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Members in Finance and Accounting, November 1997

American Institute of Certified Public Accountants (AICPA)

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Introducing Benchmarking for Small Companies

Ever since the AICPA and The Hackett Group launched their joint finance benchmark study in 1992, companies of all sizes have been clamoring for their chance to see how they stack up against the competition and industry leaders. But until now, only companies with $50 million in annual revenues or more were included in benchmarking their finance organizations and sharing best practices due to the intricacy of the process, according to Vice President Chris Gattenio, who heads The Hackett Group's benchmark division. "Since finance staff at smaller companies wear so many different hats, it's difficult to break down their time allocations into the 29 processes included in our original benchmark study," she explained. "But there's been increasing widespread interest for a study to address the need for process improvement in smaller companies."

In response, The Hackett Group has developed for AICPA members a Small Company Benchmark study to help smaller organizations gain an understanding of the best practices of world-class organizations and see how they measure up. "This new benchmark study makes best practices from the more than 1,050 companies participating in our benchmark studies available for the first time to smaller companies," Gattenio said. "It's our way of helping the AICPA respond to the needs of its membership for companies of all sizes."

"The Small Company Benchmark tool is available to AICPA members at a cost of $750 each," said Hadassah Baum, AICPA technical manager and small company liaison. Any company with revenues up to $100 million is eligible to participate with no minimum revenue required. The $100 million cap will enable other eligible small companies to participate who may not have benchmarked in the past because of the complexity of the data collection process.

Companies taking part in the study will be required to participate in a kickoff conference call before receiving their data collection tool. The tool is an easy-to-use, automated survey that is completed by seeking information from budget reports, organization charts, transaction records and management interviews. After the information has been collected, the data will be analyzed and a customized report prepared comparing the company to average and top performers in the study. Benchmark results will be distributed to participants in advance of group results discussion meetings, with the 1998 schedule now being finalized. In addition to discussing the implications of the data, the best practices of leading-edge companies will be shared, as well as how they successfully implemented a change program. The entire benchmarking process will take about eight weeks to complete.

The new study was developed by considering how small companies are organized and how their staffs and work flows are structured. For example, the customer interface is probably handled by one person, so the new benchmark is designed to address processes at a higher level, rather than broken down into small component parts.

The whole thrust of benchmarking is to measure what your company is doing, compare it to other companies and then steal their learning curves. Most best practices—such as streamlining and simplifying processes and procedures, reducing transaction volumes with tools such as procurement cards and

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direct deposit and changing materiality policies —work for companies of all sizes.

Future growth is another reason for the importance of benchmarking. Many small companies are growing very quickly. If they learn and implement best practices today, they'll be able to absorb greater growth without adding people as they expand. Also, it's easier to put these practices into place before growth takes place, rather than after.

The 29 processes benchmarked by larger entities in the finance study were aggregated at a higher level and consolidated into eight. These eight processes are: Supplier, Customer, People, Accounting, Risk Management, Regulatory, Planning & Reporting and Planning & Decision Support.

For more information or to register for this exciting new AICPA member benefit, contact Hadassah Baum at:

212/596–6019

hbaum@aicpa.org

New! VALUE-ADDED AUDITING SERVICES CONFERENCE

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Recommended CPE credits: 19 hours.

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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

Karyn Waller
technical manager
212/596–6054
e-mail: kwaller@aicpa.org

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

Codes of Ethics, Practice and Conduct

Corporate downsizing, and flattening hierarchies that allow greater decision-making throughout the organization, can weaken traditional, intangible controls—trust, loyalty and commitment—unless there is an ethical context (something a well-designed corporate ethics program can provide).

Written to help companies wanting to develop an internal code of ethics, Issues Paper 13, published by The Society of Management Accountants of Canada:

- Summarizes the approach, content, structure and effectiveness of 200 corporate codes.
- Highlights points that have come up repeatedly and should be considered.
- Identifies 45 issues commonly addressed in corporate codes and organizes them by stakeholder group.

Theoretical Foundation Approach. The guiding principle approach relies very much on the employee's self control, moral character, and commitment to the organization. The act and disclose approach says, in effect, "Use your best judgment, but let us know what you are doing." "Seek advice" statements rely more on externally imposed controls. Rules, in this framework, focus on specific behavior that is required or prohibited.

Types of Codes. There are three basic types of codes, differentiated by the dominant source of control.

- A code of ethics states the values and principles that define the purpose of the company.
- A code of practice interprets and illustrates corporate values and principles, and is addressed to the employee as individual decision maker.
- A code of conduct is a statement of rules: This is what you must (or must not) do. In practice, corporate codes tend to include elements of all three.

Code Content

A code that is consistent in purpose, approach and content with the organization's values, culture and business objectives is more likely to be seen as credible than one that does not ring true with those who are asked to adopt it.

These elements have been found in the codes that were analyzed and are essential for them to be effective:

Introductory Letter. An introductory letter from the CEO endorsing the code unambiguously and conveying top management's support of it is recommended.

"Company-centeredness." Codes are often overly "company-centered" with an emphasis on responsibilities owed to the company. Attention should be paid to responsibilities owed by the company to other stakeholders.

Clarity. Credibility and commitment may be enhanced when important issues are given adequate treatment and when clear, precise definitions of key concepts are provided.

The Law. Codes almost always contain a section referring to adherence to the letter and spirit of laws and regulations. Accompanying this section could also be the inclusion of a duty to act honestly, fairly, and with integrity, guiding principles that are not necessarily captured in the requirement to abide by the letter and spirit of the law.

Discrimination. Discrimination and harassment in employment are ethical issues that often tend to be approached in an excessively legal fashion that does not promote the desired behavior. The preferred approach offers credible reasons why such desired conduct should be practiced.

Conflicts of Interest. Conflicts of interest should be defined and the focus should be on educating and communicating how a conflict can occur.

Compliance Provisions. A well-drafted and effective code simplifies the process of compliance.

Observations on Development and Implementation Processes Structure and Content of the Code. Many codes seem to be based on lists of issues that have developed over time rather than on a meaningful structure.

Ethical and Other Values. Most codes refer to the values and principles of the company, but they do not articulate the values or clarify how the code is consistent with these values and principles.

How Codes Are Developed. Codes usually have their organizational home in the legal department, the human resources department, or the public affairs department. When simply asked if the code was part of the culture of the organization, all the companies who possessed codes responded affirmatively. When prompted further, however, only a handful of companies were able to say precisely how the code was a living and practiced document.

Promulgation and Access. Most companies interviewed have issued their code to all of their employees at some point over the last three years. Annual compliance sign-offs are also common for most of the companies.

Administration. The study indicated that the code is most frequently administered by the legal departments of corporations. Human resource departments also oversee and enforce them.

Subjectivity in responding to breaches of the code was predictable, as very few companies had written and formalized procedures for dealing with breaches. Disclosure and reporting procedures were not linked to the nature of the breach, nor were definite sanctions associated with particular breaches.

Organizational Advantages. Of the companies interviewed, none identified organizational advantages of a code. Put simply, codes may not contribute directly to the bottom line of the company.

Where to Go From Here? Codes may be of great assistance to management accountants in discharging their responsibilities of controlling the corporation, ensuring reliable financial reporting systems, safeguarding assets, identifying and mitigating against known risks, and providing the management control systems to assist in corporate decision-making.

Codes of Ethics, Practice and Conduct (Issues Paper #13) is available individually from the AICPA (No. 028964CLB11) or as part of *The New Finance: A Handbook of Business Management* (No. 028900CLB11).

800/862–4272

Twelve Steps to Recovery for Executives in Denial About the Year 2000 Issue

By Sandi Smith

Many people are becoming aware of the "Year 2000 Issue," also referred to as the millennium bug and the century date change dilemma. There have been a few stories in the general press and a lot more stories in the computer press about it.

Some executives may not understand the pervasive scope of the Year 2000 Issue. Hardware and software applications are certainly affected, but the scope is much broader. Anything that is computerized must be analyzed. This includes embedded systems that are commonly used in building systems, manufacturing process control, medical equipment, and the like.

Medium and small businesses face the most risk. Small businesses often have no backup procedures in case systems fail. Medium-sized businesses have often accumulated a lot of software over the years. Both sizes of businesses lack in-house staff who is knowledgeable in information technology. And both often lack the ability to draw upon large budgets. Capers Jones estimates that five to seven percent of medium-sized businesses will go bankrupt as a result of year 2000 problems.[1]

Are some executives in denial? What are we waiting for?

Even if you get your own house in order, another company can bring you down. Let's say you are dependent on a major customer and are an EDI trading partner. If the customer does not make its EDI systems compliant, orders will stop. All systems that interface externally with your business must be included in the scope of your year 2000 project.

Some executives may be waiting for the silver bullet. It won't happen. There are too many details in the technology industry for any quick fix to work. Most of the tools that have been developed work only in IBM COBOL environments, which account for only 50 percent of the problem. How can one silver bullet fix the problems we will have with ATMs, fighter jets, accounting systems, and assembly line software all at once? Better not to wait for a silver bullet.

Some executives may think the Year 2000 Issue is a "computer issue." As you can see, it's much more than just a computer problem. It affects the entire business, and it affects just about every business.

As human beings, we like to procrastinate. *If you are motivated to keep your business running, your year 2000 project should start today.*

What can you do if an executive you know is in denial?

1. Educate him or her as to the scope and complexity of the problem.
2. Find a system within the executive's company that will fail, and graphically demonstrate that failure.
3. Describe the impact on the bottom line profits and sales of the company if nothing is done to correct noncompliant systems.
4. Communicate what competitors are spending on the issue.
5. Gain buy-in from others within the company that understand the y2k issue and gang up on the executive.
6. Clip relevant newspaper articles that quote year 2000 experts and send them to the executive.
7. Hire a consultant to educate the executive.
8. Warn the executive about the legal issues and potential lawsuits if due diligence of officers and directors is not followed.
9. Gain the executive's commitment as executive sponsor of the y2k project.
10. Offer preliminary budget estimates.
11. Prepare a list of items that will need to be purchased as part of the project so that the executive gains an understanding of the resources involved.
12. Prepare a staffing plan that discusses the use of internal staff or hiring of outside resources.[2]

So what are you doing still reading? There's no time to waste: There are less than 800 days until 1/1/00.

Sandi Smith has completed several year 2000 projects for businesses, including CPA firms. She wrote Solving the Year 2000 Dilemma (No. 093008CLB11), *available through the AICPA, and also wrote a chapter of* Year 2000 Problem: Strategies and Solutions from the Fortune 100. *A frequent speaker and trainer on the year 2000 problem, she is available via E-mail at* sandi@cyberramp.net *or by old-fashioned telephone 972/248–8378.*

[1] Capers Jones, "The Global Economic Impact of the Year 2000 Software Problem," Software Productivity Research, Inc., January 23, 1997, page 42.

[2] Sandi Smith, *Solving the Year 2000 Dilemma*, AICPA, 1997.

Books to Help You

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