



THE **FIRM** OF THE **FUTURE**

A GUIDE FOR
ACCOUNTANTS,
LAWYERS,
AND OTHER
PROFESSIONAL
SERVICES

PAUL DUNN

RON BAKER

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PRAISE FOR *THE FIRM OF THE FUTURE*

“This is an absolute must-read for any business (and that includes accounting practices) that wants to be in business in the future. Written in a highly readable style and laced with hundreds of practical ‘how-to’ notes and comments, this book is a prerequisite business manual for any practitioner of any professional service organization. This really is a stunning book. I’ve thoroughly enjoyed the philosophy as well as the practical how-to and why, and the book will further refine our approach to the business. Loved the style and class of the book.”

—*Peter Byers, Chartered Accountant, New Zealand*

“‘Excited’ is probably the most appropriate word for how I felt as I read the book. Excited at the learnings, excited at the possibilities that opened before me, excited at what it would be like to work in a practice with no timesheets, value pricing, passionate team members, and clients more than delighted with the “concierge service” provided by every team member. Ron Baker and Paul Dunn have clearly described what the firm of the future **MUST** look like. They clearly debunk all the old theories and practices of managing and operating an accounting firm and clearly explain the methods and **FEELINGS** that must exist in *The Firm of the Future*.”

—*Harry Rosenberg, BKR Rosenberg + Partners, Melbourne, Australia*

“For many years now, I have utilized and professed within my firm my working theory, ‘Our next new client has to have a thirst for our knowledge and the willingness and ability to pay for it.’ *The Firm of the Future* embraces this theory and provides readers with the sound fundamentals to capitalize on their intellectual, social, and human capital.”

—Robert A. Gaida, Vice Chairman, BDO Seidman, LLP

“Without doubt the single most important book ever written for professionals. It will force the entire profession to question, rethink, and rework everything it does. It’s a book that will change your practice and your life—for the better, forever. Thanks to this book the professions will never be the same again.”

—Steve Pipe, Founder and Chairman, The Added Value Network (U.K.)

“Like all brilliant business findings *The Firm of the Future* is simple, it is available to all, and it is practical. It requires only a willingness to accept, to change and to grow.”

—Dr. Chris White, Doctor of Business Administration, PhD, MBA, B.Bus, ALGA, CA, FCPA, CFP JP, Partner KPMG, Cairns

“For many years Ron Baker and Paul Dunn have been wonderful drivers for change in how professional service firms can become more successful. As a result of their collective wisdom, they have now co-authored a powerful and insightful book that should require many firms to reconsider their strategy. The true benefit of adhering to their New Practice Equation will not only be a more profitable firm, but one that will also have a distinct competitive advantage in the marketplace. An absolute

required reading for business leaders and managers of professional firms.”

—*Robert J. Gallagher, CPA, President—R. J. Gallagher and Associates, Inc.*

“Like everything that challenges conventional thinking, this book takes time to absorb. There were many parts that I just had to ‘read over’ so that I could filter through the brilliant combination of evidentiary and emotional interplay that Paul and Ron do so well, and reveal the truth for myself. The book reads like the early conversations I was privileged to be privy to, and it will be touted through the ages as a seminal work on the new evolution of the professions.”

—*Jason Johnson, CEO, Kipara Consulting*

“*The Firm of the Future* imparts the accumulated wisdom of two key people who are helping to shape the profession, in a readable and memorable manner. And Paul and Ron have wisdom-a-plenty to impart. The profession has a vital role to play if our capitalist system is to continue its enormous record of success and prove to the doubters that it is universally the best system man has invented for improving the well-being of all people on earth, not just those in the wealthy developed nations. Paul and Ron chart the course by which the profession can regain its significance and, more importantly, help achieve the bigger goals, both for the benefit of its own members and the wider world . . . I heartily recommend *The Firm of the Future* as a ‘must-have’ guide for anyone in practice.”

—*David Hartley, Director, ElanElan Ltd.*

“Between the covers of this book are more good ideas than you typically find in a dozen business books. Take notes.

You'll want to remember these ideas for a long time."

—David Maister, author and consultant

"Paul and Ron have brought together their business philosophies under one cover of a book that should be the practice manual in every professional office. It truly is the answer of having the business do the things the professional used to do in a more effective and profitable manner. Who wouldn't want to work in the firm of the future described here?"

—Nicholas Newton CA, CMA, Creative Director, Frouin Group

"Ron Baker and Paul Dunn have put together the modern almanac of best business practices. Their firm of the future focuses on its intellectual, networking, cultural, and customer-focused capital to build wealth. They demonstrate over and over how making meaning, not just money, is the key to a leader's success. The book is an excellent read for those who want to learn the best-of-the-best business practices proven in the past decade."

—Sheila Kessler, Ph.D., President of Competitive Edge and author, Measuring and Managing Customer Satisfaction

"*The Firm of the Future* brings a huge number of great ideas together in one place to provide a road map of what a professional service firm must do to position itself for the future. The book provides key success factors any firm can follow in creating a customer-driven firm."

—William Cobb, Cobb Consulting, Houston, Texas

"Finally! A book that catapults professional firms to a more sophisticated, more effective approach to management,

leadership, and providing value. Any firm that follows the theory and practical advice advocated by Ron and Paul can retain happy and qualified team members, assure growing and loyal clients, reduce the stress of public practice, and reap the benefits of significant profitability.”

—*Martha Sawyer, president of Hudson Sawyer, publisher of Bowman’s Accounting Report*

“It’s refreshing to see a book that focuses the accounting practice on who we truly are—and more importantly, who we should be. We didn’t learn this trade to have our services discounted and be held to a minute-by-minute gauge of value. Ron and Paul keep your focus on the ball rather than the scoreboard and clearly define our role as ‘Intellectual Capitalists,’ not bean counters!”

—*Mark J. Koziel, CPA, Director, Dopkins & Company, LLP*

“When I first received my copy of *The Firm of the Future* I was intimidated by its size and began reviewing the table of contents for the sections that seemed most interesting to me. But, as I am prone to do, I began at the first page. I soon found myself pouring through the book, chapter by chapter. Paul Dunn and Ron Baker have compiled a work that has incredible depth, wisdom, and insight. What I enjoyed most, however, was the conversational tone that makes this book hard to put down. I feel like I have had a personal conversation with wise counselors who understand my business.”

--*Michael C. Knowles, Partner, Frank, Rimerman & Co., LLP, Menlo Park, California*

“Sometimes, this book takes your breath away with its ambition. Not content with burying a fundamental paradigm

of the professions, it offers a new one that challenges all who think about and care about, their profession to reevaluate what they do—and why they do it. Brimming with ideas, Baker and Dunn constantly challenge accepted wisdom, but thankfully provide cogent alternatives for your choice. Quotes, illustrations, and examples from all sorts of sources drive home points to ensure the book is a fantastic read and will have profound effects on your business—and the rest of your life. The future of the firm you inhabit will undoubtedly be shaped by *The Firm of the Future*. Ambition fulfilled.”

—Paul O’Byrne, Partner, O’Byrne and Kennedy, Chartered Accountants, United Kingdom

“Ron Baker and Paul Dunn are two of the deepest thinkers in the professional services business. This book is a thought-provoking look at our future. If you are leading a firm or planning to lead in the future, you must study this book carefully.”

—Troy Waugh, President, The Rainmaker Academy, Brentwood, TN

“Ron Baker and Paul Dunn are truly guiding lights for our profession. Their insight into the future of professional service firms is visionary, especially during a time when the accounting profession is struggling with its future identity. Ron and Paul’s passion for what the professions are able to accomplish is encouragement to us all.”

—Daryl B. Golemb, CPA, San Diego, California

“Any accountant who is fighting with stagnant profitability in his firm needs to read this book. It will make you reassess

why you are in business, how you conduct your business, and what you want from your business.

The reader is challenged to think about professional services within the framework of a new paradigm. The question you are left with after reading it is “Have I got the guts and the gumption to change the way I work at the moment?,” because you are totally convinced by the simple logic of the paradigm.

The combination of Paul’s laconic style with Ron’s more academic and philosophical terminology makes this book compellingly readable. Peppared with quotes and examples to illustrate the theory, this is a business manual that reads like a novel.

If you find yourself short of time to think about how your business is working, this is the one book that will repay the time invested in reading it. It may just change your thought process to such an extent that time will never seem to be in such short supply again.”

—Mark Spofforth, FCA; Senior Partner, Spofforths Chartered Accountants and Chairman Education and Training Board, Institute of Chartered Accountants of England and Wales

THE FIRM OF THE FUTURE

A GUIDE FOR ACCOUNTANTS, LAWYERS,
AND OTHER PROFESSIONAL SERVICES

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Paul To Chelsea, Jamie, Jacob, Tyliessa, Jade, Ben, Arki, and Milla. I enjoy watching you grow so much.

Ron To Angelina Maria Zimmerman, rest in peace. Not a day goes by in which you are not in my memories.

You have set sail on another ocean without star or compass going where the argument leads shattering the certainties of centuries.

—Janet Kalven, “Respectable Outlaw”

FOREWORD

You, like me, may not agree with every idea you read about in this book.

You might consider the previous statement to be a curious way to start a Foreword. But for me, that's what makes this book such an important work. I have always believed it is a waste of time reading any book that confirms what you think you already know. The purpose of a book such as this is not to confirm but to challenge. This unique work does that and more.

The accounting and legal professions are at a watershed. The collapse of Enron, WorldCom, and more recently Adelphia Communications, means that, for accountants at least, their reputation is tarnished and their future is uncertain. The challenges the professions now face are the inevitable consequence of a malaise that emerges from complacency and a failure to respond to the forces of change that are inexorably impacting the environment in which they operate. To put that another way, the paradigm that has served the professions well for the past 100+ years is now largely irrelevant.

This book challenges that paradigm in very significant ways. That alone makes it a timely addition to the literature and a MUST-READ for any professional who has any interest at all in the future of his or her firm and the profession.

For more than 30 years now I've been working in and studying the professions and how they operate. In 1992, I took that study to new levels when Paul Dunn and I started working with the accounting profession. Back then we had no idea where that journey would take us. We started Results Accountants' Systems with the idea of helping the profession move from a compliance focus to a focus on

adding value in other ways (e.g., business consulting). This was a time when many members of the profession were starting to question the significance of their contribution and, more importantly, the level of personal satisfaction they were getting from their work.

For the vast majority of people who elected to participate in the Accountants' Boot Camp, the song we sang was music to their ears. What Paul and I talked about made sense and was what they wanted to hear. Many of them went back to their firms and did extraordinary things. The stories of some of these amazing people are recounted in this book. However, we quickly realized that we were in the business of effecting change, and this required a lot more than simply conveying a coherent and compelling argument for doing something different and providing tools and resources to help them do that. Most importantly, it called for a change in mindset and in particular one's fundamental reason for being in business as a practicing accountant. *The Firm of the Future* addresses these critical issues.

Ron Baker's first book, *Professional's Guide to Value Pricing* (first published in 1998), challenged, and profoundly changed, the way I and many other people view the operation of, and critical issues in, professional service (or what he might call knowledge) firms. Many people tell me that book changed their life. I can guarantee the book you are about to read has the potential to do the same. Ron's ability to express complex ideas in a simple, compelling, and entertaining way is a rare talent. I, for one, love his writing style if not all of his conclusions.

This book is a logical extension of his previous work and has benefited greatly from Paul Dunn's insights and the experience he has gained from working with thousands of accounting firms around the world. In the ten years that I had the pleasure of working with Paul I was constantly amazed at his ability to zero in on the essence of an issue.

That ability shows through in this book. In our partnership I was the guy who would say, “Why?,” and Paul was the guy who would say, “Why not?” At the end of the day it is that willingness to challenge the status quo that leads to better things most times and to a more interesting life all the time. I have learned many things from Paul, but the most important lesson was never to confuse “what is” with “what could be.”

When I first read the manuscript for this book and reflected on what I had read it was “Why not?” that occupied my mind. If you do the same (and I think you will) then Baker and Dunn will have achieved their objective, which is to encourage you to change the way you think about your firm and your profession. If enough people do the same thing there is an exciting future for the professions. This book helps you prepare for your part in it.

Ric Payne

Chairman and CEO

Principa

PREFACE

I like the dreams of the future better than the history of the past.

—Thomas Jefferson

Paul I'd like a plaque on my grave that says, "He made a difference to the profession."

That was my response in 1992 to a friend who wondered out loud, "So why are you doing all of this?" "All of this" was working 18-hour-plus days to establish Results Accountants' Systems (RAS). RAS marked the first time that someone outside the accounting profession (me) had staked everything he had on building a company and a process (the Accountants' Boot Camp) that would forever change the profession.

People said it could not be done. People said that accountants would not travel to one central place in Australia and spend (at that time) \$4,000 (Australian) and four days learning how to deal quite differently with their clients. "Accountants," they said, "are strange creatures. They have strange value systems. They'll be sitting there all day counting up the hours they're in the Accountants' Boot Camp "classroom" and multiplying it by their hourly rate and calculating how much money they're losing. Not only that, there's no way you'll keep them interested from 8:30 in the morning until 10:30 at night."

Well, those people were wrong. At the first Accountants' Boot Camp, 170 people crammed into the room. And they loved it!

We told them to halt immediately the concentration on compliance and really get out and *do* things with their clients. We told them not to position themselves as historians but to establish a position of helping their

selected clients *create* history. And they invested in specially created systems to help them do just that.

The basis for the firm of the future had been well and truly laid.

From there, the RAS and Accountants' Boot Camp phenomenon (for that is surely what it was) spread rapidly—first to North America, with the help of John Dunleavy and the California CPA Education Foundation, and then to the United Kingdom, through the Institute of Chartered Accountants of England and Wales (ICAEW). Later on it would spread even further, to Germany, Austria, and Hong Kong.

By the end of 1999, RAS had a staggering 3,500 firms onboard just in Australia, New Zealand, North America, and England, and had most of those firms connected in an international network called the Results Accountants' Network.

The 18-hour-plus days may not have been lengthening but they were certainly getting more complicated. From 4 people in one small room in 1992, we were now 75 people spread across multiple time zones. From running the business on my own, I'd taken on a partner. And my life was airplane after airplane, hotel room after hotel room, seminar after seminar. Yes, I was contributing—I'd probably get that plaque on the gravestone. The problem was I'd be in the grave long before I wanted to be!

So on April 20, 2000, I sold my interest in RAS and moved to France. Naturally, I was severely tied up by legal restraints that prevented me writing to or otherwise dealing with accounting firms. Yet the passion was still there. This book with Ron Baker reflects part of that passion.

But let's just go back a little in time. All of us have cathartic moments in our lives, moments that we look back upon later and recognize that they were a step-function, a break with how we'd thought or acted before that moment

had occurred. One such moment had occurred in April 1996, though I didn't know it at the time. I'd been presenting a seminar in San Francisco for the California CPA Education Foundation. At the end, an affable man came up and told me how wonderful he thought the program had been. "Right now I'm presenting programs for the Education Foundation and it's clear to me that we're on the same wavelength. I hope we can find a way to work together," he said.

I thanked him profusely and said something about having to catch another plane. Ron Baker shook my hand again and left.

Two-and-half years later in London, in 1998, I received an e-mail from a client in the United States. "I've just read the most fantastic book on the profession. Drop everything and go get a copy."

The e-mail was from what you might call a respected source so I did as instructed: I bought the book on Amazon. Upon learning it would take a week to arrive, I remember thinking, "for \$99 plus freight, this better be a darn good book."

Not only was it darn good, it was (and still is) a book that is an absolute landmark. I could not put it down; and I highlighted more stuff in yellow in this book than in any other book I'd read. I e-mailed the author to tell him how impressed I was and that I would love to do a taped phone interview with him from London in a few days.

Three days later, Ron Baker and I were on the phone together discussing his book. The *Professional's Guide to Value Pricing* is, I said, "by far the best book I've ever read on the professions. When the history of the profession comes to be written, people will look back and say that this book forever changed the way accounting is done."

And then Ron reminded me of our meeting two and a half years earlier in San Francisco.

Since that phone interview in 1998, Ron and I have become the firmest of friends. We've spent days together on stage at seminars. We've written many thousands of words to each other in e-mails. One such e-mail came in from Ron on April 21, 2000: "We absolutely must do a book together; we have so much to say," he wrote.

So began a long and synergistic process.

Often synergy is defined as "one plus one equals 3," a process whereby two people work together but get much more done. Yet Stephen Covey in his book, *The 7 Habits of Highly Effective People*, points out a very important thing about synergy. He explains how when you get two people *who are alike* coming together, you do not get synergy; you often get one plus one equals one. "True synergy occurs," says Covey, "when two or more *different* people get together."

Ron and I are different. Ron has a real analytical streak in him (thank God!), whereas I tend to function more from a "gut" instinct (women often rather kindly say I have a feminine sense of intuition). Being different means that Ron and I can dispute points. It means we can argue. But most of all it means we can blend our unique experiences into a new whole.

For example, we argued about the title of this book but never about the direction. And, sometimes, both of us had difficulty *seeing* the layout of the book, though we both knew we wanted to indicate our individual voices so the reader would always know which one of us was talking.

Then in March 2002, Ron's analytical streak came to the forefront. He made a significant modification to an equation originally developed by Ric Payne at Results Accountants' Systems. It's an equation that we'd been working with for a long time. We called it the *Practice Equation* since it defined the relationship between revenue in a professional firm and several key variables. Soon you'll read about the

modification that Ron suggested. For now, suffice it to say that my “gut” got it immediately. It was a modification that led us to open our minds even more and to more effectively solidify what we were trying to say.

Let me get back to our title for a moment: I’d always worried about a title that implied to some that we could predict the future, especially since the firm of the future is here right now, in any event. It’s just that for you, our reader, some of the things we suggest you need to do may not yet be things that you’ve embraced wholeheartedly.

Moreover, the firm of the future is not something that begins at some future point in time. It’s something that, for me at least, began in 1992. The firm of the future is not a Presto!-once-in-a-lifetime event; it’s something that you know first emotionally is right. It simply *feels* right. Then you’ll use some logic to justify how you feel. Next you’ll implement systems to make it a reality for you. It’s a process not an event, like a living organism. Most firms, as we now know them, will either evolve and adapt or they will die.

And that’s where the future of the firm comes in. Be under no illusions, Ron and I cannot predict the future of the firm—particularly the future of your firm. After all, your future is mostly influenced by you, the way you think, the way you act and, yes, even the way you dress. Not only that, some external events can influence it too: the most obvious one is the Enron scandal and the effective demise of a major accounting firm (Arthur Andersen) in early 2002. Before Enron, few people thought there was even the slightest chance of firms (particularly big ones) going under. What the Enron scandal does is illustrate that there may not actually be a future for some professional firms.

But there are other reasons why there may not be a future for some firms too. Consider this simple phrase delivered to me forcibly by a fellow Australian: “The profession is

stuffed,” he said. “Stuffed” needs an explanation like many words that Australians use. Perhaps the polite way of translating it is to say it means “broken” or “does not work any more.”

Well, in one sense my colleague was wrong—the profession clearly is not broken and it clearly does still work. But in another sense my colleague was right on—it’s hobbling along and it does not work anywhere well enough. It is its own worst enemy.

If that sounds extreme, go up to anyone and ask if he or she were able to change his or her profession for the most exciting, stimulating, challenging, and rewarding profession on the planet, which profession would he or she choose? That person could give you a variety of answers, of course. But we’re certain there’s one you would not hear. That person would not say “accounting” with a pump of his or her fist.

Little wonder is it? Here is this wonderful profession—the only one that’s been given a built-in mandate to work with businesses—absolutely blowing it. Want some evidence for that? Regrettably very, very few accountants I know get up in the morning looking forward to their day. Most get religion twice a week: first on Friday (“Thank God it’s Friday”) and second on Monday (“Oh Lord it’s Monday and I’ve got to do all this again this week”).

It doesn’t have to be that way.

Our work on the new Practice Equation shows where the old equation led to the problems we see in the profession today. Put that another way: adopt the new Practice Equation you’ll read about here and it’s certain your firm and the way you practice accounting will be exciting, stimulating, challenging, and rewarding.

Our contention is simple and upbeat. Follow the thought patterns and ideas here. Embrace them, make them yours. Do that and your firm will automatically become a firm of

the future. More important, perhaps, you'll have a stunningly bright future to look forward to as well.

Ron Someone once asked the physicist Albert Michelson why he worked so hard on measuring the speed of light; he replied he did it because it was such great fun.

Ever since I made it publicly known that my one mission in life was to bury the billable hour in the accounting and legal professions, I have frequently been asked how I came to seek this rather strange quest. The short answer is because, like Michelson, it is great fun to challenge the conventional wisdom of your colleagues and try to persuade them there is a better way.

The long answer is that I am passionate about wanting to improve the quality of life in the professions. For me, the book you are now holding began in 1989, when I started to seriously discover the philosophies of Total Quality Service and apply them to my accounting practice. Out of that research grew my experimenting with fixed-price agreements and then change orders. Then I began the privilege of teaching my colleagues.

I have always wanted to teach and to write a book. I was given my first opportunity to do the former in 1995 by the California CPA Education Foundation, teaching a course entitled, "How to Build a Successful Practice with Total Quality Service." I had one very short section in the course about the shift from hourly billing to value pricing, which generated enormous discussion and debate. Being more of an economist than a CPA, I began to study what the economics profession had to say about price and value; and, to say the least, it is overwhelming. There is truly no better profession to look to for these topics, since economists have been studying them for centuries.

I read the best minds in economics, from Milton Friedman and his son David to Steven Landsburg, Mark Skousen, Thomas Sowell, and many, many others. But it was from the

Austrian school of economists that I learned the labor theory of value and—more important—what replaced it. Richard Burton described in *The Anatomy of Melancholy* (second edition, 1624): “Pigmies placed on the shoulders of giants see more than the giants themselves.” This is exactly how I felt. With further study, I learned price discrimination and how ubiquitous it is in the marketplace. I also learned price psychology and the importance it has in setting a price, especially for professionals. From this research I developed my second course for the California CPA Education Foundation: “The Shift from Hourly Billing to Value Pricing.” This course caused quite a controversy wherever I taught it, because it strongly advocated that CPAs offer fixed-price agreements, change orders, a service guarantee, and fixed payment terms, all agreed to up front with their customers for every service they provide. Not only that, I was even advocating the elimination of timesheets, which back in 1996 was unheard of, even though I had eliminated them in my firm in 1991.

Along with teaching I began to write more, and as any knowledge worker knows, both are acts of discovering what you think. Mark Twain said at one point, “I don’t write a book now unless it can write itself.” That was my experience with my first book, *Professional’s Guide to Value Pricing* (now in its fourth edition). The book, in many ways, did write itself since I had been teaching it for several years before actually gathering my thoughts in book form. The first edition was published in July 1998, and sold more copies than we expected in the first year, and every year thereafter.

I continued to teach and write, and I updated the book each year, adding knowledge I had learned from teaching my colleagues around the world. Paul describes our first meeting in 1996, and I certainly knew who he was by reputation, since I had talked to so many CPAs who had gone through the Accountants’ Boot Camp process. It is