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Members in Finance and Accounting

January/February 1997

AICPA

AICPA Creates New Center for Excellence In Financial Management

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In a major expansion beyond its traditional role as the national professional association for CPAs in the practice of public accounting, the AICPA has established the *Center for Excellence in Financial Management*. The move reflects the growth of CPAs working in business and industry, currently numbering 139,000 who are members of the AICPA, and many more outside the AICPA's membership.

AICPA president and CEO Barry C. Melancon said, "By establishing a center to serve as a clearinghouse for AICPA members to obtain state-of-the-art and timely information and training on cutting-edge subjects, we are filling an important void. Moreover, we are helping our members enhance their professional standing and economic potential through adding value for their companies and clients in the 21st century.

The *Center for Excellence in Financial Management* will serve as the focal point for the marshaling of programs, products and services, internal resources and external partnerships. The Center's objective is to help CPAs retool and develop new skills to meet the demands of their expanding role as strategic business partners and advisors.

"Rapid changes in the business environment, driven by major advances in information technology, have revolutionized the role of finance professionals," explained John Shank, CPA, Ph.D., former chair of the AICPA's Management Accounting Executive Committee and the Noble Foundation Professor of Management Accounting at the Amos Tuck School of Business Administration at Dartmouth College in Hanover, N.H. "There is an acute and growing demand for CPAs to provide strategic decision-support information

as a crucial competitive weapon."

The Center will develop strategic liaisons with other accounting and business management associations to capitalize on overall available expertise. The collective package of offerings and activities through the Center will include professional education, research, benchmarking, publications and an information clearinghouse.

Professional education will provide programs including executive education, in-firm presentations, group and self-study courses, conferences, CD-ROM products, computer-based training and more. The education content will focus on the subject matter of "The New Finance," a term created by the AICPA's Management Accounting Executive Committee, now known as the Business & Industry Executive Committee, describing the revolutionary changes that have taken place globally in financial management in the last decade and the expanded roles and responsibilities of CPAs in business and industry. "The New Finance" encompasses subject matter such as shareholder value creation, capacity management, competitive intelligence, just-in-time production systems, value chain analysis and more.

The Center also intends to establish working relationships with one or more universities to foster cooperative research, develop executive-level education programs, design and produce ongoing seminars and workshops relating to "The New Finance."

Research services will be provided through partnerships with other thought-leading organizations such as the Consortium for Advanced Manufacturing-International and the Society of

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Management Accountants of Canada. The Center will also provide case study grants to document the application of 21st century business and financial management knowledge in companies of all sizes.

Information on business and industry will be made available through the AICPA library, AICPA Online and its hyperlinks, Accountants Forum on CompuServe, online chats and conferences, the AICPA tech-

nical hotline, and AICPA/strategic partner research programs.

Though the Center's offerings and activities are primarily targeted at CPAs in business and industry, CPAs in public practice, who must often wear many hats for their clients, including accounting manager, controller and chief financial officer, will also benefit from this initiative.

"CPAs in public practice must develop

new opportunities and capabilities to serve their clients by providing value at a strategic level and focusing on the future, not the past," said Melancon. "The Center is the appropriate forum for these members to turn to for the skills and tools necessary to remain profitable and competitive."



AICPA Web Site:

<http://www.aicpa.org/CEFM>

AICPA Financial Management Symposium Leading Change in the 21st Century Global Economy

Mar. 19, 1997

Sheraton New York Hotel and Towers, New York, NY
Recommended CPE Credit: 8 hours

The Premier Symposium for Senior Financial Managers

Change...Leadership...Employee

Empowerment...Creation of Stakeholder Value...Global Focus

Dealing with each of these issues is critical to the structure and management of today's successful organizations. Increasing performance of both the employee and the company as a whole through the use of technology and new management tools continues to be a strategic objective of effective and efficient corporations. The only thing we can count on to stay constant is change.

How will you and your organization cope with the rapidly changing world in order to be a leader among your competitors? Our day long symposium is designed to address the specific challenges facing you as a senior financial executive. Whether you represent the diversity of a *Fortune* 500 or the uniqueness of a closely held business, we believe you will benefit from the program.

David Hanna, consultant with the Covey Leadership Center, one of the world's premier leadership development authorities, will discuss building stakeholder value through personal, interpersonal, managerial and organizational principles.

Tom Freeman, program director of the cost management section of the Consortium for Advanced Manufacturing-International (CAM-I), will provide insight into the emerging techniques of cost management. CAM-I is an organization devoted to performing and sharing leading-edge research on topics vital to business and industry such as activity based-management, target costing

and capacity management.

To finish off the day, Robert Heisterberg, senior vice president, Alliance Capital Management will discuss the global integration of product and capital markets and the challenges of constructing a profitable portfolio.

You as a leader face the challenge of creating a cohesive, successful organization. We believe this financial management symposium will provide you the necessary tools and guidance to help your company reach its optimum performance level for the year 2000 and beyond. To receive a brochure, please call the AICPA Meetings and Travel Services Department at

201/938-3232 or Jodi Ryan, Technical Manager-Industry and Management Accounting Team, at 212/596-6105.

conferences

How to Obtain Other Supplements

There are seven other supplements customized for readers in different segments of the profession. All of the supplements are available on the Institute's Web site (www.aicpa.org). To obtain other Jan. supplements—or any of the first set of supplements published in Nov., dial the Institute's faxback system at 201/938-3787 from a fax machine and key in these numbers at the prompt:

Jan. issue

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Medium Firms: 1559
Small Firms: 1560
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Internal Auditors: 1563
Government: 1564
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Practice Alert: 1566

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Developing Comprehensive Performance Indicators

Companies today face the three-C challenge: to succeed they must satisfy their customers, outpace their competitors, and be quick to adapt to change. To do so, many businesses are thinking horizontally, not vertically, emphasizing cross-functional teams and introducing new management techniques. But often their performance measurement systems have not been sufficiently redesigned to meet the needs of the environment, future needs in addition to past ones, and external relationships and events in addition to internal activities.

Developing Comprehensive Performance Indicators, published by The Society of Management Accountants of Canada, introduces a framework for performance indicators. The framework reflects the customer-oriented, highly competitive, rapidly changing environment faced by many businesses, and describes the series of steps needed to implement a comprehensive performance indicator system. The concepts and techniques should be useful to all levels of management at businesses that produce and sell a product or service.

Objectives of Performance Indicators

Performance indicators should be an up-to-date reflection of the firm's overall goals, business strategies, and specific objectives (e.g., market penetration, customer satisfaction, quality, speed, flexibility new product development, internal efficiencies, low cost, employee morale, and good corporate citizenship).

While developing new performance indicators, firms should keep in mind the following:

- Make strategic objectives clear, in order to focus and bring together the total organization.
- Look for core processes (i.e., those that are central to the firm's overall success).
- Focus on critical success variables, keeping in mind that these may change over time.
- Signal where performance is headed by keeping track of progress and potential problems.
- Identify which critical factors warrant attention.
- Use the indicators as a basis for reward.

A Framework for Performance Indicators

What many companies need is a performance indicator system that focuses externally on the business environment and its changing demands, on market/customers and competitors, and internally on key non-financial indicators (such as market penetration, customer satisfaction, quality, delivery, flexibility, and value) as well as more typical financial measures (such as sales growth, profits, return on investment, and cash flows).

Performance indicators may be thought of as having five basic dimensions: output or results information, input information, process information, quality assessment, and efficiency or productivity information.

Categories of Performance Indicators

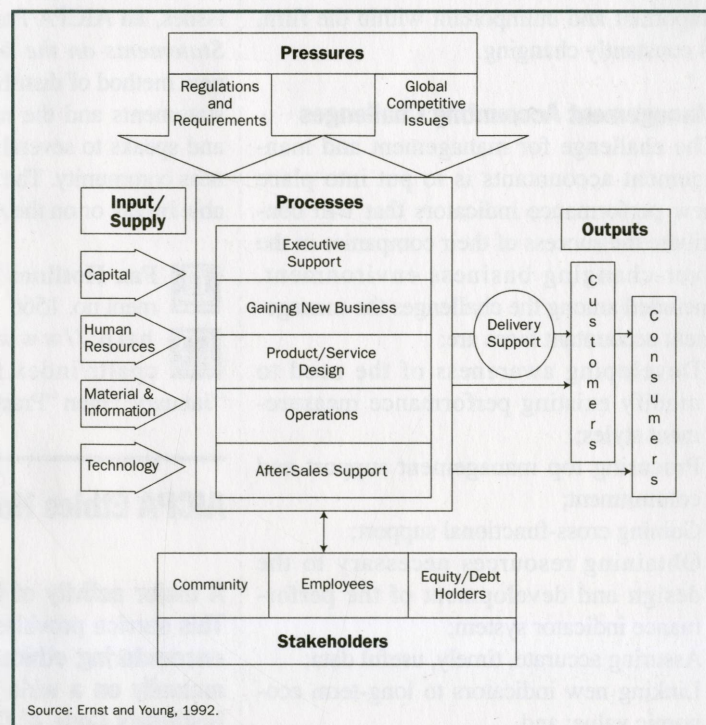
Performance indicators will vary according to the firm's needs, but will likely include: environmental, market/customer, competitor, internal business processes, human resources, and financial indicators.

Implementing Performance Indicators

The process of implementing new performance indicators so that they become a major underpinning of the business' infrastructure is a significant opportunity and challenge. Effective implementation requires the following steps:

1. Recognize the need for enhanced performance indicators by identifying new critical success factors (e.g., changes in customer behavior patterns, etc.).
2. Ensure top management support and commitment by underlining the need for change. Involve them in steering committees to oversee the development and refinement of the new system.
3. Create an implementation team that can develop a common understanding of the company's goals, strategies, and objectives; identify obstacles to implementation; and structure the approach. Input from all functions and levels of the firm, as well as customer input, is helpful.
4. Develop a business performance model that can put the goals, strategies, objectives, critical success factors and performance indicators into context by viewing the firm as one stage in a value chain process of suppliers, the company, and markets and customers. For an example, see the process model below.
5. Understand the goals and strategies of the business by subdividing them into issues of the environment, markets and customers, products and lines, technology, operations, finance, and

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Process Model of the Firm

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organization and management.

6. Define the critical success factors that will have the most impact on the firm's success.

7. Assess the current performance measurement system in terms of the current needs, the business model, and the company's goals, strategies and critical success factors.

8. Determine which measures should be eliminated. Are there any redundant or overlapping measures which do not support the current critical success factors?

9. Develop the performance indicator architecture. Consult with different levels of management to determine what needs to be tracked, how the information will be used, tracking frequency, and finally how the information should be tracked.

10. Establish the underlying technology (software, hardware and telecommunications) necessary for the performance indicator system. Consider what is to be provided, the degree of detail, frequency, the amount of data manipulation and its source.

11. Reevaluate performance evaluation and the reward system to ensure that it is consistent with the new performance indicator system.

12. Ensure continual improvement by updating the system, keeping in mind that the external environment, and what is important and unimportant within the firm, is constantly changing.

Management Accounting Challenges

The challenge for management and management accountants is to put into place new performance indicators that will contribute the success of their companies in the ever-changing business environment. Included among the challenges the management accountant faces are:

- Developing awareness of the need to modify existing performance measurement styles;
- Procuring top management support and commitment;
- Gaining cross-functional support;
- Obtaining resources necessary to the design and development of the performance indicator system;
- Assuring accurate, timely, useful data;
- Linking new indicators to long-term economic value; and
- Assessing the new system's effects.

Developing Comprehensive Performance Indicators is published by The Society of Management Accountants of Canada as Management Accounting Guideline #31. It is available individually from the AICPA (No. 028932CLB1) or as part of *The New Finance: A Handbook of Business Management* (No. 028900CLB1).



800/862-4272

Practice Alert Regarding Financial Statements on the Internet Published

Companies are making their annual audited financial statements, the related auditor's reports and other information available on the Internet. Web sites often include more financial and nonfinancial data than is given in the printed report, such as audio and video clips, current news releases, and hyperlinks to other Web sites. These presentations may create associations with other information that were not intended.

Questions abound regarding the opportunities and issues surrounding this distribution medium for the user, preparer, and attest community. To address some of these issues, an AICPA Practice Alert, *Financial Statements on the Internet*, describes the new method of distributing audited financial statements and the related auditor's report and speaks to several concerns for the business community. The Practice Alert is available by fax or on the AICPA's home page.



Fax Hotline: 201/938-3787, document no. 1566



<http://www.aicpa.org/pubs/cpaltr/index.htm>; then select "January"; then "Practice Alert"

CPA Letter Supplements Update

In November, the AICPA launched supplements to the CPA letter customized for the different member segments. We have received a lot of positive feedback about this initiative, and we want to thank members for letting us know their opinions and reactions. Continue to share your ideas with us so that we can make this supplement for members in finance & accounting a truly useful and responsive business tool.

We also want to encourage members to suggest article topics or volunteer to write bylined articles for the supplements. Articles might cover solutions to common practice problems, business process reengineering success stories, innovative use of technology or any other issues important to members in finance & accounting. Forward your ideas to Hadassah Baum, the editor of this supplement (see the contact information on page E2.).

Also, some of you have contacted us regarding which of the supplements you are receiving. Supplements are sent to each individual member according to his or her demographic profile in the AICPA membership records data base. If that information is incorrect, contact membership records at AICPA, Harborside Financial Center, 201 Plaza III, Jersey City, New Jersey 07311-3881; Attention: Membership Records. The membership records team also can be contacted by fax, e-mail or phone.



201/938-3108



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In addition, anyone can obtain a different supplement through the fax hotline or the AICPA Web site (see page E2).

AICPA Ethics Hotline Helps Members in Finance & Accounting

A major activity of the AICPA's Division of Professional Ethics is the Ethics Hotline. This service provides valuable information and an ethics sounding board to members encountering ethics problems. The ethics division staff respond to 7,000 inquiries annually on a wide range of issues including the behavioral standards rules of the Institute's Code of Conduct and the full spectrum of accounting and auditing issues. Over 7,000 calls are received annually and the ethics code rules apply to all AICPA members. If you face an ethical dilemma, contact the hotline toll free 800/862-4272.