

## Going “Paperless” - The First Decision

by Tom C. Davis, CPA

There is tremendous interest in firms about moving to a paperless environment. Interest began about 5 years ago and really kicked into high gear last year. In 2005, more than 85% of the discussions I have with firms involve this topic. However, despite this tremendous interest, I get the sense that most firms will do a lot of thinking and looking, but will not make much of a move to paperless in 2005.

You have to take the first step, so let's get started. I think that there are two things that have to be done in starting the move to “paperlessness”. The first is to determine the extent that your firm currently uses paper and electronic information. Then you have to decide on the near-term direction you will travel in your journey to a paperless office.

Double Redundancy is the stage that most firms are currently in with their information. The substantial portion of a firm's information exists in both electronic and paper formats. We retain paper tax and audit files even though the same information is available via a specific tax or engagement application. Firms print emails and put them in the client folder as well as retain email information in electronic form. Invoices and reports for the firm's time and billing system are retained in paper form even though they can be easily recreated on screen as needed. The list goes on and on.

One approach to put this in perspective is to handle the paper / electronic mix analysis on a “departmental basis”. Have each practice area (Tax, A&A, Accounting Services, Financial advisory, consulting, etc.) identify the products they provide, the documents that they retain for substantiating their results and to indicate if this information is available only electronically, only in paper, or in both formats.

There are several objectives of this process. The first is to identify the products the firm sells (and their value). This information will be important as you identify which paperless opportunities to proceed with first.

You will also get a sense of the volume of paper associated with these services as well as how difficult it is to produce, review, retain and re-access different types of documents. High volume, highly difficult documents are prime candidates for the paperless engineering process.

After you have gathered this basic information, what do you do? There are 3 choices: do nothing, move to less paper, or go paperless. Unfortunately, we need to discuss the “do nothing” option first because this is the action that most firms will take.

Paperless is expensive, it involves substantial changes to processes, and it requires that some team members to learn new skills. Any one of these things has been known to kill new initiatives in accounting firms. All three in one pile is a substantial challenge. The unfortunate part of “doing nothing” in the case of moving to paperless, is that it ignores the huge opportunity cost of not making such a change. This cost is the inefficiencies inherent in a paper based system, as well as the inability to take advantage of improved client services that will come from an electronic information environment.

The “less paper” approach will appeal to the next largest group of firms. It feels methodical and prudent, and avoids any hasty move that may lead to mistakes. Many

firms will feel that this approach is needed because they have to get their infrastructure in place (buy new hardware) and to define their processes. Both of these points have validity, but there is a substantial downside risk here that is harder to see.

Much of a firm's hardware technology that is needed to move to paperless will be dictated by the paperless software tools you select. I am reluctant to have firms buy hardware today for something they will be starting to do a year or longer in the future.

There will also be problems with planning new processes and training firm members on them, while still operating with the same old software tools. Some of the most important features of paperless tools are those that enable users to do something easier, faster, etc. For example, every firm has groupware and other tools that allow you to receive an email and then save it electronically in the firm's network. It will take very little training to get team members up to speed in these features, but the number of "clicks" it will take to actually do this and the difficulty in organizing and accessing the data will be more that users will be willing to invest. So you end up planning training and beating on people with only negative results, because you do not have the tools and features that make it do-able.

Finally, you can make a complete paperless move which involves planning, spending substantial dollars for hardware and software, training, following up, and modifying the plan. All in all, an expensive, complex, and lengthy undertaking.

The good news is that there are very few failures reported by firms taking this approach. They all say that it is expensive and that the changes required are numerous and painful, but I have only found one firm that says that they failed in this process. All (except this one firm) report large, measurable improvements in efficiency, improved client service, and a better professional operating environment.

So how do you make the choice? One approach is to take the emotion out of the process: let the tax department make all the decisions of the A&A department, the A&A department make all the tax related decisions, etc. I have never had a firm do this, but it sure sounds like it would work.

Seriously, start the planning process as soon as possible. If you can stay focused for a relatively short time, you can consider all of the important points and develop a good list of expectations, issues, and options. Talk to some of your peer firms and association members that have already done this. Find a consultant with expertise in this area and leap over some of the obstacles.

Then, at a minimum, make a move to "less paper" with some of the firm's key products. As part of you plan, make this "less paper" phase as brief as possible. Be positioned to move to a fully paperless office in the spring of 2006.

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This is the first of 3 editorials on the "high level" issues that accounting firms face in making the decision to move to a paperless information environment. The next editorial will put a value on the move to a paperless office.

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