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Members in Internal Audit

September 1999

AICPA

1999 AICPA Fall National Industry Conference in Louisiana

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New for September

Beginning with the September 1999 issue of *The CPA Letter*, the Business and Industry supplement will be combined with the Finance and Accounting supplement. The combined supplement will continue with the Business and Industry title.

Mark your calendars! The **1999 AICPA Fall National Industry Conference** is being held on **Oct. 21–23, 1999** at the **New Orleans Marriott**.

The Fall National Industry Conference offers up to 20 hours of CPE credits. At this one-of-a-kind conference, we'll prepare you for your expanding role in commerce, business and finance with comprehensive, cutting-edge instruction based on specific abilities addressed in the *AICPA Competency Model for the New Finance Professional*.

You'll gain invaluable updates, inside perspective and innovative ideas from a whole new slate of top instructors, including learning guru **Bob Guns**, *The Faster Learning Organization*, e-business visionary Bill Murphy from Hewlett-Packard, Strategic Alliance specialist Dr. Michael Frenedo from Cisco Systems and Steve Goldman on Enabling the Next Generation Enterprise. Plus, there'll be plenty of time to exchange knowledge with a national selection of your peers.

Give your company the competitive edge by bringing along your colleagues for an innovative look at today's top challenges and opportunities in business and industry.

This year's hot new strategies include new ways to:

- Increase profits through effective e-business strategy
- Save yourself money with software negotiation skills
- Benefit from the European Economic & Monetary Union Update
- Make better decisions through creative problem solving
- Prevent/detect fraudulent financial reporting
- Prepare effective contingency plans for Y2K issues

- Develop superior Web-based customer service
- Enhance your communication with improved e-mail management
- Meet deadlines more easily by perfecting project management skills
- Make your company more agile to lower costs, improve quality and heighten service
- And much, much more!

Arrive a day early—October 20th—and learn even more at your choice of Pre-Conference Optional Sessions:

- **Tango: Knowledge Management Simulation Game**—Through interactive, real world simulation, learn to measure, account for and capitalize on your organization's intangible assets to help your company grow. **(9 credits)**

Measurements for Effective Decision Making—This highly interactive, intensive and fun session will introduce operating managers to Synchronous Measures that highlight problem areas and help improve decision making and performance. **(9 credits)**

Space is limited in each optional session. Reserve your place today!

And while in New Orleans, don't forget to sample the swinging jazz, distinctively spicy cuisine and charming architectural sights this world-famous town is known for.

The registration fee for the AICPA Fall National Industry Conference is \$745 and \$295 for the add-on sessions. Earlybird, group and combination discounts are available. For a brochure and more information on the conference and registration, contact the Member Satisfaction Center.



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Total Quality Management (TQM) Significantly Boosts Bottom-line

By Dr. Vinod R. Singhal, Associate Professor, DuPree College of Management Georgia Institute of Technology

One of the hottest business paradigms of the last two decades, Total Quality Management (TQM), has recently come under fire. *Wall Street Journal* raised the issue "Is Total Quality Management (TQM) yesterday's news or does it still shine?", *The Washington Post* wrote about "Total Quality Management", *The Economist* talked about "The Cracks in Quality", *USA Today* posed the question "Is TQM Dead?" and a *Business Week* article proclaimed that "TQM is as dead as a pet rock".

Despite this criticism of TQM, don't be too quick to write any epitaphs yet. Kevin Hendricks, Associate Professor at the College of William and Mary, and I have conducted an extensive study on the financial performance of companies practicing TQM. Our key finding is that although TQM is not a quick fix, it does pay off significantly. For example, the stock price of companies with effective TQM implementation outperformed the S&P 500 Index by about 34% over a five-year period.

We began our study after being intrigued by a newspaper article that profiled a company for winning a prestigious TQM award. That same day the Dow Jones Index fell substantially, but the stock of the profiled company rose. Could the company's TQM program be a significant factor in the strength of its stock? This motivated us to launch a study to measure the long-term effects of TQM on financial performance.

We took a different approach in our quest for empirical evidence. Little statistical evidence existed regarding TQM's impact on financial performance. Most studies were anecdotal in nature, with information derived internally from managers giving their opinion on TQM's results. In contrast, we based our study on objective data from a group of 600 publicly traded companies with a common denominator: all had won awards for effective implementation of TQM.

To adjust for any impact the general economy or health of a particular industry might have had, benchmarks were constructed that were similar to award winners in terms of size and industry. Both groups were tracked over a five-year pre-award and a five-year post-award period. No differences were noted in the pre-award period, but considerable differences showed up in the post-award period.

Figure 1 shows that award winners' stock price performance was significantly better than the various benchmark portfolios. In the post-award period, the stock price of winners increased by an

average of 114% compared to an 80% return from investing in S&P 500 Index. The difference of 34% translates into an average market value creation of an extra \$669 million—good work by any standard. Award winners also outperformed all firms traded on the New York, American, and NASDAQ stock exchanges by 38%; firms in the same industry by 26%; and firms of similar size by 34%.

Figure 2 depicts the performance of award winners and benchmarks on accounting based performance measures. In the post-award period, operating income for award winners increased by an average of 91% compared to 43% increase for the benchmark firms. The difference of 48% is an economically significant level of outperformance. Award winners also experienced

higher growth as compared to the benchmark firms. Winners improved sales by 69% (compared to 32% for the benchmarks), improved total assets by 79% (compared to 37% for the benchmarks), and increased the number of employees by 23% (compared to 7% for the benchmarks). Winners also showed higher improvement in efficiency measures. The return on sales improved by 8% compared to no improvement for the benchmarks, and the return on assets improved by 9% compared to

Figure 1

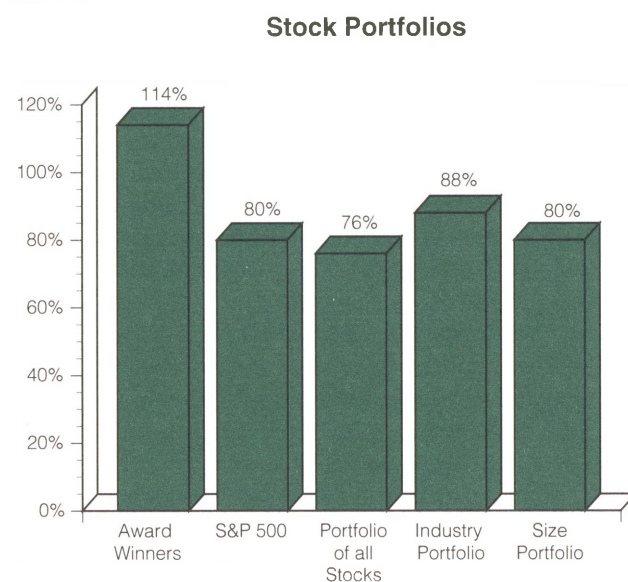


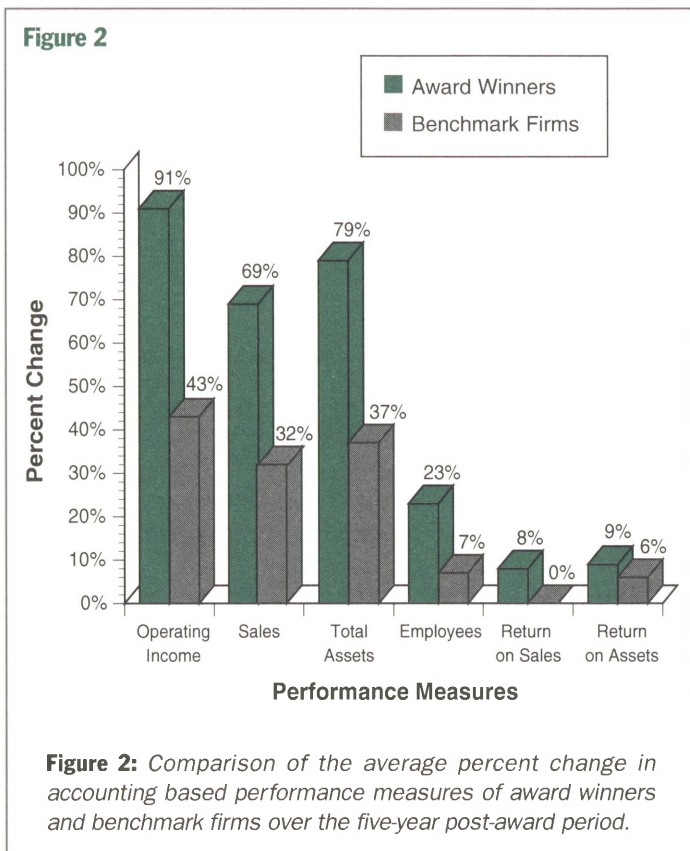
Figure 1: Comparison of the average percent change in stock price performance of award winners and various benchmark portfolios over the five-year post-award period.

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6% for the benchmarks. These results clearly indicate that TQM does improve profitability, leads to higher growth, and improves efficiency.

In contrast to the anecdotal and perceptual evidence that have been used by many experts to pass judgment on whether TQM is valuable or not, our study provides a more factual, objective, and statistically valid assessment on the impact of TQM on financial performance. The message is clear and simple. When TQM is implemented effectively, financial performance improves dramatically. The criticism that TQM has produced lackluster economic gains is unwarranted. The proclamation that TQM is dead is premature.

Our results should be reassuring to companies that have made significant investments in TQM. For companies that were consid-

ering disbanding their TQM, these results should cause them to rethink their decision. It should also provide encouragement to companies that have contemplated about adopting TQM but have been discouraged by the controversy about its potential pay off.

Our results support what many quality gurus have said repeatedly. Companies that want to adopt TQM must have patience. Our results show that even after effective implementation, it can still take a couple of years before financial performance starts to improve. Managers that embrace TQM for quick gains are likely to be disappointed. To get the benefits from TQM, one must be patient. It improves performance in the long haul.

Managers must be realistic about what to expect from TQM. Keep in mind that TQM is a philosophy for developing a management system. A management system based on TQM can only improve the probability of making the right decisions, it cannot guarantee that all decisions will be right.

To get more information about this research, contact Dr. Vinod Singhal at:

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Dr. Vinod Singhal, B.E., MBA, Ph.D., is an Associate Professor of Operations Management at the DuPree College of Management at Georgia Tech. His teaching and research interests include operations strategy, total quality management, measuring performance in high technology companies, justification of new technologies, and designing activity-based costing systems. He has published extensively, and is a frequent presenter at various conferences. He was recently selected to serve on the Board of Examiners for the Baldrige Award.

Continuous Personal Improvement and the CEFM Competency Model

By Kevin A. Michel, CPA, Ed.D., Academic Director, Accounting, University of Maryland, University College

Continuous Personal Improvement (CPI) is very closely aligned with the number one core value identified by the accounting profession in the vision process, continuing education and life-long learning. In addition, CPI recognizes that the learning must be put to use as a practice or behavior to derive the maximum benefit for the individual. For example, knowing how to keep up with changes in your field of work is not enough. You need to practice behaviors

that demonstrate your up-to-date knowledge in order to achieve recognition. CPI is not an option but an imperative in an ever-changing world, where improvement is required just to keep up.

The process of CPI is a strategic one. It involves: designing your future; assessing yourself for improvement; using learning and research activities as your personal "R&D department", and building a personal "Balanced Score Card" to track your progress.

continued on page E4

continued from page E3—**Continuous Personal Improvement**

A great way to get started on the process is to use the CEFM Competency Assessment Tool (CAT). It provides you with a step-by-step approach to determining your needs in the context of where you want to be, suggesting activities for meeting those needs, and tracking your progress. The CAT has the advantage of working systematically. On the other hand it is flexible, so you can adapt it to your specific situation. The CAT is available on the web at <http://www.cpatoolbox.org>.

Another way to work on your CPI is to become a “Faster Learner”. In “The Faster Learning Organization”, author and con-

sultant Bob Guns addresses the key element in sustaining competitive advantage—faster learning—which he defines as “the process of figuring out more quickly than the competition what works better.” The Fall Industry Conference (October 1999) will include a general session by Bob Guns, an author, consultant, and speaker on individual and organizational learning techniques. He will offer specific advice on how to accelerate and leverage the learning process.

It is essential that CPAs embrace the components of continuous personal improvement within their companies today so that they are able to achieve their goals.

Third Annual International Congress on Target Costing

The Consortium for Advanced Manufacturing-International (CAM-I) presents its **Third Annual International Congress on Target Costing** which will be held from **October 4–6, 1999** at the **Sheraton Hotel in Cleveland, OH**.

Target costing is a powerful strategic weapon that Japanese companies have used for nearly 30 years. In contrast, relatively few U.S. companies have used this effective methodology for any length of time—until now. Due to increasingly competitive market pressures, U.S. companies are demanding to learn more about this powerful methodology that has proven to be an effective tool for reducing costs while also greatly increasing customer value.

This is your opportunity to learn from leading-edge case studies, interactive all-day workshops, high-level networking and the most up-to-date research findings. Join your peers in Cleveland as experienced U.S. company practitioners and leading researchers gather to share with you the key lessons learned, obstacles to over-

come and world-class best practices that will ensure the success of your organization’s target costing initiatives.

Key topics offered at this conference are:

- Results of Target Costing Best Practices Study
- Creating Organizational Readiness for Target Costing
- The CAM-I Target Costing Diagnostic Tool: Is Target Costing for You?
- Managing the Decision-Making Behavior During Target Costing Activities
- Managing Company Results Through Projects: The Changing Environment
- Value Engineering and the Value Methodology

For more information, please call Pete Zampino, Director of Conferences, CAM-I at 817/860-1654 or e-mail pzampino@cam-i.org.

Correction

In the May 1999 issue, “Target Costing Best Practices Report” article, the formula to determine the target cost was incorrectly noted.

The correct formula is: $\text{Market price} - \text{profit margin} = \text{target cost}$. We apologize for any confusion this may have caused.