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Ronald J. Baker • Nov. 15, 2017

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IMPLEMENTING VALUE PRICING

A Radical Business Model
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RONALD J. BAKER

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Each of us should realize that one possesses within oneself the formidable capacity to

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maintaining timesheets. They are stalling growth, wealth creation and innovation, inhibiting customer service, destroying morale and the quality of life, not to mention making the accounting profession less attractive to potential students.

The billable hour—a direct descendent of the labor theory of value—was falsified in 1871, so why has it had an uninterrupted era since at least 1919? Even though there are more firms today operating under an alternative business model, the “We sell time” theory predominates.

I believe it is because we are not simply talking about a technology change, or a business model change. Instead, we are talking about diffusing a new theory. Professions, like most of society's institutions—except business enterprise—are designed for protecting and preserving the status quo.

Consider, as evidence, germ theory—the idea that diseases are transmitted by specific germs, or microorganisms. This idea dates back to the 16th century where it was generally ignored until Jacob Henle revived it in 1840. Still, it remained on the fringes of medical science until 1865, becoming conventional wisdom by 1914. It is one the most significant ideas that bettered the human condition yet it took 75 years to be widely accepted.

A Radical Idea

I've been on a similar quest since 1990: To bury the billable hour and timesheets across all professional firms. Why? Because the billable hour has nothing to do with what customers buy, as it measures efforts and activities, not outcomes. Since there are only so many hours in any one person's life, it is an artificial ceiling on the income potential of our profession.

As for timesheets, who became a CPA to bill the most hours and become a galley slave

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within the accounting profession?

Obstacles to Diffusion

DNA. The accounting profession learned the billable hour from the legal profession in 1919, long enough to become part of the molecular structure of every CPA. When I entered the profession in 1984 I was told “You sell time” and it took me over five years to challenge this assertion. How can we sell something the customer doesn't buy?

Metrics. Peruse any Management of an Accounting Practice (MAP) survey, read any trade journal, attend any seminar, listen to almost any consultant, or read any book on the profession, and you will find metrics related to billable hours, realization and utilization rates, revenue per hour, etc., ad nauseam. It's the wrong device to measure value, similar to plunging a ruler into an oven to determine its temperature.

No burning platform. Accountants aren't starving, and they certainly are not being threatened by any significant existential threats, at least in the short run. Indeed, the more complicated the tax code and regulations become, the more accountants earn. Technology such as AI, Deep Learning, bots, blockchain, etc., is certainly a disruptive threat, but I am optimistic that the firms that change their business model will embrace these technologies and move up the value curve by focusing more on customer transformations and the relationship.

Partnership structure. Margaret Thatcher was fond of saying “Consensus is the negation of leadership.” Whenever a new idea is introduced, inevitably one (or a few) partner(s) will rise and assert, “We tried that idea during the Truman administration and it didn't work.” Then and there, the initiative dies.

Lack of leadership and vision. Embracing a new business model requires leadership

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less than, and more than it requires business and not taking — there has yet to be a book written titled *Great Moderates in History*.

Disdain of theory. Pick up any book and one of the first things you'll read is “This book is not based on ivory tower theory, but practical steps you can implement Monday morning.” Beware, you are about to learn nothing of lasting value. *All* lasting learning starts with theory. We are ruled by our theories; it keeps planes in the air, along with bridges and buildings standing; and, by the way, is the reason you price by the hour and maintain timesheets.

Truth is not determined by popular vote. Doctors used to think ulcers were caused by “stress,” but two doctors in Perth, Australia had a better theory—that ulcers were caused by bacteria in one's stomach, for which they won a Nobel price in medicine. Unfortunately, it took them approximately 20 years to diffuse this new theory into the medical profession. If a supposed scientific and evidence-based profession is this slow to change, what chance do CPAs have to move away from the discredited labor theory of value—the modern-day equivalent of bloodletting? Truth is not defined simply by voting, seniority, or popularity. You can be alone and still be right.

Consultants. This obstacle is perhaps the most disconcerting because consultants are usually the “change agents” in the population spreading new ideas. Yet, some of the most mind-numbing opposition I get is from this sect, arguably today's Luddites. Simply put, they are keeping the profession mired in the mentality that measuring efforts and activities is correlated with results and wealth creation. IBM's Watson is not being priced by the hour.

Not Final Words

For a profession to be truly innovative, it must not only do new things, it must stop

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are gradually—albeit at an accelerated pace—being eliminated in firms around the world. Good ideas and theories may be neglected, but they seldom die. My only hope is to live long enough to see it happen.

Ronald J. Baker started his CPA career in 1984 with KPMG's Private Business Advisory Services in San Francisco. Today, he is the founder of [VeraSage Institute](#) — the leading think tank dedicated to educating professionals internationally—and a radio talk-show host on the [www.VoiceAmerica.com](#) show: *The Soul of Enterprise: Business in the Knowledge Economy*.

He has been an instructor with the California CPA Education Foundation since 1995 and has authored fifteen courses, and seven best-selling books, including: *The Firm of the Future*; *Pricing on Purpose*; *Measure What Matters to Customers*; *Mind Over Matter*; *Implementing Value Pricing*; and *The Soul of Enterprise: Dialogues on Business in the Knowledge Economy*, co-authored with Ed Kless.

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