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## Members in Internal Audit, October 2000

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# Internal Audit

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Published for AICPA members in internal audit. Opinions expressed in this *CPA Letter* supplement do not necessarily reflect policy of the AICPA.

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## ARTICLES

- [AICPA's Business and Industry Executive Committee Appoints New Chair](#)
- [Online Corporate Governance Seminar](#)
- [2000 AICPA National Business Valuation Conference](#)
- [Measuring Customer Satisfaction](#)

## AICPA's Business and Industry Executive Committee Appoints New Chair

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The AICPA's Business and Industry Executive Committee (BIEC) is pleased to announce the appointment of their new Chair, Gary Lubin. He is employed by Merck-Medco as the Vice President, e-Business. Lubin heads up this new department responsible for the client Internet channel and the Company's enterprise-wide customer relationship management application activities, including the related business strategy, systems design and operational execution. In his previous position at Merck-Medco as Vice President, Sales—Planning and Operations, he was the architect of the current sales systems including the department's Web site and prospect database. While at Merck headquarters, Lubin led the reengineering and redesign of the company's core financial process.

In his role as BIEC chair, Lubin will provide leadership in representing the perspective of AICPA members in business & industry with regard to the new initiatives—the cpa2biz portal and the proposed new Cognitor designation. Additionally, he will guide the BIEC in the recommendation of new conferences, publications, continuing education programs, and research projects directed at expanding "The New Finance" body of knowledge.

Contact him by sending an e-mail to [Gary\\_lubin@merck.com](mailto:Gary_lubin@merck.com).

## Online Corporate Governance Seminar

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As noted in the September issue of *The CPA Letter*, an online seminar series is being offered by law.com through the AICPA. The Web-based program will start on Nov. 6 and run through Nov. 17. The theme of the seminar is "Implementing Good Corporate Governance" and it will offer presentations on the following topics:

- Investor relations and the corporate secretary, focusing on how to improve communication with investors and using technology to communicate.
- Protecting a deal—recent developments in Delaware law.
- SEC merger and acquisition rules re-garding communication and selective disclosure.
- SEC proposed rules regarding insider trading.
- Managing corporate earnings, including communicaiton between the company and analysts and dealing with extended trading hours.
- High technology "dot-com" boards.
- Proxy voting over the Internet.
- Issues facing boards, including diversity and director and executive compensation.

Recommended CPE credit is 3 hours. For more information or to register, visit [www.law.com](http://www.law.com) and mention AICPA.

aluation Conference

2000 AICPA National Business Valuation Conference

## 2000 AICPA National Business Valuation Conference

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The 2000 AICPA National Business Valuation Conference is being held from November 12–14, 2000, at the Loews Miami Beach Hotel in South Beach, Miami Beach, Fla. It offers you a timely opportunity to feast on the newest trends and theories. An extraordinary selection of stellar speakers—the real "movers and shakers" of the profession—deliver three days of information-filled sessions, panels, roundtables and workshops. They help you to develop the quantitative and analytical skills you need to confidently enter this field—or greatly increase the quantity and improve the quality of the business valuation services you currently offer.

You will get all of the technical and practical guidance you need to efficiently, effectively and objectively get to the proper value in all kinds of business valuation situations, such as mergers and acquisitions, income, gift or estate tax, buy-sell agreements, C-to-S corporation conversions, incentive stock option considerations and, of course, the seemingly most popular scenario in today's marketplace—initial public offerings (IPOs).

Enhance the skill sets needed for CPAs to successfully handle BV engagements by developing your abilities to:

- Function well under intense pressure and remain unfazed by ambiguity and uncertainty
- Communicate simply, coherently and judiciously—both orally and in writing
- Integrate quantitative as well as qualitative data, such as industry and market trends, economic forecasts and others
- Market yourself effectively—and continuously—to colleagues and other professionals in various ventures and industries

One of the hottest vacation destinations in the world, Miami Beach is simply the place to be. While in town for the conference, save some time to relax on the sun-kissed beaches or romp in the delightfully warm surf. Stroll under the stars through the famous Art Deco District or down the open-air Lincoln Road Mall. Just drench yourself in the tropical sights and sounds of this exciting international city. The weather is absolutely splendid in November; the restaurants and clubs are stupendous; the tourist attractions are endless; and the shopping venues are divine.

Register by October 12 and save \$25. ABV designees can save an additional \$100. For more information or a conference brochure, call 888/777-7077.

## Measuring Customer Satisfaction

### Measuring Customer Satisfaction

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By Warren D. Miller, MBA, CPAABV, CMA, Beckmill Research, Lexington, Va.

This series has emphasized the importance of measuring customer satisfaction. Readers have asked for a 'how-to' column on the subject. But first a story from our firm's practice.

Several years ago a friend of ours referred a company to us. It was run by the former managing partner of a then-Big 6 firm's office. Our friend was sure the company could use our services. We requested some information from the company and made an appointment to see the CEO.

We had noted that the company's mission statement was emphatic in its commitment to 'customer satisfaction.' So, after the perfunctory 'shake-and-howdy' (that's what they call it in the Southwest), I said to the CEO, "Your company's mission statement is pretty keen on customer satisfaction. How do you measure that?"

"We talk to our customers," he replied.

"Maybe I just don't understand how things work," I said, "but what does talking to customers have to do with measuring their satisfaction?"

"If we talk to 'em, measuring is a waste of time."

"I don't think so," I said. The battle lines were drawn.

Dorothy and I hung in there that Saturday. Seven long hours later, with help from the lead sales guy, the CEO finally caved and engaged us to do a statistically measurable customer satisfaction survey. The results: Of the company's seven-point sales pitch, customers only cared about two. (So much for talking without measuring.) The CEO told his sales folks to pitch those two points, and nothing else. Sales doubled in 90 days.

Customer satisfaction continues to rank in the top tier of 'Management Tools' in Bain & Co.'s annual survey. For 1999, 74% of companies surveyed said they tried to

measure it. However, only 21% of those who did described themselves as 'extremely satisfied' with the results.<sup>1</sup>

But even those who were satisfied can make as many as seven mistakes.

### Mistake #1: They think that satisfaction is the only thing to measure

Wrong. Which would you rather your company do: Satisfy customers on something they don't care about or satisfy them on something that is really important to them?

The implication is clear: For each feature of the product or service, ask (a) how important that feature is to the customer and (b) how satisfied the customer is with the company's performance on that feature.

There's a real opportunity to reduce costs and increase productivity with this double-barreled approach. Unimportant features can often be eliminated.

But there's also a chance to improve performance. That happens when a feature is really important to customers, and the company is doing a lousy job with it. You'd be surprised how often this happens.

### Mistake #2: They make the survey instrument too long and don't explain it adequately

People today are busy. They don't have time—or won't take the time—to fill out a long questionnaire. That's one reason the Census gets not-great results. A well-done survey should be short, simple, and unambiguous. It should take no more than one side of an 8 1/2"x11" sheet of paper. If it's longer than that it's too complicated.

We ask the company president to prepare a personalized letter to each customer on the corporate letterhead over her/his signature. The survey itself is on a separate sheet of paper and a postage-paid envelope addressed to Beckmill Research is enclosed. The CEO's letter asks the customer to participate in the survey, offers a prize for doing so, requests total candor, guarantees complete confidentiality, and notes that the survey should be returned directly to us rather than to the company.

That's because customers won't pull punches with us that they would pull with the company. They don't want to hurt anyone's feelings, nor do they want to risk repercussions for offending someone.

### Mistake #3: They don't test the survey on a small group of customers before sending it out

This one never ceases to amaze us. Even experienced market research professionals often make this mistake. Most companies don't know any better so they allow the

survey to proceed without adequate testing. The results are usually lousy and no one understands why.

The fact is, most of your customers want to help make your product or service better. That's why those who have valid complaints should be included in the test group. Invite them over on a Saturday or line them up for a conference call that day. Phones aren't ringing and employees aren't around. Fax the draft of the survey and the CEO's cover letter out to them a few days ahead of time; faxes convey urgency. Have the group, which should number no more than eight or ten, over about mid-morning, and plan on feeding them on premises--after they've done their work. Call out for burgers or pizza. Or both.

The idea of testing is (a) to confirm that the CEO's letter is easy to understand, (b) to ascertain that the 'prize' is something that customers value (change it if it's not), and (c) to test the wording on the survey itself. The latter is especially critical. It's important to find out whether the words have the same meaning to the group of customers as they do to those administering the survey. Quite often they do not. Keep testing the wording until the customers are in agreement. This entire meeting shouldn't take more than a couple of hours.

#### Mistake #4: The numeric scale for the responses is too wide

The most common mistake here is to number the scale from 1 to 10. The ease with which that scale can be converted to percentages is seductive. And wrong.

Aside from the deficiency of not having an obvious mid-point ( $5\frac{1}{2}$  isn't exactly clear), the scale is simply too wide. Make sure yours has an odd number of response points. In our experience, 9 is too many, and 5 is too few. Seven seems to work best. It's wide enough, yet narrow enough, for respondents to deal with. And it has a clear mid-point (4).

Be sure to label which end of the scale is 'least important'/'most important' (or 'performs poorly'/'performs well'). We find that 'least' and 'poorly' are more easily associated with the low end of the scale, while 'most' and 'well' work better at the high end.

#### Mistake #5: They forget to ask the customer how satisfied s/he is overall

They believe that the overall level of satisfaction is simply the mean of the 'performs' scale. Not true.

A well-designed survey should be able to be analyzed using either multiple regression or factor-analytic techniques. The choice there depends on survey design. But either way, there has to be a dependent variable; that is, a measurable variable whose value depends on other attributes or features (called independent variables). Without the dependent variable, you can't tell which of the independent variables are

the most significant in influencing changes in the dependent one (overall customer satisfaction).

**Mistake #6: They fail to ask any open-ended questions where the customer can suggest ways for the company to improve satisfaction**

Believe it or not, the hard numbers of statistics are enriched by anecdote. Even in a large survey, the open-ended responses can be grouped, then quoted. The nature of the responses will determine the nature of the classifications. Comments of a similar nature can also be tallied. Frequency of mention in open-ended questions often uncovers opportunities for differentiation and higher levels of customer satisfaction.

**Mistake #7: Participants don't see any difference in what the company does and don't hear from the company about the results of the survey**

Folks who have taken the time to try to help you like to know that they've been listened to. Therefore, a follow-up letter from the CEO describing the results of the survey is a good idea.

But be careful here. Don't give away any proprietary secrets. For instance, in the example I gave at the beginning of this article, it would be acceptable to say, "As a result of your responses and insightful observations, we are simplifying our selling message. I guess we just get carried away trying to sell our wonderful products!" No need to go beyond that. Competitors will be watching and reading.

### Closing Words

Customer satisfaction is like the weather: Everyone talks about it, but no one really does anything about it. Unlike the weather, customer satisfaction is something companies really can do something about. But the process must be carefully thought out, the survey must be both brief and pre-tested, the scale must measure both importance to the customer and how well the companies performs, the breadth of the scale must not be too wide or too narrow, the responses must be statistically measurable, there should be some open-ended questions, and participants should get some feedback about how they helped the company.

Companies that correctly measure satisfaction are few and far between. Make sure yours is one of them. It will give you a leg up on your competitors.

Warren Miller, MBA, CPA-ABV, CMA, is the co-founder of Beckmill Research, Lexington, Va. He is a former CFO and strategy academic. He welcomes questions and suggestions for topics for future columns. Please forward those to him via e-mail at [wmiller@beckmill.com](mailto:wmiller@beckmill.com) or 540/463-6200.

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<sup>1</sup>See "Selecting and Using Management Tools," CPA Consultant, May/June 2000, pp. 5-6.