMP was calculated for the year of implementation, or the costs incurred and benefits realized through May 1st 2012 until May 1st 2013.

Costs		Benefits	
IT Consulting Firm	\$ 25,200.00	Retain Knowledge	\$ 75,000.00
Cost of Technology (Office 365)	\$ 8,100.00	Reduction in Unbillable Time	\$ 36,723.00
Cost of Gathering Data	\$ 98,329.60	Reduction in Employee Turnover	\$ 97,440.00
Additional Training (KMP only)	\$ 24,984.00	Decrease in Formal Training Costs	\$ 4,684.50
Increase in Salary for CKO	\$ 20,000.00		\$ 213,847.50
Cost of Paying Test Group	\$ 12,291.20		
Total Costs	\$188,904.80		

Return on Investment	
Benefits - Costs	13%
Costs	

Difference between Benefits and Costs

The Return on Investment for MWT’s KMP is expected to be 13% in the first year. It is important to note that this realize is expected in the year of implementation, or the year in which the greatest number of costs are to be incurred. In the future, these costs of the KMP are expected to shrink. This return is expected to grow at a substantial rate in the following years as greater benefits, namely reductions in costs, are expected. Additionally, at some point in the future, the firm will likely realize a growth in revenues as a result of the KMP as the KMS will create more effective and efficient processes which will lead to innovation and the expansion of operations. Depending on the level of commitment to the KMS

Strategic Plan Recommendation

Short Term Initiatives

- Mentoring Program
- Temporary documentation of tacit knowledge of partners

- Strategies for maintaining client relationships

Mentoring Program

The first and most important step that the firm should take for retaining knowledge of the partners in the short term is to implement a mentoring program. The first step in establishing this program is for the partners to collectively identify outstanding employees. These employees should be on track to achieve partner status at some point in the next seven years, so they are likely the firm's managers. Most importantly, each of the five partners will be assigned one of the employees picked for this mentoring program. The partner should have a good working relationship with the manager and should feel that this employee is the one to carry on his or her legacy.

The purpose of the mentoring program is for the mentee to learn and pull the tacit knowledge from the partners before this knowledge is lost. Knowledge is to be shared about clients and the interactions with them. Additionally, the mentee should be interested about learning from partners' experiences and mentees should informally document this knowledge until it can be standardized at a later time through the use of the KMP.

An additional aspect of the mentor program should be exposing the mentee to the clients as the "future face" of the company. The partners should never meet with the clients alone. Allowing the mentees to be present at these meetings with clients will smooth the transition as well as for the small details of the interactions be observed and picked up on by the mentee. An extension of the mentee program is for other staff members to accompany the partner and mentee to the client meetings. One of these personnel should be the CPA that is a senior staff accountant. While the mentee is more focused on building the repertoire with the clients, the senior staff accountants should be concerned with the technical aspects of the meeting. Finally, a paraprofessional should accompany the team for note taking purposes. Recording all non-confidential information in a standardized document to be a part of the KMP that can be accessed by those with proper permission levels will aid in the sharing of this knowledge. Many firms use this method when they meet with clients (BKD, E&Y).

Measures should be taken to see how effective the KMP is working. The firm should be able to operate in the absence of any one of the partners. For instance, BKD requires that every five years its partners leave on a mandatory sabbatical.

Timeline

Given the urgency of MWT's situation, I have developed a timeline for the implementation of the KMP to be completed by January 22nd, 2013. For this project, completion is defined as having a workable KMP that is being utilized fully by the employees at every level of the organization. The project is expected to begin on May 1st, 2012 so as to avoid undertaking this project during the firm's busy tax and audit season. This scheduled start date allows for employees at every level of the firm to participate in and dedicate fully to the successful completion of the project.

A chart outlining the activities, indicators of success, employee responsibility, and tentative schedule can be found on page of the Appendix in this paper. Additionally, a PERT chart for the project is located on page 43 of the Appendix. Finally, a detailed below is an outline of the project and its activities.

Knowledge Management Team

In order to supplement the timeline below with numbers, I have developed a model based on the firm Katz, Sapper & Miller LLP in Indianapolis, IN.

	Activity	Responsibility	Timeline	Indicators of Success	Date Started- Date Completed	Predecessors
A	Pick KM team	Carrie	2 weeks	Team identified from staff and commitment from each member	May 1, 2012 – May 15, 2012	
B	Determine user needs	Carrie and KM Team	2 weeks	Surveys completed by end users and clear idea of end users' specific needs are for KM	May 15, 2012 - May 29, 2012	A
C	Secure IT consulting firm	Carrie, KM Team (partners' approval needed)	4-5 weeks	Proposal of IT consulting firm approved by partners, contract signed with consulting firm	May 29, 2012 – June 26, 2012	B
D	Consulting team determines requirements of KM system, decides upon technology to meet these needs, and consulting team submits various proposals for KM system to partners. Partners select from proposals.	Consulting team, Partners. Also with input of KM team	4 weeks	Develop detailed KM plan and KM system has been selected	June 26, 2012 – July 24, 2012	C
E	<i>Start implementation of KM plan.</i> Planning of training as well as training of employees on how to use the database and technical aspects of KM system Note: Must be completed for pilot	Consulting team teaches KM team and IT department who instruct remaining employees	20 weeks	Training program completed by entire firm. All employees have general understanding of new system	July 24, 2012 – December 11, 2012	D

	users and also for all employees after final changes are made					
F	<i>Start implementation of KM plan.</i> Building of the KMS infrastructure	Consulting team	12 weeks	Working KM system	July 24, 2012 – October 16, 2012	D
G	<i>Start implementation of KM plan.</i> Changing of policies and procedures. Conversion of existing KM tools from hard copy to temporary digital form.	KM team, HR department	18 weeks	Standardized forms for documentation, hard copy KM tools now found in digital form, and written documentation of new policies and procedures.	July 24, 2012 – November 27, 2012	D
H	Education of changes to policies and procedures	HR department	3 weeks	Employees understand new expectations in regards to KM system	November 27, 2012 – December 18, 2012	G
I	User testing and feedback of pilot program	Test group, KM team, and consulting team	4 weeks	Completed surveys by test group, recommending changes to improve ease of use, changes made by consulting firm. Final program completed.	October 16, 2012 – November 13, 2012	F
J	Roll out program	Carrie, KM team, IT department and HR department, with help from Consulting team	4 weeks	Program can be accessed by all personnel. System is operating without major errors.	December 18, 2012 – January 22, 2013 (Time off for Christmas and New Years)	

Conclusion

Developing and implementing our KMP is extremely important to our organization's continued success. In order to effectively capture all aspects of knowledge, we must consider various methods in obtaining this intellectual capital of our employees. The importance of implementing a KMP is important to first discuss with all the employees and partners. Explaining the importance of the KMP and the importance of capturing and retaining pertinent knowledge is crucial to efficient operation of the plan.

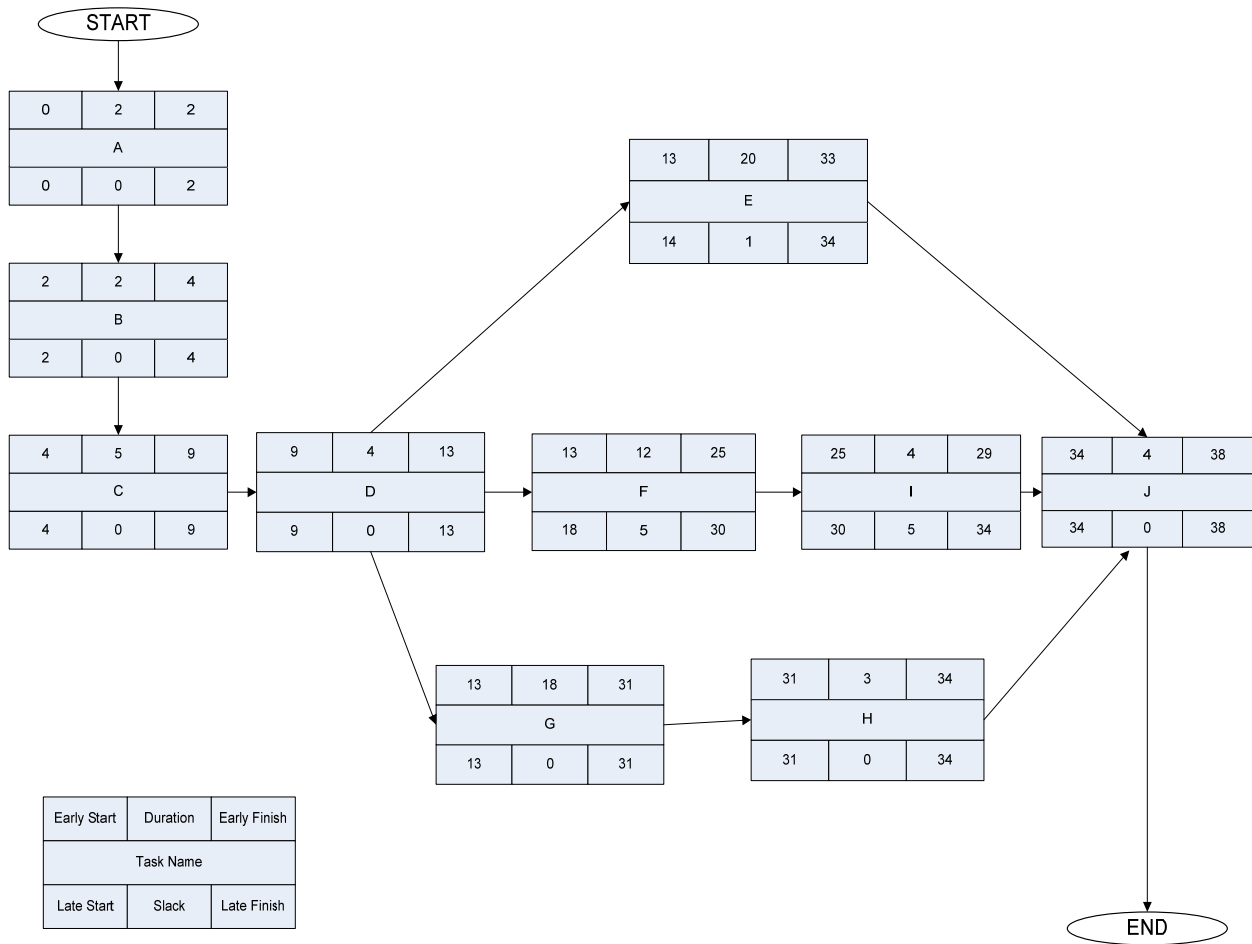
Emphasizing the positive impact this plan will create on our organization's goals will aid in the motivation of employees to follow the plan.

The second step is to provide a recommendation for the technology personnel and processes that should be utilized. Each knowledge management plan will contain the types of technology personnel and procedures by which to follow. Appointing a CKO and developing a KM team to set out specific processes and procedures to follow will ultimately help the functionality and efficiency of the KMP.

Lastly, the third step is to develop a strategic plan for the implementation of the system. The plan should include a timeline for implementing the system, and the resources needed to allocate in order for the system to be accomplished. In addition, the strategic plan should include an evaluation of opportunity costs as well as benefits to effectively assess the decision making process.

Appendices

PERT CHART



Katz, Sapper & Miller LLP Model						
In order to supplement the recommendations made within the strategic plan, used KSM LLP as a model for MWT's financials						
Using percentage based on number of employees						
MWT Employees	50					
KSM Employees	193					
MWT has 25.91% of the number of employees of KSM; being that in an accounting firm, revenues are directly tied to human capital, it can be assumed that revenues are also 26% of KSM LLP's revenues						
KSM Revenues in 2011	\$ 4,536,000.00					
Percentage of KSM Revenues	25.91%					
MWT Revenues in 2011	\$ 11,751,295.34					
Assume that MWT has identical fee split to that of KSM						
Fee Split of KSM						
Audit and Assurance	29%					
Tax	42%					
Consulting	24%					
Other	5%					

Revenue per Employee per Hour					
Assuming 240 working days in one year and assume 8-hour work days					
Days	240				
Hours per day	8				
Hours Per Year	1920				
Using the revenue generated in 2011 by MWT calculated from the KSM Model					
Revenues	11,751,295.34				
# of Employees	50				
Revenue Per Employee	\$ 235,025.91				
Revenue Per Employee	\$ 235,025.91				
Hours Per Year	1920				
Revenue Per Employee Per Hour	\$ 122.41				

Retention of Know-How					
Assume that in the first year of the KMP, 50% of the first retiree's knowledge is retained					
Value of Knowledge	\$150,000				
Retention Rate	50%				
Knowledge Retained	\$75,000				

Decrease in Unbillable Time					
Assume that currently every professional works 35 billable hours per week and 5 unbillable hours.					
Next, assume that the KMP reduces this figure by one hour per month per professional within the first year					
Revenue per hour per employee	122.41				
Number of Professionals	50				
Months for which ROI is being calculated	6				
	\$ 36,723.00				

Reduction in Employee Turnover					
Assume MWT has to hire 8 new employees per year					
# of Employees	50				
Turnover Rate	16.60%				
	<u>8.3</u>				
Assume that cost of hiring and replacing existing employee is 150% of employee'					
Mean Salary in IN	\$ 64,960.00				
# of Employees Replaced	8				
Percentage of Salary	150%				
	<u>\$ 779,520.00</u>				
Assume KMP reduced turnover rate by 2.6% in first year					
# of Employees	50				
Turnover Rate	14%				
	<u>7</u>				
Mean Salary in IN	\$ 64,960.00				
# of Employees Replaced	7				
Percentage of Salary	150%				
	<u>\$ 682,080.00</u>				
Savings from KMP	<u>\$ 97,440.00</u>				

Reduction in Training Time									
Assume that the KMP reduces the amount of training time by 30% and assume that originally the firm had formal training amounting to 1000 hours per year									
Training Time	1000								
Reduction	30%								
	300								
So, KMP reduced the amount of training time by 300 hours per year, but for purposes of ROI, 150 hours per first six months									
Hours Reduced	150								
Hourly Wage Paid	\$ 31.23								
Total Benefit	\$4,684.50								

Costs

IT Consulting Firm								
Range of fees between \$15-\$90 and are billed various hours per week								
Activity	Time (week)	Hours	Hourly Rate	Cost				
D	4	20	\$ 90.00	\$ 7,200.00				
E	2	10	\$ 90.00	\$ 1,800.00				
F	12	10	\$ 90.00	\$10,800.00				
I	4	10	\$ 90.00	\$ 3,600.00				
J	4	5	\$ 90.00	\$ 1,800.00				
				<u>\$ 25,200.00</u>				

Cost of Technology							
Office 365 costs per month for 50 users							
Cost of Office 365		\$1,350					
6 months		<u>6</u>					
		\$8,100					

Cost of Test Group

Cost of Test Group						
Test group tests for 1 day for full 8 hours with 10 employees						
Wages						
Hours	8					
# of Employees	10					
Hourly Wage	\$ 31.23					
	\$ 2,498.40					
Revenues Lost						
Hours	8					
# of Employees	10					
Revenue per employee per hour	\$ 122.41					
	\$ 9,792.80					
Total Cost	\$12,291.20					

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