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Electronic Commerce on the Internet

by Ken D. Askelson

“Setting up business” as we approach the third millennium brings many new ramifications, especially if you’re thinking of establishing your business on the Internet. What does it take to set up a business on the Internet? Main areas of consideration include determining if the Internet is the right medium for your company; factoring the cost of hardware and software needs; starting off on the right foot and avoiding blunders; examining marketing specific to the Internet; and implementing security measures. Even if you’re not starting your own business on the Internet, a CPA needs to be aware of the type of business practices specific to clients who “work” on the Internet.

Is the Internet the Right Medium for Your Company?

Consider your customers and prospective customers. Who are they and where are they geographically? How do they buy? What kinds of products and services do you offer? Are they the type of products sought by Internet customers? Will your competitors beat you to the “punch” if you don’t get on-line to stay in the market? Can you afford the expense and the work or perhaps apply the Internet to *improve* your operations or *cut* costs? You too can join the several thousand companies that have opened virtual storefronts in the past few years.

Businesses are currently making money on the Internet in areas such as direct selling and marketing a company’s products or services, selling advertising space, charging fees for content accessible on a Web site, and charging fees for on-line transactions. Although Internet sales have not reached significant levels compared to total revenue for large companies, smaller companies are finding the Internet is transforming them into global competitors while adding a greater percentage of total revenues. Major retailers such as J.C. Penney (<http://www.jcpenney.com>) and Wal-Mart (<http://www.wal-mart.com>) have presence on the Internet along with smaller organizations like Virtual Vineyards (<http://www.virtualvin.com>) and Hot Hot Hot (<http://www.hot.presence.com>).

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Factoring the Cost of Hardware and Software Needs

It is important to understand the features of the Internet in order to assess the benefits and determine the costs. The main features of the Internet include electronic mail (e-mail), World Wide Web (WWW), file transfer protocol (FTP), mailing lists and newsgroups. E-mail is becoming the dominant way businesses communicate because it makes it easier, faster, and cheaper to send a message via e-mail than it would be to phone, fax, or mail. Business usage on the Internet exploded with the growth of the WWW. The Web is a graphical interface for the Internet and brings advantages of cross-referencing hypertext, video, sound, and graphics to allow customers to “find their way” easily through the maze of your business regardless of the type of computer used. Other popular Internet services include FTP servers that allow customers to download files; gophers that allow customers to find you by subject or keyword (product); mailing lists that permit you to make on-line contact with customers or employees; and newsgroups, such as Usenet.

Now, let’s review some of the costs incurred when going on the Internet. Apparent costs include hardware and software. Other cost considerations include payment for telephone

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UPCOMING EVENTS. . . MARK YOUR CALENDAR!

The AICPA 1996 Fall National Industry Conference

The New Finance. . . Building a Bridge to the Future

October 31–November 2, 1996

Hyatt Regency San Francisco, San Francisco, California

Join us for this 2½ day action-packed program featuring a wide variety of topics relevant to you and your company. . . technology, risk management, target costing, negotiation, pension and profit sharing, and much, much more! **Earn up to 21 hours of CPE credit.**

AICPA Strategic Performance Measures/Finance Best Practices Conferences

October 30, 1996—Hyatt Regency San Francisco

November 18–19, 1996—Chicago, Illinois

Add an extra day in San Francisco before the Fall National Industry Conference or spend two days in Chicago to hear authorities share their experiences and insights on Strategic Performance Measures and Finance Best Practices. Many case studies and round table discussions for those in the initial implementation stage and those further along.

If you would like to be added to the conference brochure mailing list, please call or write the AICPA Meetings and Travel Department, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311–3881, (201) 938–3232.

Value Chain Analysis for Assessing Competitive Advantage

A new guide offered by the AICPA is designed to help a company implement value chain analysis. This is a way of assessing competitive advantage by determining the strategic advantages and disadvantages of the full range of activities that shape the final offering to the end user. These activities include not only in-company activities but also activities outside the company (e.g., at the supplier, distribution and disposal/recycling levels).

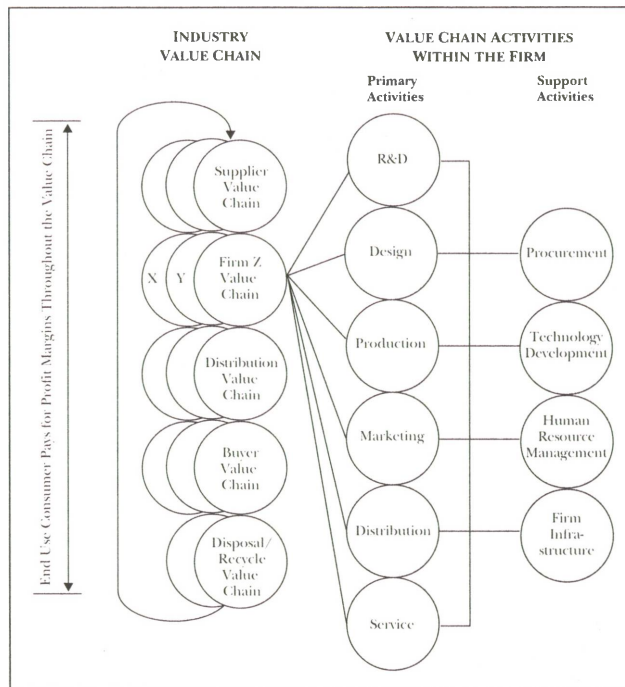
In other words, the firm is viewed as part of an overall chain of value-creating processes focussed on the customer.

Value chain analysis enables a firm to better understand which segments, distribution channels, price points, product differentiation, selling propositions and which value chain configurations (i.e., linkages between activities/processes within and outside the firm) will yield the greatest competitive advantage.

A key concept for value chain analysis is to de-emphasize functional structure and adopt a process perspective — that is, a horizontal view of the organization beginning with product inputs and ending with outputs and customers. Processes are structured and measured sets of activities designed to produce a specified output for a particular customer or market. Emphasizing process means focusing not on what work is done but how it is done. Often this perspective calls for reclassifying value activities — for example, if order processing is important to a firm's customer interactions, then this activity should be classified under marketing.

Here's how value chain analysis helps organizations assess competitive advantage:

- **Internal cost analysis** — determining the sources of profitability and the relative cost positions of internal value-creating processes
- **Internal differentiation analysis** — understanding the sources of differen-



Value Chain Analysis for Assessing Competitive Advantage is published by The Society of Management Accountants of Canada as *Management Accounting Guideline #41*, and will be available in June 1996 from the AICPA individually or as part of *The New Finance: A Handbook of Business Management*. This AICPA binder features publications on current management topics such as benchmarking, activity-based costing, and performance measurement. Other recent publications, *Implementing Self-directed Work Teams* (product # 028957), *Developing Comprehensive Competitive Intelligence* (product # 028958), and *Tools and Techniques of Environmental Accounting for Business Decisions* (product # 028959) are now available. Please call the AICPA Order Department at 1-800-862-4272 for a gratis brochure (#G00107) detailing each publication or to order the series.

tiation (including the cost) within internal value-creating processes, and

- **Vertical linkage analysis** — understanding the relationships and associated costs among external suppliers and customers in order to maximize the value delivered to customers and to minimize cost.

Vertical linkage analysis is aimed at developing competitive advantage through linkages between a firm's value-creating activities and those of its suppliers, channels, or users.

Understanding vertical linkages is not always easy — for example, calculating a rate of return on assets requires obtaining information on operating costs, revenues and assets for each process throughout the industry's value chain — something that can be very difficult.

Evaluating opportunities for sustainable cost advantage involves gauging one's competitive position by knowing the competitor's value chains (internal and external) and rates of return on each. Internal cost, revenue and asset

data for a competitor's processes are generally unavailable, so quantitative analysis will not usually be feasible. However, qualitative information on a competitor's value-creating processes and the strategies for each usually exists. By understanding how other companies compete in each process of the industry value chain, a firm can use the qualitative analysis to seek out competitive niches even if financial data are unavailable.

Three strategic frameworks for value chain analysis

To organize and analyze value chain information, and to summarize findings and recommendations, three useful frameworks are:

Industry structure analysis: The profitability of an industry or market — measured by the long-term ROI of the average firm — depends on five factors that influence profitability. These are: bargaining power of buyers, bargaining power of suppliers, threat of substitute

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The Financial Manager's Report is a publication of the committees of the AICPA's Industry & Management Accounting Team. It is mailed five times per year to all AICPA members in industry as an insert to *The CPA Letter*. Opinions of the authors are their own and do not necessarily reflect policies of the Institute.

The Committees and Staff welcome your input on ways to make FMR more responsive to your needs. Please address comments in writing to AICPA, Industry & Management Accounting Team, 1211 Avenue of the Americas, New York, NY 10036-8775 or e-mail the editor at 103063.2154@compuserve.com.

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Getting the Most from Your Benchmark Study

by Chris Gattenio

First quarter 1996 marked several advantageous changes in the ongoing finance benchmark study sponsored by the AICPA and The Hackett Group (THG). Launched in 1992, the joint study now has more than 650 participants — including a third of the Fortune 500.

Optimized On-Line Analysis

To start, the benchmark data collection tool has been enriched to incorporate more information and to provide more robust and flexible on-line analytical capabilities. The new tool offers enhanced perspectives on performance metrics, best practices and overall trends. It also features an increased number of best practices questions, so that detailed process-level insights gleaned from the top performers can be aggregated to share periodically with all participants.

In addition, the new tool is radically easier to use. It features significantly more detailed on-line help, both technological and benchmark-related. And benchmarkers can now print their own scrub and final reports, enhancing regular and effective communications with their teams — and with management.

Learning Curves

To help companies move swiftly through the benchmarking process and gain greater insights from their results, AICPA/THG has also launched a series of workshops. The workshops are offered in sequence:

- Benchmark process workshops
- Benchmark results workshops

Benchmark Process Workshops

Designed to train and guide benchmark coordinators in successfully launching and executing a study, these workshops cover: planning and managing the benchmarking project; getting the study started; and communicating internally about the study to maximize cooperation and success.

In addition, the workshops offer an in-depth discussion of the 29 finance processes benchmarked, how to collect, correctly record and scrub the data and what to expect from the benchmark results report. The training covers not only the mechanics of the benchmarking process, but many tips and suggestions from companies that have successfully completed the benchmark.

The purpose of the benchmark process workshops is to aid participants in getting the most value from their

benchmarking effort. Getting the most begins with learning how to conduct the benchmark efficiently and effectively.

Benchmark Results Workshops

For companies that have completed the benchmark study, the follow-up results workshops provide an opportunity to meet and review results with representatives of The Hackett Group and the AICPA. Benchmark results will be reported to attending companies prior to the meeting so that advance study and question development can take place.

Benchmark results reports highlight areas for improvement for each process by identifying potential cost reductions and service and value enhancements. The reports help benchmarkers prioritize and focus improvement activities and often become the primary tool in selling change within an organization as well as to senior management.

The purpose of the benchmark results workshops is to gain greater insights into the benchmark numbers and to understand how to use them to set priorities for improvement.

Obtaining Maximum Benefits

Hundreds of companies are using the AICPA/THG study to find out how their finance and accounting functions stack up. With the new tool and sequential workshops, the benchmark process is easier than ever.

The fundamentals remain unchanged, however. Benchmarking — the comparison of similar processes, practices and procedures to identify best practices — is designed to help companies objectively assess their strengths and weaknesses, and to find out how leading companies do things differently — and better.

The AICPA/THG benchmark study conveys comprehensive insights into costs, staffing and productivities. Comparisons are made for each process benchmarked — covering the full spectrum of finance/accounting. Included are basic transaction processes like receivables and payroll, as well as control and risk management and decision support processes such as internal audit, budgeting and business performance analysis.

For many companies, joining an ongoing benchmark study is the first step — and the most constructive — to jump-start change.

Chris Gattenio is a vice president of The Hackett Group.

Facts about the AICPA/THG Study

- The largest, most comprehensive ongoing finance benchmark available today, with more than 650 companies participating.
- Every major industry and organizational structure and size are represented, including more than 30 percent of the Fortune 500.
- Companies range in size from \$50 million in annual revenues to nearly \$90 billion.
- The benchmark covers the full spectrum of finance, with information gathered on 29 specifically defined processes.
- Participants receive a detailed, confidential report evaluating their performance against other companies in the database.
- To conduct the study, participants complete an easy-to-use computerized survey; questions are asked at the process level about costs, staffing, operating practices and service and quality levels.
- Each location where finance is done completes the questionnaire.
- Sources of the information include budget reports, organization charts, transaction records and interviews with supervisors and managers.
- The typical company requires two to three person-days per reporting unit to complete the questionnaire.

To Participate in the Study

To obtain information on requirements to participate in this study, please contact Hadassah Baum at the AICPA via fax (212) 596-6025 or call (212) 596-6019. Once your company is enrolled, the next step is to attend a benchmark process workshop.

Benchmark Process Workshop Schedule

The 1996 benchmark process workshop schedule is outlined below. All workshops will be held at the AICPA offices in the Harbor-side Financial Center, Jersey City, New Jersey. A full-day training session is planned for the third Friday of selected months during 1996 as follows:

June 21st	Oct. 18th
Aug. 16th	Nov. 22nd

Please note that the sign-up deadline will be one week prior to the date of each workshop.

Who should attend? Benchmark process workshops are mandatory for all new participants. The person responsible for day-to-day management of the benchmark project — the designated company coordinator — should attend. In addition, any existing benchmarkers not well into the data collection process are welcome to register in order to gain familiarity with the new data collection tool. (Note: Once you have completed your benchmark, AICPA/THG will contact you regarding the schedule for the benchmark results workshops. Attendance is not mandatory, but is strongly encouraged.)

lines to connect to the Internet, payment for Internet access most often provided by internet service providers, and training and security. Five areas that have the biggest influence on Internet costs focus on these questions: How many people will use the Internet in your organization? How many Internet services do you require? What type of computer and operating system will you use? What speed of connection do you desire? How much work will you do in-house?

Software needs include Transmission Control Protocol/Internet Protocol (TCP/IP) software that is now usually bundled with operating system software. TCP/IP is the network protocol of the Internet that ensures messages are getting from one PC to another PC. You will also need e-mail software to move messages back and forth; that includes selecting either Unix to Unix Copy Protocol (UUCP) or Simple Mail Transfer Protocol (SMTP) server software. UUCP allows you to use Internet e-mail but does not require your computer to be connected to the Internet 24 hours a day. On the other hand, SMTP requires your e-mail computer to be running on the Internet continuously. Web software provides information on computer screens in the form of text, pictures, and sound; to find information on the Web, a computer needs Web browser software such as Mosaic or Netscape. Other software to be considered for conducting business on the Internet includes Domain Name System (DNS) that allows Internet computers to locate each other; Telnet software that lets you remotely access another computer and run programs on it; Wide Area Information Server (WAIS) that allows a business to provide a large amount of data that users can easily locate; and Internet Relay Chat (IRC) that permits users on the Internet to have typed real-time conversations. These supplement the previously mentioned software needed for the WWW, FTP, Gopher, mailing lists and newsgroups. Again, when choosing software you will need to plan for initial up front costs, support costs, upgrade fees and training.

To connect to the Internet or an access provider, you need either a fast modem, an ISDN connection, or a leased line. You really don't want to do business on the Internet with anything slower than 28.8 Kbps modem. If you have a WWW site on a server computer, you would want at least an ISDN con-

nection that provides 56 Kbps to 128 Kbps data transfer rates.

To get connected to the Internet you have several options. Commercial on-line services include American Online, Prodigy, CompuServe, Microsoft Network, Delphi and others. These on-line services provide additional support and make it easier to set up your business on the Internet. However, commercial on-line services can cost far more than having an Internet service provider help set you up or simply doing it on your own.

A popular way for small businesses to connect to the Internet is to use a modem and establish a SLIP, CSLIP, or PPP account. SLIP (Serial Line Internet Protocol) is a communications package that allows your computer to connect to an Internet service provider using telephone lines. CSLIP (Compressed SLIP) offers greater speed. PPP (Point to Point Protocol) provides advantages of speed and accuracy over the other two. Again, with a modem connection you are limited to 28.8 Kbps of data transfer rate — hardly enough speed to run a WWW server that would need at least a 50 Kbps connection.

If you want more speed than the modem connection, the next step up would be an ISDN (Integrated Services Digital Network) connection. It provides the advantages of speed and the ability to send and receive data and voice transmissions simultaneously. Other digital connections such as Frame Relay, T1, T3 and ATM require dedicated lines to achieve the speeds they are capable of reaching. These connections are mainly used by large businesses or Internet access providers. They are significantly more expensive than modem connections.

Another strategic decision that needs to be made is selecting an Internet access provider. There are many to choose from with a variety of services offered. You can select either a local, regional, or national provider. Access providers come in different shapes and sizes and all offer dedicated Internet connections. Examples of regional providers include BBN Planet Corp., Global Enterprise Services, Inc., US West Interprise, and Pacific Bell Internet Services. National providers include CompuServe Inc., IBM Global Network, MCI, Netcom On-line Communication Services, Inc., and Sprint.

Starting Off on the Right Foot and Avoiding Blunders

Some of the common blunders to try and avoid when establishing a Web site on the Internet include the following:

- Rushing in without a master plan
- Appointing the wrong person to the task
- Failing to research the competition
- Not appreciating the interactive aspect of the medium
- Being too commercial
- Suffering from disorganization
- Using unnecessarily large graphics
- Providing insufficient reason for customers to return to your site
- Forgetting to promote your Website, on and off the Internet
- Overlooking the fact that it's a global medium

Marketing Considerations Specific to the Internet

How do your company's marketing strategies change on the Internet? Marketing activities include advertising, public relations, corporate image, sales support and marketing research.

Features of the Internet can be used as marketing tools. For example, your Web site may contain sales literature, news releases, and product displays. E-mail is another excellent marketing tool that permits you to respond to sales inquiries and customer correspondence. The Federal Express Corporation's Web site has become very successful for customer service by allowing customers the ability to track their own packages rather than contacting Federal Express. Not a bad cost-savings idea either! Lastly, your company can gain additional publicity by monitoring and joining a related newsgroup and providing meaningful input and responses to discussion group topics.

The following is a ten step plan to help implement a successful Internet marketing program:

- Investigate the Internet as a marketing medium.
- Define your Internet objectives to fit with other marketing efforts.
- Determine how you want your customer to respond.
- Identify what your competitive advantage is.
- Identify the advantages of your product or service that convey your competitive advantage.

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Value Chain Analysis for Assessing Competitive Advantage *Continued from page 2*

products or services, threat of new entrants, and intensity of competition.

Core competency analysis: Core competencies are distinctive skills, intellectual assets and cultural capabilities such as the ability to learn and teamworking.

Here the value chain approach calls for:

- validating core competencies in current businesses
- exporting or leveraging them to value chains of other existing businesses

- using them to reconfigure value chains of existing businesses
- using them to create new businesses

Segmentation analysis: Analyzing the structural characteristics of different industry segments can reveal the competitive advantages or disadvantages of different segments. A firm may use this information to decide to enter, exit or reconfigure a segment, or embark on cost reduction/differentiations.

Analyzing costs and differentiation advantages through the value chain can

present significant data problems, so the analysis will often call for intuitive judgment. Lack of conventional accounting rigor should not deter a CPA from championing value chain analysis.

It offers an excellent opportunity for the accountant in management to collaborate with engineering, production, marketing, distribution and service professionals in a strategic planning process which can provide insights important for the firm's growth and survival.

Electronic Commerce on the Internet *Continued from page 4*

- Outline how you will communicate those advantages.
- Determine what information you need to present.
- Convert information into digital format.
- Put your information on the Internet.
- Promote your Internet site.

Implementing Security Measures

Without good security practices in place, business on the Internet can be vulnerable. The Internet and any network connected to the Internet is not 100 percent secure. Implementing the necessary security measures will help ensure data integrity, confidentiality of information, and authenticity of messages received via the Internet.

Good security measures would include such things as developing a process for verifying the identity of anyone wanting to access your network. At a minimum, this would include user IDs and passwords. Other considerations would include dialback capabilities for employees attempting remote access to the network, encryption, firewalls and a well-planned security program.

Conclusion

There will be winners and losers in the field of electronic commerce on the Internet as there are in the non-Internet business environment. Whether your company chooses to participate in this new business medium or not, current trends indicate that commerce on the Internet will only get bigger.

Ken D. Askelson, CPA serves as Senior Project Manager responsible for the audit activities in the Western United States for J. C. Penney Company. In addition to holding a Certified Internal Auditor designation, Ken currently serves on the AICPA Information Technology Practices Subcommittee. This committee serves the information technology needs of the members of the voluntary Information Technology Membership Section. The section publishes a quarterly newsletter titled, InfoTech Update. The subject of this article will be covered in greater depth in upcoming issues of InfoTech Update. For more information on the Information Technology Membership Section, please call (212) 596-6018 and ask for a packet of sample publications and an application.

New CPE Self-Study Opportunities

Business Valuation Methods

This course offers a comprehensive look at the latest methods and techniques for performing competent, efficient appraisals. It reveals all the steps in performing a business valuation:

- Adjusting the financial statements.
- Measuring goodwill.
- Determining and applying a capitalization rate.
- Writing the valuation report.

You'll also get specialized guidance on making estate, divorce and pension valuations. Virtually every chapter contains up-to-the-minute guidance on new and differing views of business appraisal theory.

Author: Alan Zipp, CPA, JD

Recommended CPE Credit: 16 hours
Format: Text (730491CLZ) \$159.00 *

New! Management Consultants:

Selected Readings

This new reading course contains articles selected by the MCS Professional Practice Subcommittee on management consulting topics from such well-respected sources as *Management Accounting, Inc.*, and the *Journal of Management Consulting*. They present the latest thinking and innovative new ideas you can incorporate immediately into your day-to-day practice.

Topics covered include:

- Marketing.
- Managing your own firm.
- Three modes of consulting.
- Leadership.
- Motivating employees.

Recommended CPE Credit: 8 hours

Format: Text (730540CLZ) \$79.00

Investment Strategies in the '90s

This course gives you a step-by-step analysis of the investment process. It shows you how to establish investment objectives and helps you evaluate investment products.

Course highlights include:

- What investment advice a CPA can and cannot give.
- When and how to register with the SEC as an investment advisor.
- Model portfolios for each investor risk type.
- Strategies to predict and time the market.

Author: David B. Lippman, CPA, JD.

Recommended CPE Credit: 10 hours

Format: (735916CLZ) \$129.00

To order: Call 1-800-862-4272 (dept. #1), fax to 1-800-362-5066, or write the AICPA Order Department, P.O. Box 2209, Jersey City, NJ 07303-2209. These courses are also available through your state society.

FAX SURVEY

Please fax the completed survey to the Industry and Management Accounting Team at (212) 596-6025

The finance and accounting profession is at a crossroads. Information technology has radically changed the business environment and is revolutionizing the role of the finance professional in the business world. No area of traditional practice is immune from these changes — from simplified planning, control, transaction processing, and record keeping to demands for better and more timely analysis, audit and reporting.

The AICPA Management Accounting Executive Committee has identified the following eight trends and would like to know your experiences, thoughts, and feelings in dealing with them. Specifically, we are looking for feedback as to Importance, Priority, and Action. Please feel free to add additional comments. Circle the appropriate number based on the key below.

Trend	Importance	Agenda Priority	Implementation in my organization
1. The sudden emergence of truly global capital and investment markets — coupled with innovative and challenging financial schemes and business practices — placing enormous pressure on finance to keep up in managing and measuring value, risk, and return.	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5
2. An acute and growing demand on accountants to supply strategic decision support information as a crucial competitive weapon.	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5
3. Rapid acceptance of desktop and network information technology as both an enabler and a driver.	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5
4. Fundamental and massive changes in how transaction processing, record keeping, and basic financial reporting are accomplished.	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5
5. Greatly enhanced expectations regarding the role of finance professionals as overall business leaders and strategic business partners.	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5
6. Dramatic shifts in organization and human behavior systems toward flat management structures with informed, thinking, empowered, and accountable workers.	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5
7. Almost entirely different professional tools, skills, roles, and behavior.	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5
8. Heightened anxiety and challenge about the crucial issues of accountability, control and governance.	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5

Key

1 = Low
5 = High

1 = Low
5 = High

1 = Starting
5 = Well advanced

Comments: _____
