

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

**ADVISORY**

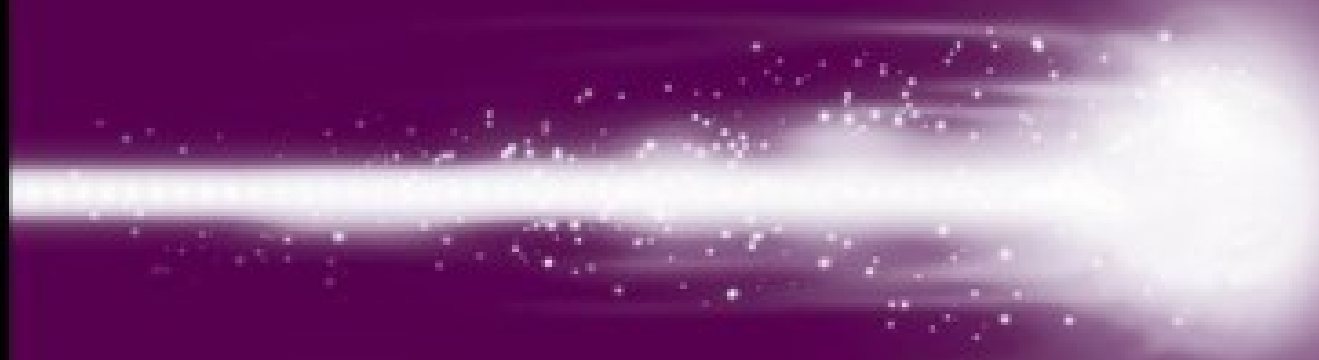
# The Diffusion of Value Pricing in the Profession

There are two theories that are killing our profession: Pricing by the hour and maintaining timesheets. They are stifling growth, wealth creation and innovation, inhibiting customer service, destroying morale and the quality of life, not to mention

...

**Ronald J. Baker, CPA** • Nov. 15, 2017

WILEY ADVISOR



# IMPLEMENTING VALUE PRICING

A Radical Business Model  
for Professional Firms



with *WEBSITE*

RONALD J. BAKER

BookMaster.p

*Each of us should realize that one possesses within oneself the formidable capacity to construct an explanatory system of the world and along with it a machine for rejecting all facts contrary to this system.*

— Jean-François Revel [1924—2006], French philosopher, author, journalist, politician, *The Flight from Truth*, 1991.

There are two theories that are killing our profession: Pricing by the hour and maintaining timesheets. They are stifling 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 on the SS Billable Hour? It is a form of degradation for a knowledge worker's efficaciousness and value to be measured in six-minute increments, making modern day accounting firms redolent of the sweatshops of yore.

There are approximately 100,000 accounting firms in the English-speaking world and approximately 7-10% of them are successfully utilizing some form of Value Pricing (quoting fixed prices up-front to the customer, utilizing Fixed Price Agreements, Change Requests, and offering a Value Guarantee). Less than five percent of firms have gotten rid of timesheets. Why haven't these ideas diffused quicker 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 and vision. It requires knowing you are doing the right things, not just doing things right. It requires focusing the firm on the external value it creates for the customer and simultaneously building the type of firm people are proud to be a part of and contribute to—the sort of organization you would want your son or daughter to work for. It requires a sense of dignity and self-respect that you are worth every penny you charge, and you will only work with customers who have integrity, whom you enjoy, and respect. It requires an attitude of experimentation, not simply doing things because that is the way it has always been done. It requires less measurement, less fear, and more trust. It requires boldness and risk-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 doing old things. It is not possible to create tomorrow unless one first gets rid of yesterday. The human body has an automatic mechanism to discharge waste but it appears the profession does not.

I remain a paranoid optimist: The death of the billable hour and timesheet may not be within *reach*, but it is certainly within *sight*. There is light at the end of our tunnel vision.

The billable hour and the timesheet are ideas from the day before yesterday, and they 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.

Advisory • Firm Management • Technology • Article • Value Pricing

CPAPA is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors.

© 2023 Firmworks, LLC. All rights reserved

