

Knowledge Management for CPA Firms



Miller, Walker, & Thompson, LLP. (MWT)

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Memorandum

To: Miller, Walker, & Thompson, LLP Partners

From: Carrie Johnson, Partner

Subject: Knowledge Management Strategic Plan

Date: 10-31-2011

Upon your request, I have written up recommendations on the implementation of a knowledge management system at MWT. Inclosed you will find specifics on the structure and implementation of a knowledge management system, how globalization is effecting CPA firms' knowledge management, and suggestions on other recsources which may further enhance the proposed knowledge management system.

Further questions can be directed towards me, Carrie Johnson in regards to the case. I look forward to hearing your thoughts in regards to the solution to our firm, MWT. The future success of our firm depeneds on our retention of the knowledge within the partners and employees.

In MWT,

Carrie Johnson

Assumptions

1. Firm has breakeven revenue in year 1 of \$4,050,000
2. Firm pays employees on average \$60,000
3. Firm pays partners on average \$150,000
4. Firm owns building and therefore pays no rent
5. Employees and partners work 8 hours a day for 250 days out of the year
6. Firm's breakeven revenue grows 5% annually (This is simply a total growth assumption)
7. Firm will spend 20 hours training each employee and partner on the new knowledge management system
8. Lost knowledge due to lack of a system will be \$200,000 annually (lost information, clients, etc.)
9. Efficiency gains from system implementation are 2% revenue growth
10. Cross training gains from system implementation are 1% revenue growth
11. Client relation gains from system implementation are 1% revenue growth
12. Timeline dates for completion of implementation steps
13. Basic accounting services is the largest of 4 sectors within MWT
14. Firms accountants work out of the office when visiting clients

I. Executive Summary

Miller, Walker, & Thompson, LLP (MWT) is full-service CPA located in Indianapolis that specializes in attestation and assurance (A&A), tax compliance, general business consulting, and basic accounting service. Having found a several niche industry where MWT has developed expertise, the firm deals mostly with small to medium-sized, privately owned businesses in Indianapolis and surrounding areas as well as a few in surrounding states. Working with these smaller businesses really allows for a personal relationship between MWT and their clients, however, when partners and/or employees who have had long relationships with their clients leave, there is a fear that the knowledge of that client will leave as well. In fact, when these people leave, there is a fear that the whole culture, values, and direction of the firm will walk out as well. With five of seven partners over the age of 55 and nearing the mandatory age of retirement, 62, these fears have become a reality. Due to this, a new system of knowledge management needs to be implemented at the firm to keep the intelligence and “know-how” from being lost with the retirement of any employee, now or in the future.

One of the fundamental aspects of this knowledge management system is the Champion System. This system designates one to two people in each sector of the company, A&A, tax compliance, general business consulting, and basic accounting services, to the knowledge center of that sector. This individual(s) will be responsible for collecting, recording, maintaining, distributing, and interpreting all the knowledge for the sector that they respectively work in. The Champions are heavily focused on the tacit knowledge of the firm that is difficult to record and really convey to other employees. Also, Champions will have advance training with the knowledge management software, making them key for heavy research and larger projects where interpretation needs to be done.

Champions will not be the highest in command for their sector, but rather a younger employee that has pledge loyalty to the firm and their particular sector. This way, each Champion is with the firm for a long time, collecting knowledge, becoming very acquainted with it, and keeping it up-to-date without losing any of it continuously with shifts in the firm structure. With this model, each Champion will be with the firm until they make partner or retire. There will be a Partner Champion that will act as the leader of all the other Champions (Standard or Employee Champions).

For specific aspects of the proposed knowledge management system, I suggest MWT invest in the following:

1. VMware Cloud Computing Servers & Software
2. Lotus Notes
3. Ning

While I go into detail about the functions of each of these systems in the recommendations, it is important to understand that these three elements are crucial to the successful implementation of the proposed knowledge management system. Combined with the proposed Champion System, these hardware and software components will drive additional revenue growth and efficiency gains. Based on a two year implementation timeline, MWT will realize a 369% return on investment ten years following implementation of the proposed knowledge management system. Without question, the proposed knowledge management system contained in this report provides MWT with the opportunity to increase the quality and efficiency of the services it provides to customers. Furthermore, it offers the possibility of creating a more unified office in which information is easily accessible and transferable from employee to employee.

II. Introduction

A. Overview

The first task I have completed for Miller, Walker, & Thompson, LLP (MWT) is the research and development of a strategic plan for the critical issue of knowledge management our firm is currently facing. With five of our seven partners retiring in the next seven years, MWT faces the possibility of losing a lifetime worth of intellectual property. Capturing this wealth of information and harnessing it for future use is crucial for continuing the excellence of MWT. This strategic plan offers both perspectives and suggestions on how to implement a knowledge management system, a cost/benefit analysis of doing so, and how a knowledge management system can help MWT successfully adapt and evolve in an ever more globalized world.

B. MWT Firm Structure

Currently, MWT has a single office located in Indianapolis, IN. Within the office MWT employs 7 partners and approximately 50 employees. The firm specializes in attestation and assurance, tax, compliance, general business consulting, and basic accounting services. While most clients are located in the Indianapolis areas, specific customers are located in surrounding states. Furthermore, the majority of clients are either mid-sized or privately owned businesses. Because of this, personal interaction with each client is crucial in building a long term customer relationship. If this personal interaction and trust is lost, then chances are the customer will also be lost. Thus, because of our client base, knowledge management is going to be a critical problem our firm must address in the near future.

C. Economic Forecasts

Current economic conditions emphasize the need to retain our current clientele, as well as to become as efficient as possible. With projected economic growth under 2% for the year¹, and unemployment steady at over 9%², the ability to add new customers is going to only become more difficult in the coming months. Businesses continue to cut out excess expenditures in their organizations. Beyond vital accounting requirements, most businesses are going to forgo additional services MWT offer. Personal relationships are going to drive additional business growth with our current customers. This further emphasizes the immediate need of a knowledge management system to assist new partners in maintaining and expanding the current client base.

III. Implementation of a Knowledge Management System

A. Defining Knowledge Management

To define knowledge management as a whole is very challenging. The idea has many layers and can be approached from a multiple angles. Someone could search for a definition and find many results, all correct in their own way and applicable in some form. Defining knowledge management for a CPA firm in specific is a little bit easier, but still a difficult task. To start, let us look at knowledge management in its broadest sense: knowledge management is a method that organizations (in our case, CPA firms) use to extract value from their knowledge-based assets³. This is a very broad look at the matter, but is a nice place to start.

When looking at CPA firms, knowledge-based assets are more likely to be firm research, business plans, rules and guidelines, firm values and culture, client information, etc. rather than

¹ <http://www.bls.gov/>

² <http://www.bls.gov/>

³ Levinson, Meridith. "Knowledge Management Definition and Solutions." CIO.com. Web. 29 Oct. 2011. <http://www.cio.com/article/40343/Knowledge_Management_Definition_and_Solutions?page=1>.

patents, trademarks, and other related knowledge-based assets. With this in mind, the knowledge-based assets that are more likely to be used by a CPA firm can be broken down into two types: explicit knowledge and tacit knowledge⁴. Explicit knowledge are those knowledge-based assets that can be easily documented and shared across a firm, such as a firm research, business plan, rules and guidelines, etc. Tacit knowledge is the more difficult aspect of knowledge management. These are the knowledge-based assets that are hard to document and share across a firm. These are the knowledge-based assets that contain the information that would be considered the “know how” of the firm, including factors such as firm values, culture, and client experience and knowledge.

After breaking this down, it is easy to see where the challenge of knowledge management lies. Regardless, after examining knowledge management by starting with a very broad definition, giving it a more specific definition regarding a CPA firm should be easier. Knowledge management is the method of collecting, storing, and spreading both explicit and tacit knowledge all throughout a firm without slowing down the pace of the firm or losing information over time.

For MWT to implement a knowledge management system, it is also important to define what knowledge management means for a CPA firm in a detailed sense. In words, knowledge management for a CPA firm can be defined as being the categorization of information into professional information, client information, information infrastructure, and administration polices or procedures⁵. In the most basic sense, knowledge is the same thing as raw information. What MWT must do is capture and then harness this information in the most efficient way

⁴ Boomer, Jim. “Knowledge Management.” CCH Group. Wed. 29 Oct. 2011. <<http://www.cchgroup.com/opencms/opencms/web/TAA/PDFs/all/mind-power-managing-knowledge-in-accounting-firms.pdf>>.

⁵ <http://www.itpna.com/Vision/2000/000229%20Knowledge%20Management%20In%20a%20CPA%20Firm.htm>

possible. A nearly identical format a CPA’s definition of knowledge management comes from NASA⁶. In figure 1, the four main aspects of what a CPA’s firm should include in their knowledge management system is demonstrated. Going counter-clockwise, the chart and its related text can be interpreted as follows; the idea, and then the text is to the left describing the idea.



Figure 1: Aspects of Knowledge Management

Visually, this helps demonstrate what MWT’s knowledge management system needs to contain and capture. If these detailed aspects are incorporated into the different explicit and tacit aspects of knowledge management, MWT’s new knowledge management system will succeed in connecting each employee to all aspects of the firm.

⁶ <http://km.nasa.gov/whatis/index.html>

B. The Champion System

When looking at how to capture, develop, and archive information in a knowledge management system, there needs to be an effort to move outside the realm of online sources and software. While these kinds of systems and programs help archive the necessary information, the need for personal interpretation and utilization for each area of the firm (attestation and assurance, tax, general business consulting, etc.) is still needed. While it is true that each person will be trained and able to get on the database or program to find the information they need, to really utilize the information and interpret the knowledge available would take time and more training. Once trained, the time that it would take for each employee to do the necessary interpretation would be a significant loss in time to MWT and ultimately money, not to mention the additional resources it would take to train every individual to be at this. On top of all of this, as new employees come in, there will be a continuous loss when it comes to training each one of them to be at this level of interpretation with no guarantee that they will even stay long enough to not only pay back their training in profits, but contribute to the overall revenue of the firm. To counter this long, costly process, a Champion System needs to be implemented into the firm.

C. Six Sigma and Champion System

The Champion System is similar to the concept of Six Sigma. Six Sigma, developed at Motorola in the mid 1980's, is a management strategy that is used to help identify, quantify, and solve problems with efficiency and defective product making⁷. While this is a great system to run in a business more efficiency, it is not exactly a system for knowledge management directly. However, there is an aspect from the Six Sigma system that is very applicable to a knowledge

⁷ Laux, Daniel T. "The History of Six Sigma." Six Sigma: Quality Resources for Achieving Six Sigma Results. ISixSigma. Web. 29 Oct. 2011. <http://www.isixsigma.com/index.php?option=com_k2&view=item&id=1505:the-history-of-six-sigma&Itemid=155>.

management system. This aspect leads to the idea previously put forward, the Champion System. Just as Six Sigma has belt rankings to represent how much training and knowledge each person has on the system, the Champion System will give titles to those who have more training than others. Also, just as each project and/or group would have a Master Black Belt in a Six Sigma management system, the Champion System will have one “Champion” that is based in each sector of the firm.

D. The Concept

Every single employee, as stated earlier, will have some training on the knowledge management systems put into use at the firm. This training will be basic and will be a 20 hour long period. Each and every employee will take this basic training and will continue their learning on their time if desired. This basic training will give them the ability to use the systems on a day-to-day level, but once there is a need from the system that is more in depth or one that demands a lot of time and focus, the switch needs to be made and a Champion, one who has a more advanced training on the system, needs to step in and take care of this task. This is one of the fundamental tasks of a Champion, to be well trained on the knowledge management system. However, there is much more to the title than simply being well trained.

The Champion will be the “know-all” of each sector that not only has more advanced training on the knowledge management system, but is someone who really understands the firm and its values. To be more specific, the Champion will have knowledge of the firm’s past, present, and future; he/she will be intertwined with the firm and its motives, values, and direction. The Champion will know what needs to be done to keep the culture of the firm the way it is meant to be, while at the same time knowing how to gear it towards what the customers want. Thus, the Champion is the center for knowledge that cannot be recorded in a system, the

“know-how” that comes with years of experience with the firm, the retainer of the tacit knowledge described in the definition of knowledge management. Each Champion, one per sector of the firm, will be keeper of all of this knowledge so that when anyone in their sector needs it, he/she may come to the Champion of said sector and the Champion may guide them in to the right plan of action by looking at and interpreting knowledge from the system as well as utilizing the tacit knowledge of the firm’s past experiences, current values and culture, and direction.

E. Number of Champions

Keeping in mind that MWT is full-service CPA firm specializing in attestation and assurance (A&A), tax compliance, general business consulting, and basic accounting services, there should be six Champions. There will be one Champion each in A&A, tax compliance, and general business consulting, two Champions in basic accounting services, and one Partner Champion as one of the seven partners. The reason for this distribution is that A&A, tax compliance, and general business consulting are heavily specialized and not as large as the basic accounting sector. With less specialization and more people, it will be easier if two Champions split and focus on half of the knowledge in this larger sector where more knowledge is kept with more people. Also, the Partner Champion will be, in a sense, the head Champion as well as the Champion that is responsible for the vast knowledge of the seven partners (the Champions that are not Partner Champion will be called Standard Champions sometime). The succession plan of these Champions will be discussed later.

F. The Training and Costs

Champion’s will take additional training totaling to about 80 hours of additional hours. The chart below (figure 2) shows the additional cost of training 6 Champions for the Champion

System. This training will include extra time on the knowledge management software that was implemented into the firm (about 30 hours of extra training), allowing Champions to do the in-depth analysis and interpretation needed for the other employees in his/her sector. While this is a huge plus for the Champion method because it allows for basic training to be sufficient for the other employees, the tacit knowledge aspect of the training is a much larger portion.

Champion Method Training Cost	
Number of Champions	6
Additional Hours for Champion Training	80
Additional Cost of Champion Training per Employee	2400
Additional Cost of Champion Training per Partner	6000
Additional Cost of Champion Training Five Employee	12000
Additional Cost of Champion Training One Partner	6000
Overall Additional Cost of Champion Training	18000

Figure 2: The additional Cost for training 6 Champions

The tacit knowledge training will have many dimensions. There will be an overall training aspect for all the Champions that will include the firm’s overall history, direction, values, etc. However, each Champion will also focus on specific knowledge in their sector. Initially, during training, they will gather this information through shadowing the upper management of their sector, interviewing employees with a lot of experience and/or have been

involved with some of the larger accounts in their sector, talking with partners who worked in their sectors, etc. Through this, the Champions will make an initial gathering and once their training is over, they will continue to discover, record, and keep up to date with the “knowledge” of their sector and the overall firm.

G. Succession Plan for Standard Champions

The first group of Champions will be current employees who already have an ample amount of knowledge in their sector. Having the highest in command in each sector be the Champion may seem optimal, but this should be avoided. The highest in command will already have a lot of responsibility and more would dilute his/her ability in each area and spread him/her too thin. The Champion will have a lot responsibility so it should go to a rising employee who has found his/her niche in a particular sector and who will pledge loyalty to staying at the firm and in that sector. Champions will still have their original responsibilities with the firm so there will be a pay incentive to take on the additional responsibility of a Champion. This is the suggested action for selecting the original Champion.

Replacing a Champion will be something that needs to be addressed, but not very often. Champions are looking at staying with their particular sector until they make partner or retire. This means that the Champions will be with the company for about 13 years before needing replaced. According to the CPA Journal, it takes an average of close to 13 years to make partner, making the turnover rate very low⁸. This keep cost of repetitive training down. On top of that, when a new Champion comes into a sector to take over, the upcoming Champion will not even need to take the 80 hour training session that the initial Champions took. Rather, the new Champion must take the software portion which only amounts to about 30 hours of training time,

⁸ Guinn, Robert E., Sak Bhamornsiri, and Cindy Blanthorne. "Promotion to Partner in Big Firms: Truths and Trends." NYSSCPA.ORG | The Web Site of the New York State Society of CPAs. The CPA Journal, 2009. Web. 30 Oct. 2011. <<http://www.nysscpa.org/cpajournal/2004/404/essentials/p54.htm>>.

while the tacit knowledge portion of the training will be taught by the current Champion over a one to two month time period where both new or current Champion keep up with their outside responsibilities. Therefore, instead of having to retrain each new Champion at the cost of \$2,400/\$6,000 (employee/partner) with the loss of 80 hours, the new Champion will only cost \$900 (new Champion Partner will not endure this cost, see two paragraphs down) for the 30-hour advance software training. This means that on average, while it cost \$18,000 to train the original Champions, it will only cost \$6,750 every 13 years (\$519.23 per year) to keep this system up and running with new Champions.

H. Succession Plan for Partner Champions

The succession plan for Partner Champion is a bit different than the plan for the standard Champions. The Partner Champion will be a standard Champion (or Employee Champion in cost terms) that is promoted to Partner status. The upcoming Partner Champion will then have to be the mentor of a new Champion for his sector while at the same time being student of the Current Partner Champion. This will cause there to be a longer transition, but not a higher cost. The new Partner Champion will not be of any cost because he/she already has the advance training on the system, but the new Champion for the leaving Champion's sector will cause a cost of \$900. This means that a new Partner Champion cost \$0, but with the new Champion to replace the new Partner Champion cost only the standard \$900. However, it must be noted that the transition with a new Partner Champion will take probably three months due the double mentoring of tacit knowledge.

I. Succession Plan after Champion Death or Rare Occasion

In the rare occasion of a death or some other outside force causing the removal of one of the Champions from the firm, then there would need to be a complete retraining for the new

Champion. However, even though the new Champion needs to take the 30 hour advance software portion of the training, they would not need the complete 50 hours for the tacit knowledge portion. Instead, there would need to be a 20-30 hour time period where the new Champion shadows and interviews top management and other important personnel from his/her sector. Then, for the overall look at the tactic knowledge of the firm (the culture, values, experiences, direction, etc.), the rising Champion can learn it from the current Champions like a standard new Champion would if he/she were taking over a living Champion's spot. This would cost about \$15,000-\$18,000 for a new Employee Champion and about \$3,750-\$4,500.

J. Specific Hardware/Software for Knowledge Management System

Multiple possibilities exist in terms of software and hardware MWT can use to develop and implement a knowledge management system. In terms of hardware, MWT needs to install cloud computing servers. This will be done through the use of VMware servers, along with their software. This specific type of cloud server allows for all information to be stored in a single location. Furthermore, with security clearance, any individual in the firm will be able to access all information stored on the server. Employees will be able to share and coordinate on projects in a much more efficient manner than traditional methods allow for.

To handle all email, meeting scheduling, and data storage needs, MWT should consider implementing the software program Lotus Notes. This platform is a product of IBM, and is used by many Fortune 500 companies, including Eli Lilly and Cummins. Lotus Notes ties everyone's email account to a single server, allowing for quick and concise communication. The meeting scheduler function allows for individuals to schedule work meetings without even having to open a calendar. However, by far the most powerful aspect of Lotus Notes is its data storage capabilities. Simple or complex databases to track firm performance, clientele, or simply raw

data are available. Furthermore, it is an incredibly user friendly system, and requires minimal training to learn the functions of the database system.

MWT received recommendations to incorporate Ning into its knowledge management system. Ning specifically functions as a social website provider. I recommend that MWT instead use Ning’s capabilities to create a company intranet. Acting as a closed portal to the internet, this allows for news updates and individual updates to be posted on a website. However, since the website is located on an intranet, it can only be viewed and accessed by employees of the firm. This allows for proprietary information about the firms to be openly accessible at any time of day without having to worry about outsiders accessing the website. Ning will allow for each employee of MWT to be kept informed about current firm information, and to interact with co-workers through use of the company website.

K. ROI for Knowledge Management System

Cost/benefit analysis provides insight on if MWT should implement the knowledge management system I am suggesting. The calculations provided in this section are averages

Table 1

Return on Investment For KMS Implementation			
Year	Without	With KM System	ROI
1	\$ 4,252,500.00	\$ 3,971,975.00	-200%
2	\$ 4,465,125.00	\$ 3,970,573.75	-276%
3	\$ 4,688,381.25	\$ 4,327,925.39	-228%
4	\$ 4,922,800.31	\$ 4,717,438.67	-173%
5	\$ 5,168,940.33	\$ 5,142,008.15	-110%
6	\$ 5,427,387.34	\$ 5,604,788.89	-37%
7	\$ 5,698,756.71	\$ 6,109,219.89	46%
8	\$ 5,983,694.55	\$ 6,659,049.68	141%
9	\$ 6,282,879.27	\$ 7,258,364.15	248%
10	\$ 6,597,023.24	\$ 7,911,616.92	369%

NOTE: Figures are based on assumptions made about revenue, growth rates, and investment costs

and assumptions. Averages for labor costs and rent come from the BLS database⁹. Assumptions can be found in the assumptions section of the case. Below are the ROI results for implementing a knowledge management system for MWT.

First, let me describe the averages and assumptions going on here. The numbers under columns “Without” and “With KM System” represent annual revenue for MWT. In table 1, it’s assumed that the firm is growing 5% annually, which in this table is indicated by revenue growth. However, to fully understand this table, examine table 2 below to see the costs and benefits being factored in to table 1.

Table 2
Cost/Benefit Assumptions for KMS

Costs	\$'s	Benefits	Revenue Growth
Software	\$ 50,000.00	Efficiency	2%
Training	\$ 30,525.00	Cross Training	1%
Lost Knowledge (First 2 Years)	\$400,000.00	Client Relations	1%
TOTAL COSTS	\$480,525.00		

NOTE: Revenue growth does not kick in until AFTER year 2 of implementation

This helps explain why, initially, the ROI is so low for MWT. The first two years, the firm’s revenue will be negatively impacted by the cost of implementing the system, as well as the cost of simply not having a system in place (lost knowledge). Furthermore, the firm will not be able to recognize any gains from the new knowledge management system until after year two of implementation. I want to emphasize the firm is going to spend roughly 12-15% of year 1 revenue to implement this system. However, by year 7, the gains through efficiency, cross training, and client relations will result in the firm breaking even on its initial investment, and by year 10, seeing a 369% ROI. The efficiencies gained by implementing this knowledge

⁹ <http://www.bls.gov/>

management system suggest MWT needs to act immediately to capture the potential revenue gains presented through having such a system to capture information.

I want to further explain the variables taken into account for my cost/benefit analysis on the ROI of implementing a knowledge management system for MWT. Software costs include costs of installing cloud computing servers at the firm, implementation of Ning, and implementation of Lotus Notes. These were aspects of the suggested knowledge management system talked about earlier in the case. Training involves getting each employee familiar with the new knowledge management system, as well as cross training them for multiple roles. These training costs also include the cost of implementing and maintaining the Champion System. Training costs are based simply off of the number of hours (20) times the hourly pay rate per employee (this is in the assumptions section). Lost knowledge is the estimated cost of simply not having a knowledge management system in place. It's estimated that roughly 5% of potential revenue is lost annually if MWT does not implement a knowledge management system. Furthermore, I suspect this figure may exponentially increase as the amount of time increases that MWT does not implement a knowledge management system. Moving forward, especially as multiple partners leave, an exponential amount of information will be lost. This will translate into an exponential amount of revenue lost in the subsequent years.

Looking at the benefit variables accounted for, efficiency gains represent the easy access to all client and firm information on the cloud server. Any employee or partner with the correct level of security clearance will be able to access all files and information contained at the firm. For instance, if someone needs help on a specific project, he or she can request someone to help with that project. The person requested to help can then quickly access all the information about that project on the cloud server. This is only one example, but these little increases in

productivity over time will drive efficiency gains, which in turn will show up in revenue growth. Cross training gains will simply result from training each employee on the new knowledge management system. The firm will be more closely connected, and employees will have a greater understanding of one another's tasks. Client relations gains will result from employees having a greater understanding of one another clients. This will be especially important for partner transitions, both into and out of the position. Being able to retain and build on our current client base will allow for further revenue growth to be generated at MWT.

L. Timeline for Implementation

Based on the specific suggestions provided, I have also laid out a detailed timeline for implementing each aspect of the proposed knowledge management system. In the table below, the order of implementation is presented.

Table 3

Implementation Timeline		
Timeframe	Task	Estimated Time to Complete
Month 1	Change partner retirement age to 63	1 Day
Month 3	Install cloud servers & software	2 Weeks
Month 6	Activate company Intranet (Ning)	1 Day
Month 9	Install & activate Lotus Notes	1 Week
Month 15	Train staff on cloud servers, Ning, and Lotus Notes	4 Weeks (5 hrs a week)
Month 24	Fully integrate Knowledge Management System	1 Day

NOTE: Champion System is also implemented in Month 24

It's important to realize that some aspects of the total implementation process will be ongoing as long as the firm operates (specifically the Champion System). For installation of the cloud servers and software, part of our building will be occupied by construction workers, and computers may be temporarily unavailable during the two weeks. This may create a temporary decrease in efficiency, but should not cause any major disruptions. MWT may also experience a slight decrease in efficiency when Lotus Notes is installed because of employee's temporary loss

of access to their computers. Training will take place outside of office hours, so no decreases in efficiency are expected.

I would like to point out that it is important the firm follow this implementation timeline, rather than attempting to simply put a knowledge management system in place immediately. Attempting to do this would result in decreased efficiency as a firm. It is going to take time for the physical aspects of the system to get put into place, and even more time to train everyone how to correctly use them. Extra time has been left in the implementation process as a buffer. If on stage of implementation has setbacks, there is adequate time built in to solve any complications. Furthermore, as mentioned earlier, if this timeline is followed, the revenue gains from having a correctly implemented knowledge management system most likely will be exponential in nature. However, these gains can only captured if the implementation timeline is followed in the proper manner.

IV. Changes in the CPA Profession

A. Globalization

Over the last century, the CPA profession has gone through many changes due to changes in globalization, mobility, technology, and much more. Firms that were proactive and stayed ahead of these changes were the firms that succeeded and profited the most. Looking ahead, we see the same story getting ready to be played out; globalization, mobility, and technology will once again change the profession, and firms that can stay ahead of the curve will prosper. Therefore, in order for MWT to continue to be successful, we must be proactive and stay on top of these changes.

First, MWT must be ready for changes in globalization. Specifically, we must be ready for the adoption of International Financial Reporting Standards (IFRS) by the U.S. Securities and

Exchange Commission (SEC). In November 2008, the SEC disclosed a plan for the U.S. to converge its Generally Accepted Accounting Principles (GAAP) toward the IFRS. The SEC wants to do this so that there is a single set of global accounting standards for multiple reasons. Most importantly, with U.S. stockholders investing in foreign companies and vice versa, a single set of global standards would eliminate confusion when comparing companies with differing accounting practices (i.e. the IFRS does not allow LIFO inventory reporting). It is expected that the SEC will make a decision about the adoption of IFRS by the end of 2011. If adopted, the SEC would allow a minimum of four years for companies to adopt the IFRS¹⁰.

Although the SEC will allow this transition period, firms that are skilled in using IFRS will be able to profit by picking up clients that prefer to use the new standards. Advanced knowledge of the IFRS will be essential for MWT to take advantage of the change in standards. A great opportunity exists for MWT in that we can help companies transition to the new standards because employees and management might not have the advanced knowledge necessary for the transition.

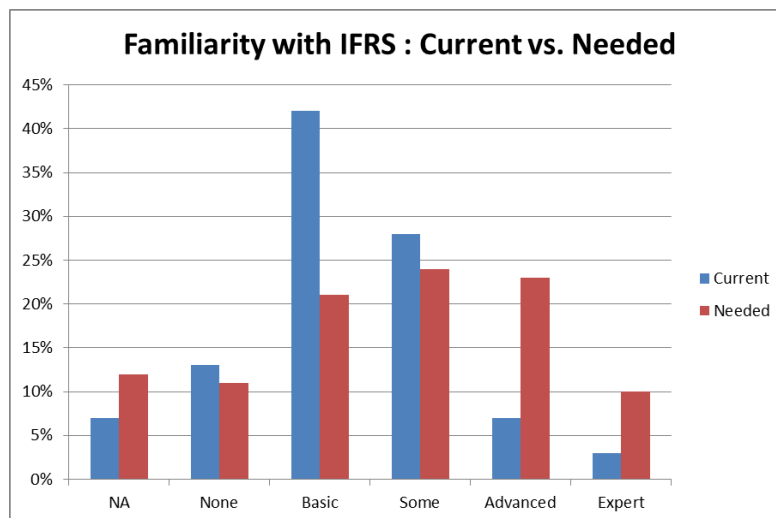


Figure 3: Familiarity with IFRS

¹⁰ "IFRS Reporting: Current Situation and next Steps." PwC: Audit and Assurance, Consulting and Tax Services. Web. 30 Oct. 2011. <<http://www.pwc.com/us/en/issues/ifrs-reporting/transition-to-ifrs-status.jhtml>>.

As you can see, many accountants have basic familiarity with IFRS, but there is a gaping need for accountants with advanced and expert understanding of the standards. Therefore, it would be very beneficial for our firm to be highly knowledgeable about IFRS¹¹.

It would also be valuable for the INCPAS to provide all members with advanced information about IFRS so that the members can take advantage of the lack of accountants with this knowledge. Although this will put MWT on a level playing field with all other INCPAS members in terms of knowledge, we will simply use our client relationships to gain revenue. By subtly letting customers know of our determination to stay on top of all new laws coming out, we will not only increase their confidence in us, but they will also likely refer us to other potential customers; thus, being knowledgeable in advanced/expert IFRS issues will be profitable for us.

B. Mobility

As standards become globalized, some certifications may become required and skill sets of CPAS may become unified. To be proactive about this possibly happening, MWT should first find current employees with knowledge of IFRS and further develop their knowledge of the standards. MWT should make sure to have at least a few people with advanced knowledge that will gain these certifications early on in the transition period so that they can help the rest of their fellow employees as they work toward getting these certifications. Once required, it would be advisable for MWT to design a system that incentivizes employees to gain this certification. For instance, MWT could allow employees days off with pay to study for the certification exams, give pay increases for achieving the certification, and provide “boot camp” study sessions to encourage employees. By being proactive about these possible changes, MWT can market itself as a front-runner of accounting firms in terms of IFRS knowledge and profit greatly from it.

¹¹ "IFRS Readiness Survey." AICPA. Web. 30 Oct. 2011.
<http://www.aicpa.org/Research/StudiesandPapers/Pages/IFRSReadinessSurvey.aspx>.

C. Technology

Because MWT's employees are constantly on the road driving to and from customers' offices, the constantly developing technology of smartphones and tablets provides MWT with opportunities to increase its efficiency by allowing employees to get work done while out of the office. By providing employees with business iPhones, MWT would be allowing them to always be just an app away from accessing important data, emails, and much more. The following descriptions list a few apps that could prove to be useful to MWT employees:

1. Ning

Once the company has implemented its intranet software, Ning, employees will be able to access this network while on-the-go on iPhones, iPads, or Androids by using Ning Inc.'s app, Ning. With this app, employees can interact with other members of MWT's network on the go by using the chat function, viewing/adding photos and blog posts, and sending emails. For instance, this is what an employee would see when viewing a blog post from another member¹²:

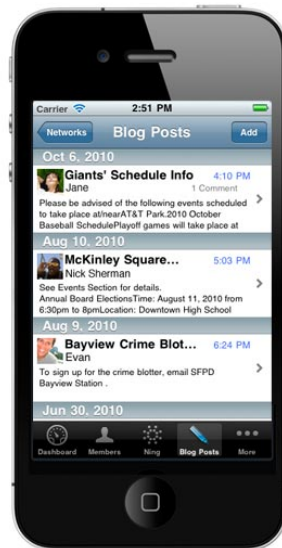


Figure 4: Blog Posts

¹² "Now Available: Ning iPhone App for Network." Creators. Web. 30 Oct. 2011. <<http://creators.ning.com/forum/topics/now-available-ning-iphone-app>>.

Employees could use this blog area to keep other employees up to date about different problems/issues they have encountered and how they solved the issue so that employees do not have to “reinvent the wheel” every time this issue presents itself.

2. Lotus Notes:

After the implementation of Lotus Notes, employees can use the Notes Pro for Lotus Notes app to view his or her Lotus Notes email, calendar, contacts, and to-dos. Best of all, this app does not require for the employees to ever sync their phones to their computers. All data is streamed directly from MWT’s own Lotus Notes server and is constantly updated. Lastly, this app never gives any information to third parties so MWT’s data is safe and secure. This is what an employee would see when accessing his or her Lotus Notes account on his or her phone/tablet¹³:

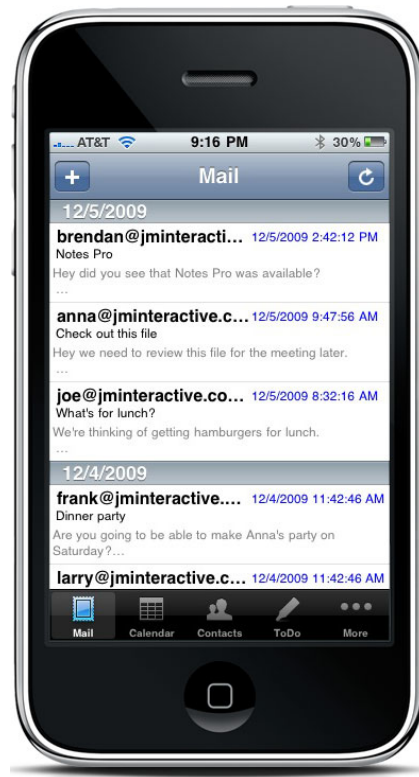


Figure 5: Lotus Notes App

¹³ "JM Interactive - Sync Lotus Notes with iPhone." JM Interactive - Interactive Development - Austin, TX. Web. 30 Oct. 2011. <http://www.jminteractive.com/index.php/iphone/view_app/notespro_for_lotus_notes/>.

This app will help employees to always be on top of their emails, to-do lists, and much more all while on the go when traveling to and from a customer's location.

3. Citrix Receiver:

When company implements VMware as its cloud server, employees will be able to use VMware's app, Citrix Receiver, as a remote access computer. By doing this, the employee can basically use their office computer on their phone/tablet. An employee could access files; use Microsoft Office programs, and much more. Any editing to documents while using this app would be saved on MWT's server, not the device itself; therefore, MWT's information would remain confidential and secure. If an employee would use the app to view a PowerPoint, this is what he or she would see¹⁴:

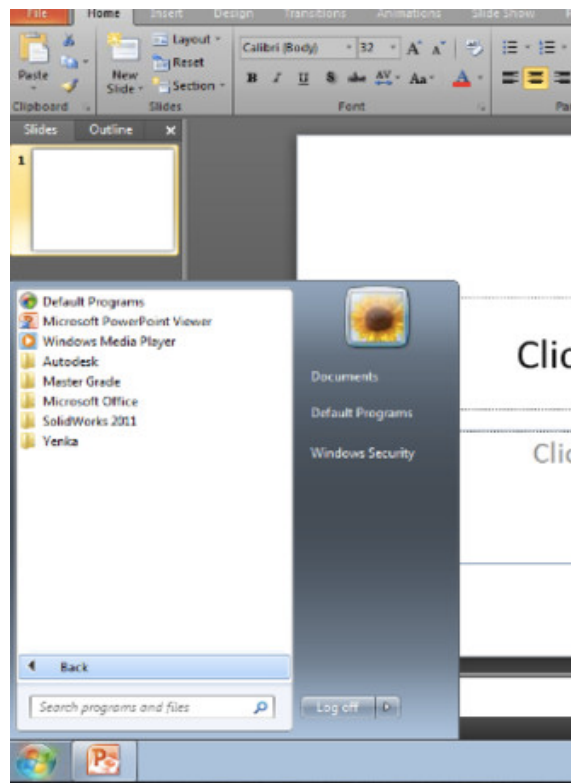


Figure 6: Citrix Example

¹⁴ "Citrix Receiver for iPhone, iPad." Business Apps. Web. 30 Oct. 2011. <<http://itunes.apple.com/us/app/citrix-receiver-for-ipad/id363501921?mt=8>>.

In essence, by using Citrix Receiver, employees can easily take their work with them from their office computers to their phone/tablets while retaining security. Not only would the use of new technology help employees be more efficient by allowing them to work and access files away from the office, but it would also increase customers' confidence in MWT. Customers would infer from MWT's use of technology that the company is on the cutting edge of technology and always being proactive to offer its customers the best service possible.

V. External Resources

A. Industry Analysis of Knowledge Management

Knowledge management is not only vital within the realm of CPA firms, but also within industries such as oil & gas, IT, and insurance and banking. These industries utilize knowledge management systems in order to retain specific, useful information within the company. A study done by Knoco Ltd., a knowledge management consulting firm founded by two previously key members of BP's knowledge management team, analyzed multiple industries to see what industries had information retention systems in place¹⁵. Knoco referred to this as lessons learned practices. That is, is information being retained and passed on within the company/industry? Exhibit 1 shows the graphical make-up of the presence of "lessons learned practices" from 74 respondents spanning across 14 different industries. When these 74 companies were asked whether they had "lessons learned practices," roughly 76% answered yes, 7% were in the process of initiating a "lessons learned" system, 6% had previously had a system in place, but have since abolished it, and 11% had no "lessons learned" system at all. It is easy to see after analyzing the data obtained by Knoco Ltd. that a large majority of companies and ultimately, industries, have

¹⁵ <http://www.knoco.com/knowledge-management-consultants.htm>

some form of knowledge management system in place.

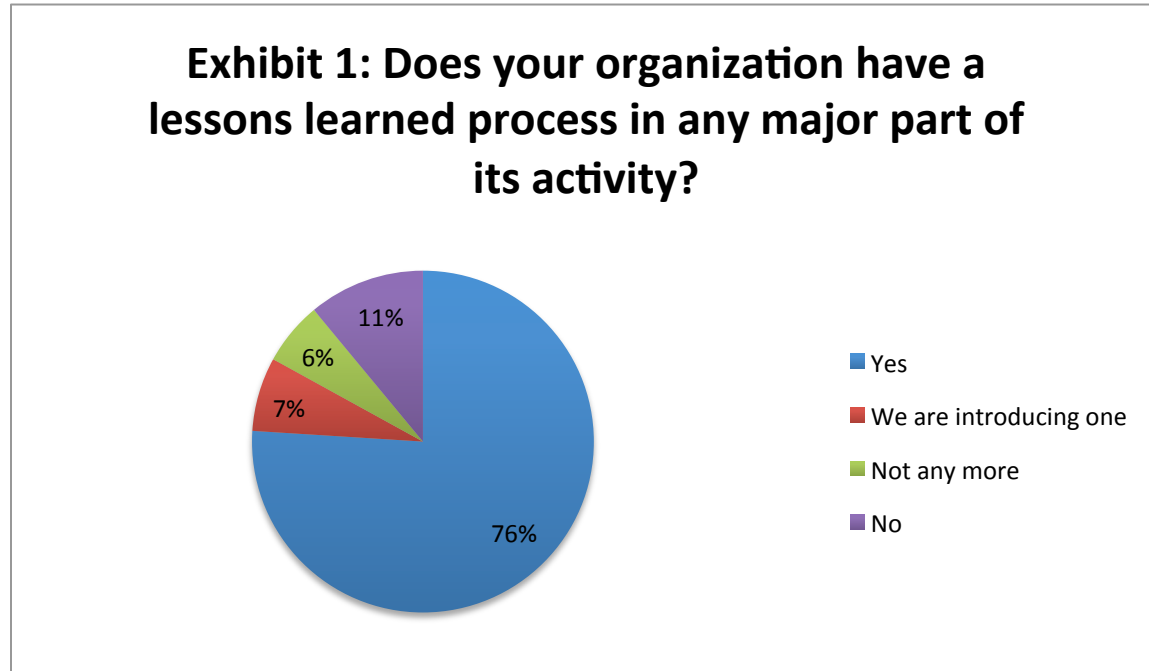


Figure 7: Figure obtained from Knoco Ltd. “Learning Lessons” 2009 Survey

Although this is great news in terms of doing better business, there are some industries that do not have systems in place. For instance, looking at Exhibit 2, one can see that the academic, automotive, and aviation industry have little to no presence of a knowledge management system¹⁶. While this is not good news, it is very comforting to see that a large majority of industries have “lessons learned systems” in place or starting. Among the industries/companies that responded yes, they were then asked whether their knowledge management systems were successful. Roughly 42%, easily the majority of responses when compared to other percentages, answered that their current system is moderately effective, which leads us to think that although industries have a system in place, they are not getting it right necessarily. 0 means that the system is extremely dysfunctional and 5 means that the system is

¹⁶ <http://www.knoco.com/Knoco%20White%20Paper%20-%20Lessons%20Learned%20survey.pdf>

excellent and the firm/company is getting everything and more out of the knowledge management system they are using.

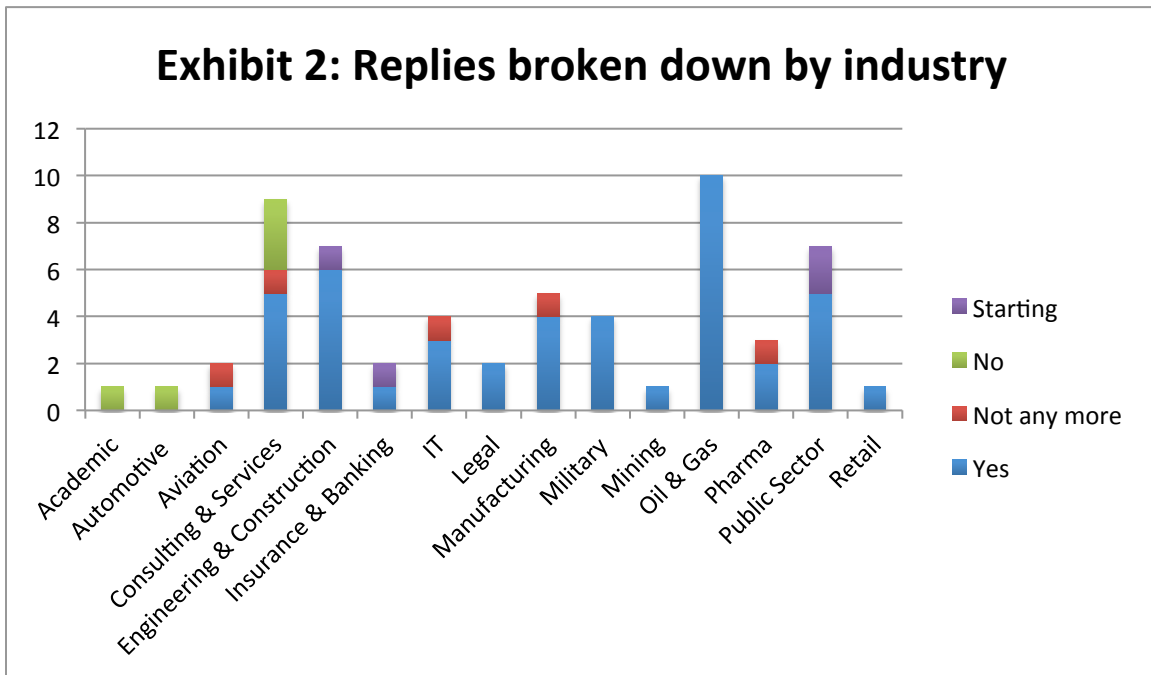


Figure 8: Figure obtained from Knoco Ltd. “Learning Lessons” 2009 Survey

Overall, many industries have or are starting to implement knowledge management systems within their field of business. These systems were rated as moderately effective, which brings into question what could be done better (Exhibit 3 & 4). Thankfully, Knoco looked into this. After breaking it down by industry, they asked the respondents to list why their systems were not working (Exhibit 4 in appendix). Fixing these common problems with systems will then lead to system that produces action. Also it creates firm enough foundation to support a system that will work and be sustainable¹⁷.

¹⁷ <http://www.knoco.com/Knoco%20White%20Paper%20-%20Lessons%20Learned%20survey.pdf>

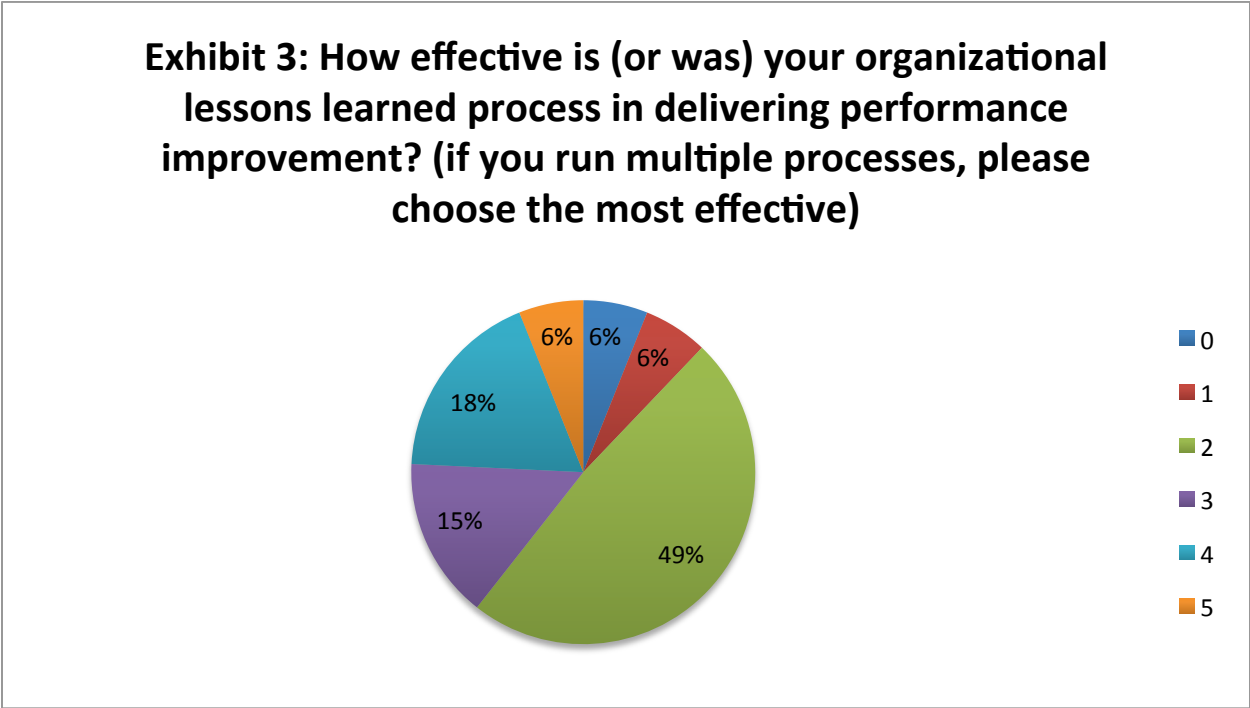


Figure 9: Figure obtained from Knoco Ltd. “Learning Lessons” 2009 Survey

B. Independent Study

I took the time to further look into what other professions are doing in terms of knowledge management in order to get a better understanding of the scope of knowledge management. For instance, Dr. John Roberts Md, a well-known and practiced doctor at Wabash College and in the Crawfordsville, Indiana area, stated this when asked about knowledge management within his field:

“The only thing I can think of where we deposit our knowledge is in the patient record which we store in an electronic medical record. As far as medical "knowledge," I can't think of any other place we store it locally. We typically have conversations between physicians to spread knowledge and impart little things we learn along the way. As far as physicians as a group, we depend a lot on the Internet to deposit and access knowledge through medical information databases like Medscape as well as physician social communities like Sermo” (Dr. John Roberts Md).

Healthcare does not have any public rule or practice of knowledge management. Doctors turn to talking to colleagues and peers to see if they have found any new medicines that work particularly well etc. There are a few databases where information is stored, but none that are universal to every doctor's practice or the industry as a whole.

Asking CPA's themselves as to what they thought of knowledge management is also a crucial step in looking at what other people, companies, etc. are doing. Eric Elman, a CPA and partner at KPMG LLP, went into great detail when asked about knowledge management within his firm:

"Our Firm uses technology extensively to facilitate knowledge transfer. We have web based systems which allow us to manage knowledge in all 3 parts effectively. We use customer relationship management tools, client account planning tools, and electronic delivery tools for audit, tax and advisory engagements. We also have partner rotation systems which manage transition. A plethora of administrative systems help us manage intellectual property, human resources, training, and independence compliance" (Eric Elman, CPA, Partner KPMG LLP).

It is evident that KPMG takes a firm approach to knowledge management. Mr. Elman described knowledge management as having three parts: client, professional, and institutional. Putting all three of these together creates an effective system or process of the retention of knowledge. It is also clear the technology plays a key role as well as the people within the firm. In the end, it is evident that CPA firms have and are starting to implement knowledge management systems. The strategies and tools that Mr. Elman explained are crucial in creating an effective and sustainable system of knowledge management.

On the other hand, there are specific firms that have no concrete system or plan in place in terms of knowledge management. For instance, a Wabash Alumnus works for Company A (asked to be anonymous). Within this company, there is no real organization or common push for a system that would help retain and manage the knowledge of the company. The alumnus had this to say about his company.

“I don’t know that we have ever specifically addressed such a topic. We have all the various databases, but so does everyone else. The type of info you are looking for isn’t usually written anywhere and no one I know has a definitive plan for mining the knowledge or formally trying to preserve it” (Wabash Alumnus).

Although KPMG has a succinct and useful plan, this company has no real unification in terms of knowledge management. This exhibits the accounting industries inconsistency in terms of knowledge management. Like the medical industry, there is no universal setup or understanding in regards to a firm knowledge management system.

Overall, what I gathered from this independent study is that there are a wide variety of possibilities in regards to whether companies have a knowledge management strategy. It is also very clear that certain industries have systems, or lack thereof, that they practice on a day to day basis to retain this knowledge.

C. Further External Resources:

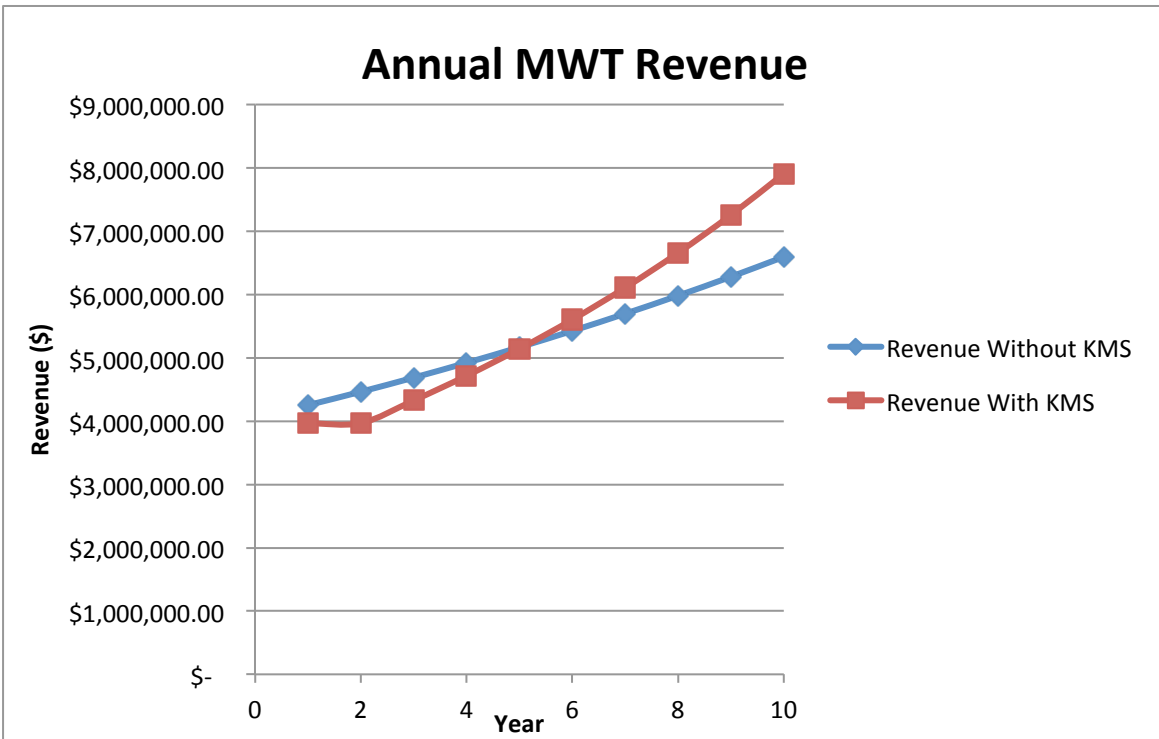
Knowledge Management is an up and coming part of most if not all industries and businesses. That being the case, there are little to no major resources that can be utilized to help create a knowledge management system. Although, there are a select few like Knoco Ltd. that look into helping companies solve knowledge management problems. In addition, there are also a few technological systems currently on the market such VMware, Lotus Notes, & Ning that can be used within our plan. Overall, the main resources that MWT needs to rely on are the Indiana CPA Society & various other firms that have insight on the topic due to the simplicity and vast amount of resources that each have along with the technologies described throughout my plan.

D. Indiana CPA Society Help

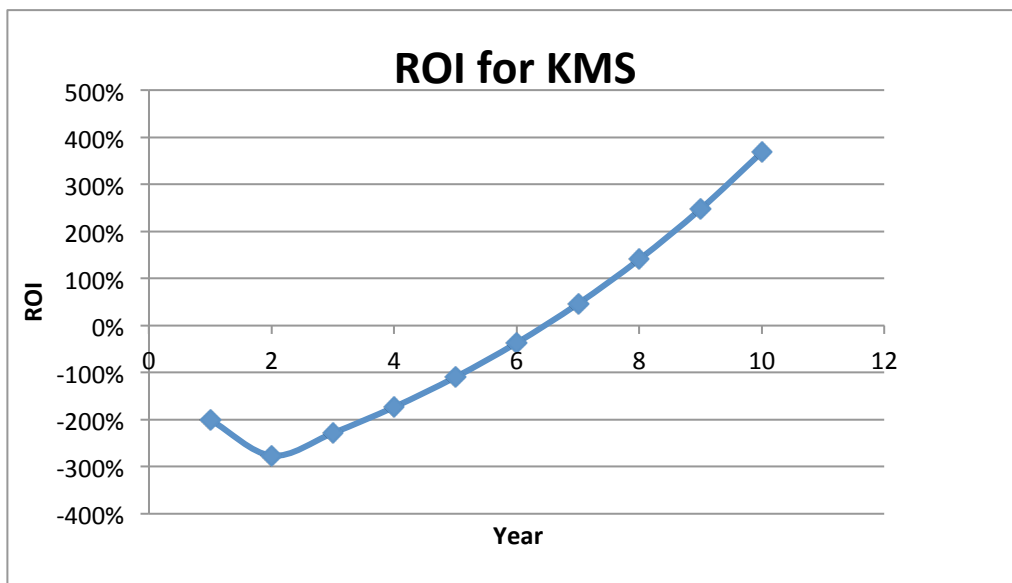
Currently, there is no system in place within the Indiana CPA Society. That being said, if there were a system in place, The Indiana CPA Society would be a great medium for both

formulating and distributing information that pertains to knowledge management. For instance, if there were to be a system that could be set in place, the CPA Society could send out an information flyer, etc. to let all firms within Indiana know that there is a system that can be utilized. Once initial contact has been made and the knowledge has been presented, the Society can help communicate successes and failures across the firms. Overall, this would greatly affect our firm in a positive way. With knowledge of other firms committing to knowledge management systems, MWT would be able to establish connection with firms that are trying similar or different systems to see what is working best. Also, The Indiana CPA Society would be of great help in acting as an additional resource in terms of contacts. The Societies role within MWT's success in implementing a knowledge management system is crucial whether there is a system that the Society recommends or simply recommendations on who to talk to in regards to seeking information.

VI. Appendix



Graph 1: Breakeven Revenue



Graph 2: ROI for KMS

Exhibit 4: Barriers (A score of 2 or less out of 5)

If you scored low (2 or less out of 5), what are the main barriers or problem areas which need to be overcome to improve the process?

Senior management (11 responses)

- Not led by management who don't see the need for improvement
- Lack of senior level support
- (Lack of) management buy-in and commitment to doing this
- Leaders/sponsors need to create the climate so that LL can be learned and applied effectively
- Lack of commitment from the management,
- Lack of organizational buy-in, lack of clear path to improvement, too many initiatives
- No central senior sponsorship,

Culture (10 responses)

- Cultural attitude, the habit of checking "lessons learned" before starting new things
- Not seen as central to performance management
- Currently culture very much on delivery not learning - process is being proposed now as part of overall KM
- Framework rather than a separate initiative so hopefully will be more successful
- (Lack of) willingness to conduct process
- The prevailing attitude was "this is how we have always done things and we won't change." Also, as a
- Governmental agency, employees generally felt entitled and safe from both effective discipline
- Termination
- 1. Has not become part of the culture and the way we want to do business 2. Not a good platform for sharing.
- It is not about Process and or Technology. It is about behaviors only.

Time issues (4 responses)

- Timing is an issue - we don't immediately record them, and I believe that some are lost completely, or details are lost
- Time constrains
- (Not) providing bench-time to dialogue about lessons learned.
- Long approving process
- Finding time, and availability of consultants with the tacit knowledge, to undertake lessons learned exercises
- And to capture same explicitly. We also have a Quality Assurance process to that ensures that (client)
- Artifacts produced out of consulting assignments are captured into assignment dbs and our knowledge db.