11-1996

Members in Finance and Accounting, November 1996

American Institute of Certified Public Accountants (AICPA)

Members in Finance and Accounting

November 1996

AICPA

American Institute Of Certified Public Accountants

New *CPA Letter* Supplement Customized for Members in Finance and Accounting

Highlights

E2
Finance Today—Doing More With Less, But Still Transaction Oriented

E2
How to Obtain Other Supplements

E3
Becoming ISO 9000 Registered

This month *The CPA Letter* introduces a major change in its format designed to better serve members. As AICPA members already know, during the last year Institute President & CEO Barry Melancon has implemented a reorganization of the AICPA to create a more responsive organization that is better able to anticipate and meet members' needs. That has meant challenging the Institute staff at all levels to learn more about what members do and how the Institute can help members increase their value to their company. As part of that effort, the AICPA has created member segment teams, one of which will be introduced below.

In addition, we have divided *The CPA Letter* readership into member segments based on job function or firm size and created specialized supplements for each group that will deliver information tailored just for those members. That means readers will receive more sharply focused updates on what's going on in the profession and how it affects them.

news update

Your new supplement will arrive up to seven times a year as part of *The CPA Letter*, and will feature news, information and articles by recognized experts in your field. The new supplements also will offer opportunities to share information across membership groups and enable members to talk to each other about issues, concerns and opportunities. In addition, the Institute staff can use the supplements to communicate with members in areas outside their own.

Your feedback, ideas and suggestions are welcomed.

Hadassah Baum
212/596-6019

hbaum@aicpa.org

New Cross-Functional Team Focuses on CPAs in Business and Industry

The AICPA has established cross-functional staff teams to focus their attention on specific member segments. One such team, the Business and Industry Member Segment Team, focuses on the needs of CPAs in business and industry, the AICPA's largest single member segment.

The team's mission is to attract and retain those CPAs as members of the Institute by serving as their advocate in the ongoing assessment and development of timely, relevant programs, products and services. The BIMST works very closely with the day-to-day Industry and Management Accounting Team and the Business & Industry Executive Committee.

The team represents approximately 140,000 members employed in companies ranging from the *Fortune 500* to local family businesses. These CPAs fill many important roles within their organizations. Because of the diversity of this group, the BIMST team has a challenging job on its hands.

The team also participates in the process of identifying and evaluating opportunities for the AICPA to provide educational programs, conferences, publications, and technology-based products and services relevant to the work of CPAs in business and industry. Very

continued on page E2

recently, members of the group looked at software that might be relevant to financial managers, reviewed the most common job functions held by business and industry CPAs, began to monitor all publications relevant to its constituency and participated in the Institute's proactive plans to support industry CPAs, including the Center for Excellence in Financial Management.

The BIMST assisted in the development and results analysis phases of the recently conducted business and industry member needs survey. In addition, team members are conducting in-depth interviews with business and industry members. These face-to-face meetings provide the team and the Institute with a wealth of information as well as a real-world connection to the members in their own environment.

If you have any ideas, suggestions or comments, or are interested in having a team member visit or call, contact the team by addressing a letter or fax to: Jodi Ryan, Business and Industry Member Segment Team, AICPA, 1211 Avenue of the Americas, New York, NY 10036–8775.

fax: 212/596–6025

How to Obtain Other Supplements

The CPA Letter this month is also launching supplements customized for members in public accounting, government and education. All supplements are available on the Accountants Forum on CompuServe and on the Institute's Web site (www.aicpa.org). They also can be obtained via the AICPA Fax Hotline (dial 201/938–3787 from a fax machine and select the document number).

Large Firms	1550
Mid-sized Firms	1551
Small Firms	1552
Government	1556
Education	1557

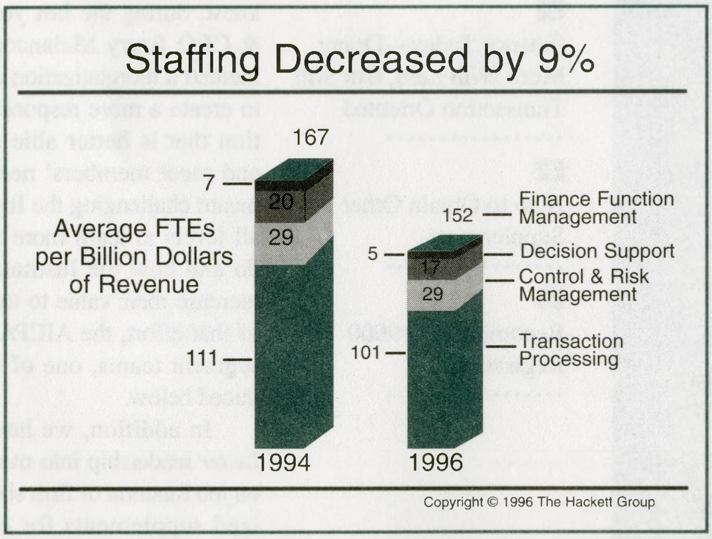
Finance Today—Doing More with Less, but Still Transaction Oriented

by Greg Hackett, President, The Hackett Group

Besides what is noted in the article on page 5 of *The CPA Letter,* the AICPA/THG benchmark study also identifies the large gap in average and world-class performance, in terms of both costs and productivity.

Stark Contrasts

While finance costs the average company 1.4% of revenue, a handful of top-performing companies have reduced that to 0.4%, a stark contrast with the high of 7.4%. Best practices can also deliver dramatic improvements in productivity. For example, while the average company processes 12,500 accounts payable invoices per A/P employee annually, at a per transaction cost of $3.55, the top performers can handle 92,500 per A/P employee at one-tenth the cost. Similarly, while the average payroll employee processes 23,200 payroll transactions annually, at a cost of $1.91 per transaction, a highly efficient organization can manage 87,400 payroll transactions per payroll employee, at a cost of just $0.36 per transaction.



Finance staffing decreased by 9% from 1994 to 1996, continuing a multi-year trend. The largest reduction is in the number of full-time equivalents dedicated to transaction-processing activities, like accounts payable, customer billing and travel and expense reporting.

Still Focused on Transactional Work

Achieving business partnership is still out of reach for most finance organizations, which continue to focus on routine transactions instead of higher value-added decision support. The allocation of staff devoted to such activities as processing generic transactions and performing general accounting functions like closing the books, for example, is still 84%—no change from the prior year. In addition, highly educated and skilled managers and professionals are still spending almost half their time on transaction processing.

continued on page E3

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

Hadassah Baum, supplement editor, technical manager 212/596–6019; fax 212/596–6025 e-mail: hbaum@aicpa.org

John Morrow, director, Industry & Management Accounting, 212/596–6085 e-mail: jmorrow@aicpa.org

Jodi Landau Ryan, technical manager 212/596–6105 e-mail: jryan@aicpa.org

Ellen J. Goldstein, *CPA Letter* editor 212/596–6112 e-mail: egoldstein@aicpa.org

A Smaller, Flatter Organization

Nevertheless, the goal of a smaller, flatter and more agile organization is increasingly within reach of the leading organizations in the study. Companies in the top quartile, for example, have less than half the number of transaction processors than the fourth quartile, an indication that resources are being shifted away from work that can be eliminated, automated or outsourced. In addition, top-quartile companies show fewer layers of management and a somewhat higher proportion of managerial and professional staff focused on decision support. Yet much work remains to be done. Overall, the finance function is labor intensive, with an average of 152 employees per billion dollars of revenue. It is also expensive, with the all-in cost (labor, systems and overhead) per finance employee averaging $91,900 annually. The workforce is highly tenured, with the typical employee having 16 years' experience, as well as stable, with turnover just 8% annually.

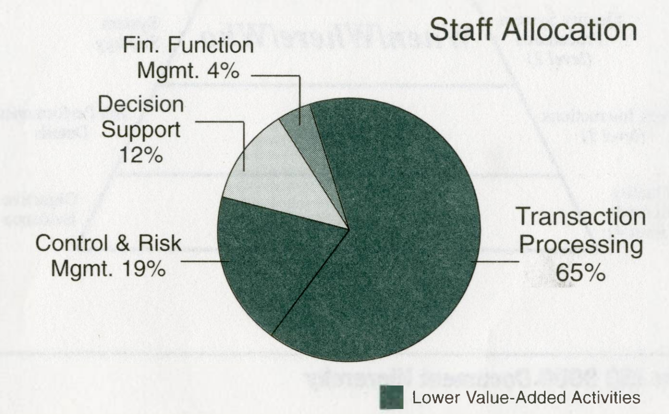
Consolidating Systems

Turning to the topic of enabling technologies: The average number of accounting systems per billion dollars of revenue had declined from 75 in 1994 to 28 in 1996, part of a worldwide advance towards streamlining and consolidating systems. Yet the typical company still maintains two to three information systems per financial process, with an average age of seven years. Taken together, these results indicate that many companies will have the opportunity in the near future to update or replace aging and redundant financial systems.

About the Study

More than 650 companies are participating in the AICPA/THG benchmark study, including a third of the *Fortune 500.* There is an even mix of manufacturing and services businesses, and companies range in size from $50 million in annual revenues to nearly $90 billion, with finance staffs as small as 50 and as large as 14,000. The AICPA/THG benchmark study conveys comprehensive insights into costs, staffing and productivity, collecting data on 29 finance processes. Comparisons are made for each process benchmarked—covering the full spectrum of finance/accounting. Participants receive a detailed, confidential report evaluating their performance against other companies in the data base.

84% of Finance Staff Is Still Engaged In Lower Value-Added Activities



84% of finance's time is sill consumed by lower-value work, leaving less than an hour per day for decision support.

Hadassah Baum, AICPA
212/596–6019
hbaum@aicpa.org

Becoming ISO 9000 Registered

More and more companies are feeling the effects of market globalization, which is driven by free trade, the commercialization of Eastern Europe, and increasing industrialization. The ISO 9000 series of quality management and quality assurance standards provides international consistency by allowing companies affected by globalization, in particular manufacturing or retail companies, to implement standards that will detect and prevent nonconformance during production. A new guide offered by the AICPA explains how a company may become ISO 9000 registered in order to comply with external regulatory forces, meet customer demands, gain a competitive advantage, or institute a program of quality improvement.

Guidelines for Implementing a Quality Control System

Successful ISO registration depends on six key steps:

- Organizing for results
- Assessing the current quality management system
- Documenting the quality system
- Monitoring the quality system
- Registering the organization to ISO 9000
- Exploiting ISO 9000 registration internally and externally

Organizing for Results

Ensure top management understanding and commitment. Companies should educate management in the fundamentals of ISO 9000 systems and the methodology for implementing them.

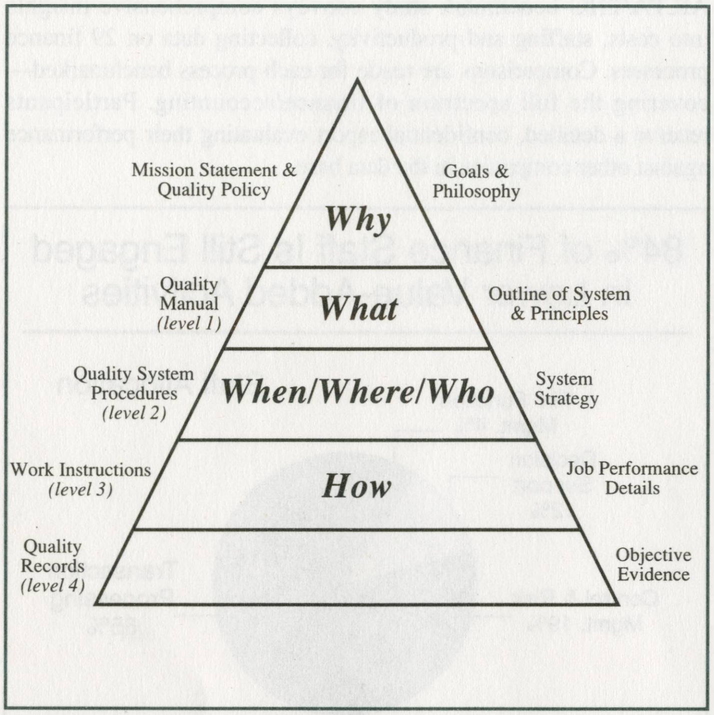
Develop a quality policy. The highest level of management must establish and communicate the company's quality policy and mission statement to all personnel, and maintain the quality management system.

Appoint a management representative. The management representative should define and implement the ISO 9000 project plan and mission statement, propose quality goals and objectives, coordinate and document management reviews, and measure cost effectiveness.

Establish the management review committee. Composed of senior staff, key members of the implementation team and the management representative, key functional managers and top union representatives, this committee should determine the quality system registration's scope, set and review quality objectives, and assign personnel to implementation teams.

Set up implementation teams. Implementation teams should construct and document a system that satisfies both company and ISO 9000 requirements.

continued on page E4



The ISO 9000 Document Hierarchy

Assessing the Current Quality Management System

Each company determines its own needs and expectations for its ISO 9000 system and notes any discrepancies between ISO 9000 and its current quality management system. Documenting the quality system based on the gap assessment findings, the implementation team(s) should document the quality system to provide objective evidence of the status of the quality system. Their findings should involve four levels of documentation (see above for document hierarchy):

1. A quality manual that describes what is contained in the quality management system and defines the system to management and employees.
2. Quality system procedures that outline how, when, and where to operate the system, and who is responsible for it.
3. Work instructions that inform personnel about how to do individual jobs, to be used on a daily basis.
4. Quality records that consist of product and system records.

Monitoring the Quality System

Once the quality management system is in place, the company sets up a cycle for its continuous improvement. The management review committee makes informed decisions to maximize the system's effectiveness; trained personnel carry out internal quality audits; and a corrective action system is established to investigate nonconformance. For problems that merit further action, the following process may be applied:

1. Identify the item or condition.
2. Define the affected product.
3. Determine the root cause of the problem.
4. Apply corrective action.
5. Take preventative action.
6. Follow up.

Registering the Organization to ISO 9000

Once the quality management system has been in place for three to six months, the company is ready to register to ISO 9000. A company enters into a contract with a Registrar for an initial assessment and annual follow-ups of the company's quality system. Companies should consider how an accredited Registrar's credentials are perceived by customers and the exact nature of the service provided. Registration costs may vary according to the company's size and its quality management system's complexity.

Companies should be prepared to deal with both major and minor nonconformance. Major nonconformances are structural flaws in the system. Minor nonconformances are isolated incidents.

Exploiting ISO 9000 Internally and Externally

A comprehensive, functional quality management system can position the company to foster long-term continuous improvement and a positive corporate culture. The ISO 9000 accomplishment can be promoted using photo-ready copies of logos provided by the Registrar.

Integrating ISO 9000 with Total Quality Management (TQM)

Unlike ISO 9000, TQM stresses decreased dependency on inspections, empowering personnel to identify and solve problems. But TQM-empowered employees can use these skills to implement ISO 9000, effectively creating accurate and meaningful system rules, enhancing both the ISO and TQM programs.

Why ISO 9000 Implementation

Programs might not succeed. Lack of senior management's knowledge and commitment to ISO 9000 can lead to an unrealistic evaluation of the ISO 9000 registration process. Management must allow adequate time, funding, personnel and authority for the project to proceed. Care must be taken to avoid using an incomplete process or outdated inspection documents.

The Role of the Management Accountant

Key functions for management accountants: help design a process that does not add layers of needless overhead, control the implementation budget, analyze the cost-effectiveness of the system's operation, act as intermediary between the company and the ISO 9000 Registrar, analyze performance using statistical methodologies, and help internal auditors establish audit trails.

Becoming ISO 9000 Registered *is published by the Society of Management Accountants of Canada as Management Accounting Guideline #25. It is available individually from the AICPA (No. 028925CLA11; $15) or as part of* The New Finance: A Handbook of Business Management *(No. 028900CLA11; $380). This AICPA binder features publications on current management topics, such as benchmarking, activity-based costing and performance measurement. Call the AICPA Order Department at 800/862–4272 for a gratis brochure (No. G00107) detailing each publication or to order the series.*