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Dollars And (Future) Sense: Building For Tomorrow With Transformative Investments

Accountants no doubt spend a lot of time advising their clients to consider the future of their respective industries, and to think about what they need to do to ensure their businesses will remain competitive as that anticipated future unfolds.

While most of these discussions rightly tend to center on the pace of technology and the need for digital transformation, the broader underlying notion can focus on any significant investment that may help address the potential changes that are coming.

But even as firms have these discussions with their clients, it's worth asking whether they're heeding their own advice as it relates to the future of the accounting profession. How many firms, in other words, are regularly setting aside resources for the technologies, processes and business models they're going to need to transition to a new and innovative way of doing business? While it's safe to assume the Big 4 are moving forward with a variety of these types of investments across their mammoth enterprises, firms further down the revenue scale may not be keeping pace – even though it could be argued that they have far more to lose by not doing so.



Among those firms participating in the 2020 IPA National Practice Management Benchmarking Survey, for example, 77 of the top 100 (collectively representing \$11 billion in revenue) provided an answer to the question, “What percentage of revenues are being spent on transformative investments?” Of this group, just one-third indicated a number other than 0%, with these firms spending an average of about 2% of their net revenues on transformative investments. In light of this response, then, the next question worth asking is whether those firms *not* making transformative investments are effectively imperiling their futures. The question is moot for Los Angeles-based **Green Hasson Janks**, where MP **Tom Barry** says more than 3% of the \$35.7-million firm’s net revenue is earmarked for a variety of transformative investments. And the arithmetic of such investments, he believes, is almost self-evident.

“The accounting profession was changing rapidly – even before the massive disruption of a pandemic accelerated the pace of change,” he says. “Firms like ours need to make sure we can remain competitive with the bigger firms that have more resources. For us to maintain our position in the profession, we need to continue to innovate and grow to keep up with the competition or else we’re just going to be left behind.”

To that end, Barry and his team have undertaken a number of transformative investments in recent years, including hiring an individual with a Big 4 background as a non-client-facing partner in charge of strategy, embracing technology to allow for anytime/anywhere client service and talent sourcing, and stepping up ongoing investments in firm services areas, such as a new proposal prep/marketing platform. While not all of these endeavors might be seen as revolutionary at larger firms, Barry says the effects they’ve had on how Green Hasson Janks views strategy and does business have indeed been transformative.

“When you look at a firm like ours, an investment in a non-client-facing strategic leader or an overhaul of the client experience are things that have certainly been transformative for us,” he explains. “We’re getting close to our 70th year here and the firm has kind of been reborn with some of these investments. We’re always moving forward, and people notice that. It not only attracts clients who see what we’re doing, it attracts talent as well.”

A similar mindset drives the pursuit of transformative investments at St. Louis-based **Mueller Prost CPAs + Business Advisors**. The \$25.8-million firm dedicated a little more than 6% of its net revenue toward a variety of transformative investments in the last year – including process automation technology, AI-enabled accounting services technology and outside-the-box human resources recruiting strategies that now include targeting engineering, English and



Tom Barry

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Phone: (317) 733-1920

Fax: (317) 663-1030

Web: www.insidepublicaccounting.com

IT prospects in addition to traditional accounting hires – and COO **Quinn Martin** says it’s not hard to see why.

“With the ever-quickenning pace of change in our industry, transformative investments are a core component of our overall strategy,” he says. “We feel it’s imperative to stay ahead of the curve with respect to how we offer and perform our services and how we advise our clients. As things continue to become more complex and specialized, we are constantly looking for ways to increase our knowledge base and add value to our clients, while providing growth opportunities for our firm and our team members through efficient leveraging of these resources.”



Of course, while the reasoning behind transformative investments is often sound, at some point the bill comes due, and it can sometimes be difficult to convince firm leaders to plow some of today’s money into a project that may or may not bear fruit down the road – possibly well down the road. But Barry says the team at Green Hasson Janks is all-in on the firm’s stance on transformative investments, with all such decisions being made at the executive committee level.

“The money for these things comes from the partners’ pockets – full stop,” Barry explains. “But we’ve always been committed to the long game here – it’s not about short-term profits. We obviously have to maintain enough profit and distribution to the partners to keep them happy and to remain competitive from a compensation standpoint, but our partnership is built to last and everyone here buys into that philosophy. We’ll make a little less today to make more over the long run.”

Martin says the attitude at Mueller Prost is very similar, with few objections to the notion of building for the long haul. Even the younger partners are fully on board with these types of projects, in many cases leading the way when it comes to technology upgrades. For a firm that prides itself on advising with vision, after all, transformative investments in things like technology and human resources are vital parts of that philosophy.

“Within our partner group, we recognize that it is imperative to continue to invest in the future,” he says. “As a result, if the decision is between investing in future growth, better service or training versus maximizing our personal net income, it’s a pretty easy choice.

One of our founders, Doug Mueller, always says, ‘If you’re green you grow, if you’re ripe you rot.’ That’s always stuck with me, and obviously others within our leadership group believe this too. The bottom line is that we want to continue to grow and learn, and transformative investments are a key to that.”

“Regardless of the business or the industry, you’d always tell your clients that they need to grow and evolve. So why wouldn’t you take that advice for your own firm?” – Tom Barry, MP, Green Hasson Janks

To that end, both Barry and Martin expect transformative investments to make up a bigger portion of their firms' respective budgets going forward, but generally believe that the additional costs will be partially offset through more efficient workflows and processes and an increase in the value they're able to offer to clients.

"Nothing is more critical to the long-term success of a firm than continued investment," Martin says. "If you choose to ignore this in favor of maximizing short-term profits or perhaps even fear of change, your chances of becoming a legacy firm are virtually zero."

And Barry adds that his view of competing firms that choose to forgo transformative investments is almost one of gratitude, given the doors it opens for Green Hasson Janks to go after the opportunities those firms are missing.

"There's the old saying that if you're not growing, you're dying," he says. "To be status quo in a profession that is rapidly changing is a recipe for falling behind. Regardless of the business or the industry, you'd always tell your clients that they need to grow and evolve. So why wouldn't you take that advice for your own firm?"

ACCOUNTING FOR "TRANSFORMATIVE"

While there's no specific line on the income statement or balance sheet to designate them as such, there are a few guidelines to consider when trying to determine if an investment can truly be "transformative." For example, anything that would be seen as an incremental change or the usual cost of doing business may indeed be important, but it couldn't really be described as transformative. Here are a few examples from both sides of the divide:

Transformative

- Building prototypes using artificial intelligence
- Hiring a new C-suite executive focused on innovation and/or transformative strategy
- Building out services using blockchain technology
- Incorporating data analytics into regular compliance processes

Non-Transformative

- Replacing computers every three years
- Sending staff to technical CPE in their given discipline
- Upgrading furniture and fixtures for a better office environment ■ **IPA**

