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Newsletter of the
AICPA Management
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CPA MANAGEMENT CONSULTANT

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The Challenge of Change

Reengineering for Profitability in Manufacturing

by Sheldon H. Eveloff, CPA, and Frank Rubury

Consultants and their clients face the challenge of change in today's competitive marketplace. Leading financial sources attribute almost half of the business failures in manufacturing to ineffective management performance. In many manufacturing companies there is no such thing as "bottom-up change." Change rolls one way—downhill. Consequently, management must lead the way in reengineering the manufacturing process for greater profitability.

Management must lead the way to greater profitability by using company resources for continuous improvement of quality products, cost effectiveness, and customer services. Manufacturing companies, however, have been criticized for prattling on but doing little to help themselves. They dangle hopelessly between the forces of standard costs system measurements and profit and loss goals. The apparent lack of commitment to instituting change has eroded both profitability and net worth.

Many manufacturers have become preoccupied with material-requirements planning systems that use predetermined lead times, employ backward scheduling techniques, ignore the possibility that different products compete for the same work centers, and lack the ability to improve the product flow. The results have been higher inventory levels and unattainable schedules.

Management sometimes compensates for a lack of reengineering-process improvement activities by relying on post-World War II manufacturing practices. They have found that economies of scale achieve lower unit costs, and functional consolidations achieve lower overhead costs. These techniques, however, have often been ineffective in the dynamic manufacturing environments that are evolving now and will continue to evolve into the next millennium. The inherent shortcomings of these techniques result in long delivery lead times, narrow product lines, and inflexible production schedules. It is these shortcomings that result in exceedingly high inventory levels.

"Just-in-case" inventories can be eliminated, thereby reducing overall inventory levels, along with other systems and processes that reduce profitability. The responsiveness and flexibility of the entire manufacturing system can be elevated by profitability reengineering and process improvements. The principle way to accomplish this task is to assign accountability to the reengineering-process improvement team to resolve the constraints. When they are resolved and the changes successfully implemented, the entire system can be counted on to deliver quality products on time and within cost.

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New Focus

A new breed of competitor has emerged in recent years to challenge traditional thinking. These companies focus on time as a basic measurement. This gives them the advantages of flexibility, innovation, responsiveness, and low cost. A focus on time requires that, for example, material flow smoothly through the production processes in concert with sales and other requirements. It also reduces production batch sizes. This in turn shortens cycle time, thereby reducing the time it takes to convert an order into cash. Profitability reengineering increases throughput and provides additional capacity at bottleneck operations. With these improvements in place, companies can substantially reduce inventory levels and costs.

In manufacturing companies, an effective profitability reengineering program begins on the shop floor, the area of core competence. This is the area that contains the greatest amount of assets and the source of revenues. Before undertaking this type of program, management should inform all pertinent operational areas of the benefits that can be achieved and encourage their involvement. Personnel in these areas represent a wealth of knowledge that can be coordinated to complement and enhance the improvement activities. Disciplines such as engineering, purchasing, material control, accounting, and marketing may have separate agendas that must ultimately conform to the goals established for the profitability reengineering program.

Selecting Measurements

The next step is to establish measurements that are easily understood at all levels in the organization. One easily understood measurement is time: the length of time required to ship a product once an order is received. Actions that shorten the time add value. Actions that lengthen the time, although they may be necessary, do not add value. It is within this context that profitability reengineering yields the desired result in the quickest period.

The driving measure for profitability reengineering is pipeline velocity, or the speed at which the system converts materials into finished goods consistent with market demands. The desired results are to increase throughput, reduce operating costs, and lower inventories. Very powerful constraints often hold back improvements, however. A company can identify these constraints by evaluating the segments of core competence, which are usually found in the following areas:

- Methods and processes
- Capacity utilization
- Productivity
- Cycle times and throughput
- Inventory management
- Logistics, order processing, and scheduling
- Organizational staff and functions
- Policies relating to scheduling, throughput, and capacity

Identifying Bottlenecks

The initial action in profitability reengineering is to attack the manufacturing processes that have capacity constraints. Improvements must be initiated in these areas before a company can make major strides. The challenge is to quickly find those work centers where

FIGURE 1

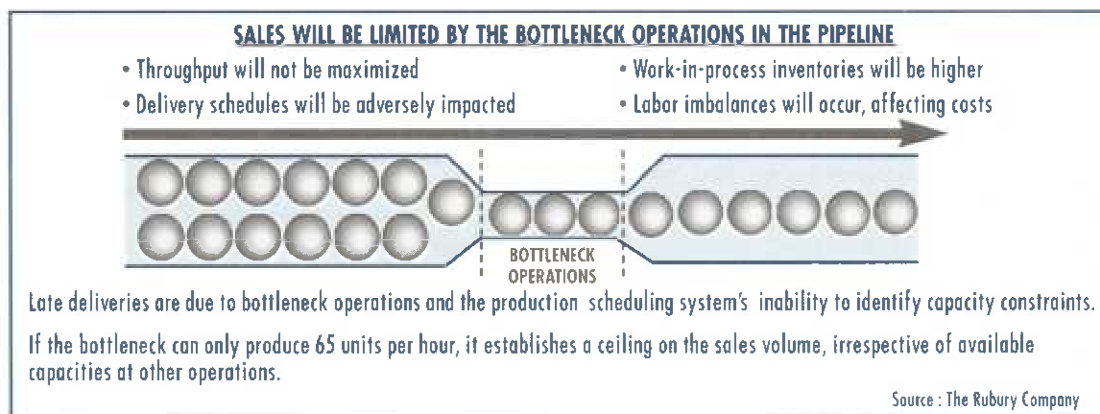

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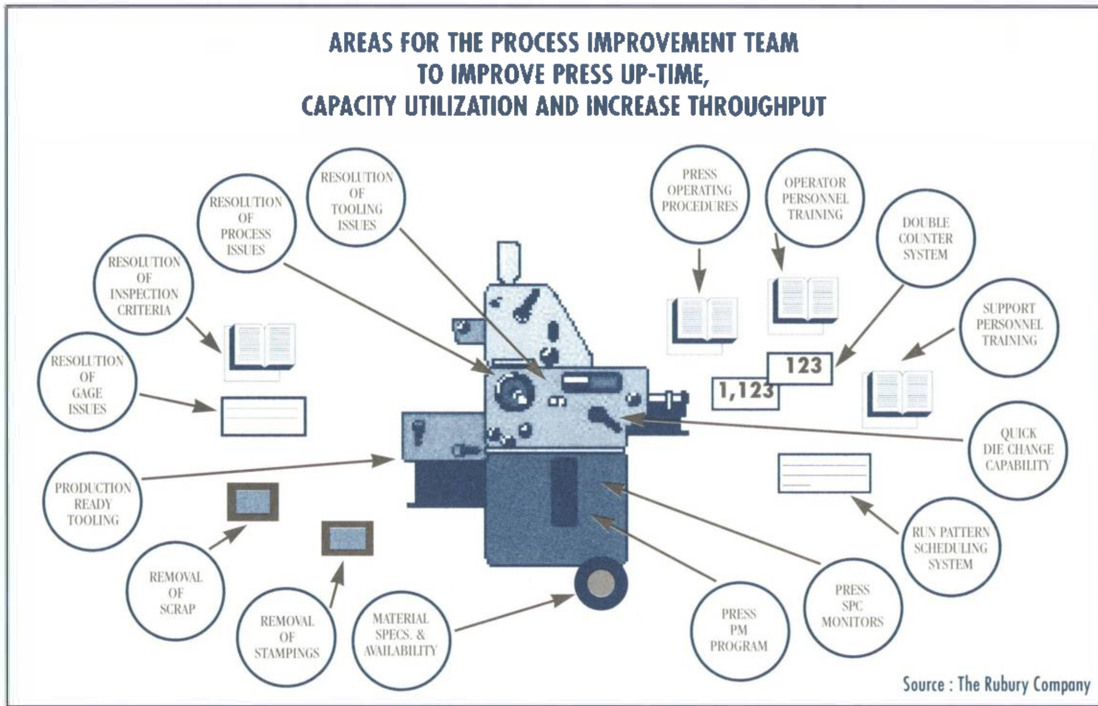
FIGURE 2



demand exceeds capacity. (This should not be confused with attempting to balance factory capacity.)

An industrial engineering study can determine the theoretical maximum capacity compared with the market demand requirements at each work center. Work centers where demand is near or beyond capacity would be categorized as bottleneck operations. (See figure 1.)

Random events and statistical fluctuations exist in every production environment and reduce throughput to levels lower than expected, causing bottlenecks. Therefore, work centers near theoretical capacity will, in all probability, find that demand exceeds capacity under actual production conditions. These bottleneck operations are the initial candidates for reengineering and process improvements.

We can gain a deeper understanding of the difference between value-adding activities and nonvalue-adding activities by considering, for example, the processes associated with a metal forming press in an automotive stamping plant. The only value-adding activity that this capital intensive machine can provide is producing quality acceptable stamped parts. However, several activities interfere with the value-adding process. These nonvalue-adding activities can be identified through careful study of some of the activities in the stamping process (see figure 2).

Constraint Analysis

The next step is to analyze the bottleneck processes to determine the portion of work activities that are value-adding rather than nonvalue-adding. This is accomplished with a constraint analysis. After the data is collected and activities are classified as either value-adding or non-value adding, the results are quantified (see figure 3).

CONTINUED ON NEXT PAGE

FIGURE 3

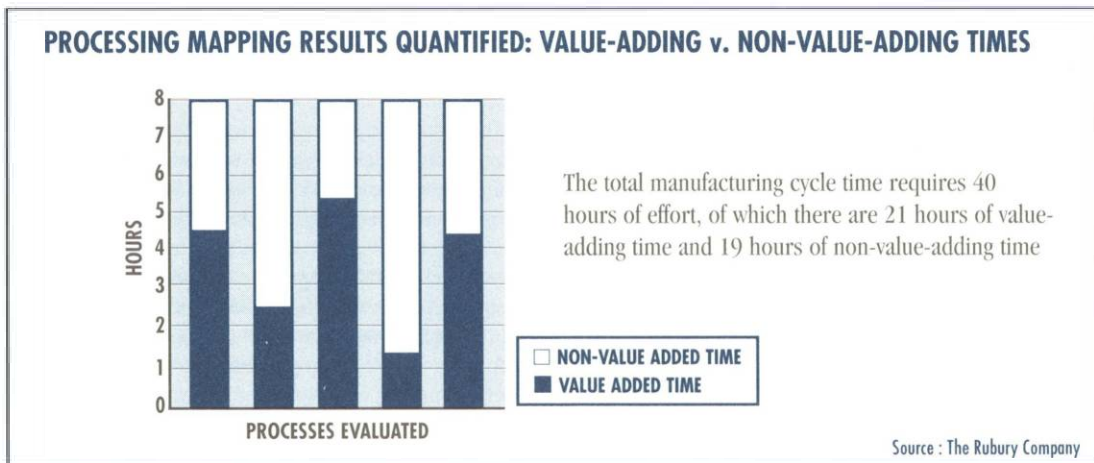
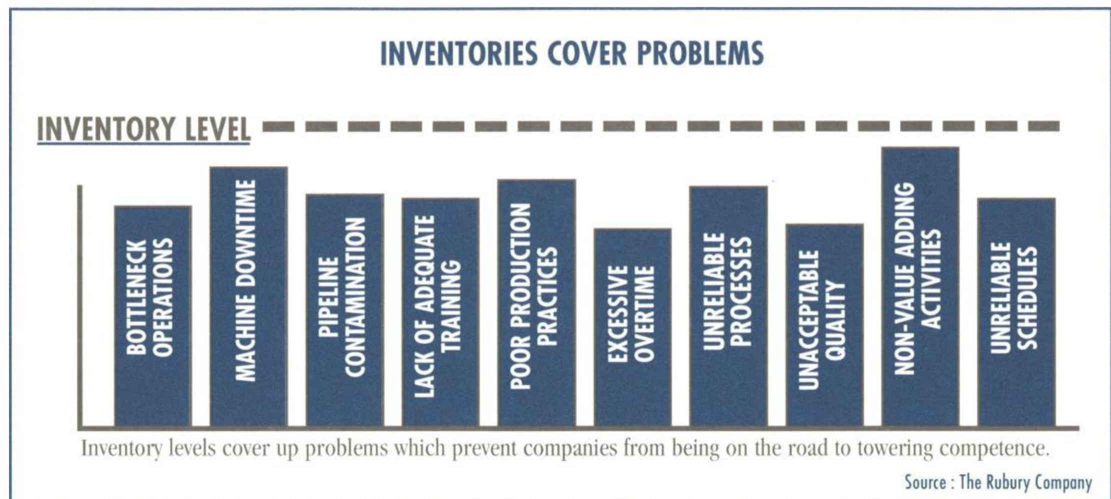


FIGURE 4



Inventory levels cover up problems which prevent companies from being on the road to towering competence.

Source : The Rubury Company

Change CONTINUED

A reengineering-process improvement team can implement the reduction of nonvalue-adding activities. The team members, coached by reengineering specialists, evaluate the nonvalue-adding activities and attempt to eliminate them. Each nonvalue-adding activity can be viewed as a constraint in the process that requires resolution. The team must find the root causes of the constraint and implement solutions to prevent nonvalue-adding functions from diluting the value-adding elements of the manufacturing process.

Preventative Maintenance Program

Clearly, some nonvalue-adding activities, such as die changes, cannot be avoided. The task of the reengineering-process improvement team is to find ways to shorten the time to get the press back in operation. Another example of a nonvalue-adding activity is repairing a press when it is scheduled to produce parts. An effective preventative maintenance program is a remedy for this situation.

The development of a preventative maintenance program would be the responsibility of the reengineering-process improvement team. Their job is to identify all of the areas of the press that require maintenance, develop a preventative maintenance program, and schedule the maintenance work during times when the press is not scheduled for production. Additionally, the reengineering-process improvement team would prepare appropriate training materials and conduct training sessions with personnel involved in this function.

Die-changes, removal of stamped parts and production scrap, combined with unscheduled down time could result in three or more hours of nonproductive time on a stamping press during a single shift. Assume that, in this instance, the reengineering-process improvement team can reduce the nonproductive time by two and three-quarter hours. If a 600-ton progressive stamping press is scheduled to produce 1,200 parts per hour, the reengineering-process improvement team's efforts would increase daily production by 3,300 parts per shift. If, before the process improvements, the press was working five hours a day with a total daily product of 6,000 parts, the addition of another 3,000 parts produced in the same period would represent a 55 percent increase in production, a substantial achievement.

Focus Shifts to Other Areas

Profitability reengineering is a continuing process. After improvements have been implemented, the cycle is repeated. In the initial round of improvements, the bottleneck operations are identified and corrective action is taken to increase throughput and reduce operating costs. It is then likely that other work centers cannot keep up with the newly reengineered work centers, and these become the targets for the next round of improvements.

Once the reliability of the manufacturing process improves and throughput increases, it is time to reduce inventory levels. Whereas, before, higher inventories were needed to compensate for both capacity and unreliable process constraints, the increased system reliability provides the opportunity to strategically reduce inventory levels (see figure 4). As a result of employing the profitability reengineering process, the company will elevate its entire manufacturing system to higher levels of performance and flexibility.

A profitability reengineering program will correct operational problems. Without support for change from top management, however, reengineering will not succeed. Astute managers facing the challenge of change have committed fully to profitability reengineering. They have found that improvements in operating measurements can be achieved through increased throughput, reduced operating costs, and lower inventories. Simultaneously, these improvements can result in increased profits, cash flow, and return on assets. ◆

Challenge the Old Paradigms

Accountability Is One Area We're Ready to Implement: Part II

William L. Reeb, CPA

In the September/October 1997 issue of CPA Management Consultant, *Bill Reeb continued his challenge of several systems or operating strategies that are commonly accepted as "good." He believes that, by accepting these systems, many organizations have become complacent about practices that could put them out of business. In this article, he continues his challenge.*

Real systems of accountability are fundamental to any successful business operation. In the first part of this article published in the September/October issue, I discussed four of the following seven elements in a real system of accountability. In such a system, employees—

1. Receive wages and benefits in line with those of their peers.
2. Have a challenging job.
3. Know exactly what is expected.
4. Are held accountable, as much as possible, to objective measurements.
5. Receive adequate training.
6. Learn on the job.
7. Are rewarded for over-achievement.

Elements 5, 6, and 7 are the focus of this article.

Providing Adequate Training

Training is essential to employee motivation. It is more common, however, for corporations to focus on efficiency and cost-reduction. Most managers make clear that the more they must get involved with employees, and the more mistakes employees make, the more likely these employees will be included in the next downsizing. In response, employees learn that, to protect their jobs, they need to look busy, do only what they are comfortable doing, and spend an inordinate amount of time covering their tracks when mistakes are made.

Many day-to-day performance crises can be minimized, however, just by training people adequately. Training is needed not only by new people working on new tasks. Although helping employees in new situations is important, it's often even more important to help the people who have been performing their jobs for decades. We have created many robots in corporate America because we have mismanaged our people to the point that they have cleverly learned to—

- Put paper A into basket B, then
- Copy the third line on all the papers in basket B, and
- Enter that information onto the first screen in Program C.

Many of our employees have learned to follow procedures without questioning them. They do these procedures without understanding their purpose, their importance, and their place in the big picture.

In the long term, companies can't continue to compete if they persist in perpetuating this level of misunderstanding, lack of employee training, competency-faking, and track-covering.

The only way to change this is to recognize that one of the primary jobs of managers is to focus constantly on training. Managers must assess the gaps in employees' skills and find ways to fill these gaps. Their jobs are not to do everything themselves, but to do through others. They are supposed to leverage their skills by breaking complex projects into simple bite-sized pieces that employees can handle. The formula is simple: the better trained employees are, the better work they will do.

Here's a quick test of your company's standing in this area. Motorola, a well run company known for quality products and innovative ideas, has an annual training budget equal to 1.5 percent of payroll, not including a salary allocation for people's time away from work during training or tuition and other costs for reimbursed training at universities. How does your company's commitment to training stack up against this?

Tom Peters, years ago in his book *In Search of Excellence*, commented that corporate America was spending the embarrassing sum of $2.28 per year per employee on customer service training. If this amount is similar to that spent by your organization, fight to change it. Your long-term survival depends on what you do now to prepare employees for tomorrow.

Learning On-the-Job

A work environment that allows people to learn on the job is critical to motivate employees to grow with the company. In many corporations, such a negative connotation is attached to making mistakes that considerable resources are wasted daily in attempts to cover up clues that errors ever existed. Often, just fixing a mistake requires far less effort, but that approach won't suffice for many unless it also erases the blunder too. The perpetuation of the idea that failure or mistakes won't be tolerated reduces not only productivity and profitability, but also employee morale.

How does this attitude toward failure manifest itself? In business, as in life, we are taught that to be considered a worthy and good human being, we must "grab for the brass ring." Clichés such as "anything other than first doesn't count" are used to motivate people into taking "the right perspective." Unfortunately, comments such as these really damage our ability to learn and grow. They make the idea of failing so oppressive that we're unwilling to venture into unfamiliar areas, where we can gain experience and knowledge.

CONTINUED ON NEXT PAGE

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Tapping The Work-at-Home Force

Among the many challenges faced by managers is the need to recruit and retrain qualified employees. Many employees expect to be able to establish work arrangements different from the traditional nine-to-five workday in the office. One consequence of this expectation is the growth of the telecommuting work force. Many workers who spend two to four hours a day commuting to and from work have a great incentive to work at home. In addition, the transfer of technology to the home is inexpensive. For $3,000 to $5,000, you can install a computer, fax machine, laser printer, telephone, and voice mail. The challenge to the employer is to—

- Identify which jobs can be performed out of the office.
- Establish objectives for work performance.
- Build systems and tools to measure that performance.

Editor's Note: Telecommuting is one of several work arrangements employers are using to accommodate a diverse workforce. A good overview of the various systems that firms are using is available in *Flexible Work Arrangements in CPA Firms* (New York: AICPA, 1997), product no. 090425 MCS11; AICPA members, $19.95; nonmembers, $24.95. To order call 800-862- 4272, option no. 1. ◆

Challenge CONTINUED

We have to change our attitudes about failure in corporate America. When we do, our employees' attitudes about learning on the job will change. Rather than feel that every new project is just another opportunity for failure, employees may see new projects in a more realistic and positive light, as another opportunity for personal growth.

When asked, "What has made you so successful?" a businessman replied, "Making good decisions!"

The interviewer then asked, "How do you make so many good decisions?"

The businessman answered, "My experience."

The interviewer: "How did you gain this valuable experience?"

The businessman: "From my bad decisions."

It's funny, being wise is considered admirable, yet the road to wisdom, which is paved with failure, is avoided at all costs.

The reality is growth occurs when we are allowed to make mistakes and learn from them. When we make a good decision, most likely we do not reflect on why it was correct and what made us choose that alternative. Our ego tells us to pat ourselves on the back. However, most of our learning comes from those times when our decisions are wrong and we attempt to determine why.

Rewarding Over-Achievement

A trend in employee compensation is converting from an attendance-based pay system to a performance-based pay system. This is a logical outcome of the goal of leveraging people better. It also creates new issues and challenges.

Now, we put too much emphasis on titles and salary grids, but not nearly enough on what people do. For example, in an association that employed two people and a part-timer, one full-time person, who was making around $22,000 a year, wanted a raise. Although she hadn't had a raise in eighteen months, she was already at the top of her grid regarding wages. The response from the executive committee was, "We'll look at giving her a raise next year. Besides, we could replace her and save money." While everyone knew that she did excellent work, the conflict was between what she was responsible for and what she actually did.

The result, as you would expect, was she quit several months later. However, the committee was correct: She was replaced at a cost savings of $5,000 per year. The only glitch came when they had to hire a second person so that all the work the former employee was doing would get done.

This is a common story. The lazy way to handle compensation is to emphasize titles and salary grids rather than employees' responsibilities. Every day, however, more and more employers are struggling to rework the system. With performance-based pay, it doesn't matter whether a secretary is paid $15,000 or $50,000, but rather what he or she does for the company. Reworking the compensation system is no easy task, and there is no prefabricated system to convert everyone's pay from 100-percent base to some portion of base pay plus performance, but this trend is likely to continue.

Performance-based pay provides employees not only with some income security, but also with a means to increase or decrease earnings based on their personal agendas. Performance-based pay opens up avenues for off-site work too, which not only saves "bricks and mortar" costs, but also gives a company access to an

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About the Author:

Gary R. Trugman is a certified public accountant licensed in the states of New Jersey, New York, and Florida. He is a certified business appraiser, an accredited senior appraiser in business valuation, and a certified fraud examiner. He regularly serves as an expert witness in federal and state courts testifying on business valuation, matrimonial matters, business and economic damages, and other types of litigation matters.

Gary has and continues to serve on several committees for the AICPA, the NJ Society of CPAs, and International Board of Examiners to name a few. These committees range from business valuation to litigation services to ethics and discipline. He is a national lecturer on business valuation topics. He has developed, written and presented courses on business valuation.

Gary was born in New York and received his bachelor's degree from Bernard M. Baruch College of the City University of New York. He earned his master's degree in valuation sciences from Lindenwood College.

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expanded workforce. (See "Tapping the Work-at-Home Force" on page 6.)

Performance-based pay puts a great burden on management, because in our current corporate climate, we often judge performance by subjective criteria such as personal attitudes. Seemingly objective measures such as number of hours worked are inputs rather than outputs. The number doesn't measure the quality or the amount of work done during the time spent.

As managers, we need to be creative. We need to set aside quality think-time to establish a pay-for-performance compensation system that among other things—

- Determines how to pay for outputs rather than inputs.
- Rewards people when they take on extra projects.
- Rewards employees for beating deadlines.

There is no question that a great deal of time and effort is needed to establish a system that will enhance employee morale while increasing productivity. But employees are the most important asset of a business. Getting them to work a little more efficiently and to be a little happier while they work, has great benefits for the company. It's up to management to change the culture of the organization.

There is no simple formula or checklist to follow to implement performance-based compensation or the other elements of a system of accountability. But it is doable. Management has to make it a priority and allow ample time to brainstorm some workable solutions. From a purely consulting viewpoint, there is unlimited opportunity to help companies implement the seven elements. Don't expect systems to be flawless as you approach this problem. Recognize that unwanted behavior is often the result of a misinterpreted or abused compensation system. So, do the best you can, monitor the results, and then fine-tune your plan of attack. ◆

Celebrating the New Century in Court

Year 2000 Litigation Looms

Dave Pelland

By now, enough doom-and-gloom articles have been written about the potential problems associated with software date formats and the year 2000 that a backlash of doubt is starting to settle in. But while debate continues about the severity of the issue and teams of programmers and consultants race against a deadline that's now 800-odd days away, another industry is also making quiet preparations for the new century. A growing number of trial lawyers are eagerly anticipating the negligence and liability lawsuits that will be filed in January 2000 (assuming that the courthouse computers work).

While the potential effects of software programs that use two digits to represent the year being unable to calculate dates may be benign in some instances (such as a bank vault swinging open on a Saturday morning in a closed branch) and serious in others (such as medical equipment deciding it hasn't received maintenance in a century and shutting itself down), there is little disagreement that whatever the new millennium brings, companies are going to get sued.

In fact, the year 2000 issue and its implications present an electronic viper's nest of potential risk management problems that include business interruptions; negligence, contractual and shareholder litigation; software licensing disputes; regulatory and disclosure issues; and the time and expense of trying to correct date formats in computer programs that can be thirty years old and may have been written in any of the more than 2,000 software languages that have been developed.

At a seminar sponsored by J&H Marsh & McLennan, Jeff Jinnett, president of LeBouef Computing Technologies in New York, recommended that companies start their year 2000 efforts with an inventory of the hardware and software being used within their information systems. Just cataloguing the software that has been installed and altered over the years is going to be a challenge for most companies, but Mr. Jinnett predicted that correction efforts at many firms are going to be hindered by undocumented software packages and home-brewed solutions that programmers installed as quick fixes decades ago.

"During a software inventory, you should also conduct a legal audit of your licenses and contracts," Mr. Jinnett said. "Is your vendor supposed to be upgrading your software? If so, will the upgrade arrive in time? If you correct the date fields yourself, will doing so violate your software agreements? These kinds of issues may lead to lawsuits between companies and their original software vendors, which could easily scare away a date-correction vendor."

Mr. Jinnett added that starting over by replacing noncompliant programs may not provide any reassurances. "If you license new software, you obviously want it to be compliant, but there's no regulation specifying what it means to be compliant. You have to identify how you deal with dates in your business and specify what compliance means to you.

Disputes with software vendors aren't the only potential lawsuits companies must anticipate. Exchanging information with suppliers and customers that may not be date-compliant creates a risk of data contamination that is accompanied by the prospect of litigation. Companies can also find themselves in court explaining any date-related problems emerging from mergers or acquisitions that were not uncovered during due diligence reviews.

CONTINUED ON NEXT PAGE

Dave Pelland is managing editor of Risk Management magazine. His article is reprinted from Risk Management, September 1997.

If a company's operations are disrupted by date-related problems, Mr. Jinnett said that because computer programming isn't considered a fortuitous event, companies may face coverage disputes with their business interruption carriers.

Public companies can face a number of additional year 2000 problems. Mr. Jinnett said accountants and regulators are starting to put pressure on companies to disclose the costs associated with converting data and to evaluate the possibility of not being date compliant. If a company appears unlikely to have its software converted in time, its stock may be shorted. Or if a company experiences a business interruption as a result of a year 2000 problem, it may be hit with shareholder litigation.

"Directors and officers may face personal liability due to the problems stemming from this issue, and if they were not involved in the planning process, they won't be able to invoke a business judgment defense," Mr. Jinnett said. "D&O insurers are starting to ask their insureds if they have a problem and how they are dealing with it."

Given the complexity of a software conversion effort, Mr. Jinnett recommended that companies start preparing for litigation as they get ready to welcome in the new century. "Throughout this process, you have to document every step you take," he said. "You have to involve your general counsel and create a litigation file." ◆

World Wide Web Resources on the Year 2000 Problem

Information about the Year 2000 problem and available Year 2000 conferences and seminars: http://www.year2000.com

AICPA's The Year 2000: Time is Ticking Away for Accountants: http://www.aicpa.org

General Accounting Office's Year 2000 Computing Crisis: An Assessment Guide, which includes an auditor's checklist: http://www.gao.gov

IBM's Year 2000: Traversing the Century: http://www.software.ibm.com/year2000

Jeff Jinnett's The Millenium Bug: http://www.LLGM.com

A schedule of Jeff Jinnett's presentations on the Year 2000 problem: http://lctkey.com/events_conf.htm

The Year 2000 Resource Book published by Management Support Technology, which profiles most of the vendors of software tools to correct the Year 2000 problem: http://www.mstnet.com/year2000/yr2000.htm

National Bulletin Board for Year 2000: http://www.it2000.com

U.S. House of Representative public hearings on the Year 2000 problem: http://www.house.gov/science/hearing.htm#techmay

U.S. Federal Government Year 2000 Survey: http://www.year2000.com/archive/survey.html

Year 2000 Information Directory: http://www.itpolicy.gsa.gov/mks/yr2000/y201toc1.htm

Articles and publications and other information on the liability and insurance implications of the Year 2000 problem: http://www.y2k.com

Year 2000 software upgrades: http://www.auditserve.com/yr2krk.html

Questions to Ask A Vendor Before Buying a Year 2000 Solution and other articles provided by The Year 2000 Information Network: http://web.idirect.com

Project Year 2000: Motivating the People by Richard Warden of Software Futures Ltd.: http://www.softwarefutures.ltd.uk

Cryptography and encryption software: http://www.rsa.com/rsalabs/faq/aboutfaq.html

Examples of Year 2000 compliance warranty language for contracts:

http://www.itpolicy.gsa.gov/library/yr2000/y209rfpl.htm

http://www.year2000.com/archive/warranty.html

http://www.nist.gov/itl/div879/yr2000.htm

http://204.222.128.9/horizon/year2000/drftspec.htm

Advisory Letter 96-4 issued by the Office of the Comptroller of the Currency to the CEOs of national banks, advising them that their banks should correct the Year 2000 problem by the end of 1998: http://www.occ.ustreas.gov/ftp/advisory/96-4att.txt

Management Tools and Techniques : Fleeting Fads or Enduring Strategies?

Keeping up with management innovations is an essential part of every consultant's efforts to provide competent services to clients. These efforts have been made more difficult as the number of management tools continues to expand. Do these tools increase performance? Do they improve organizational decisions and operations? Do they ultimately result in giving companies the capability of serving customers better than their competitors?

For the past four years, Boston-based Bain & Company has surveyed users of a variety of management tools to find out if they think the tools they use are effective. In 1993, Bain launched a research project to provide managers with the information they need to identify, select, implement, and integrate the tools that will improve bottom line results. Bain has assembled a data base that includes more than 3,000 respondents from thirteen countries in North America, Europe, and Asia.

In the surveying companies, Bain focuses on twenty-five of the most popular tools (see the sidebar on this page). Survey respondents indicated that tool usage remains high around the world and across all industries. Respondents use thirteen of the twenty-five tools, and plan to use fourteen in 1997. The most popular tools are used by more than 80 percent of the respondents. They are strategic planning (89 percent), mission and vision statements (87 percent), benchmarking (84 percent), and customer satisfaction measurements (84 percent).

Bain concludes that "management tools are not silver bullets." The average satisfaction score of respondents was a B–. The tools promise more than they deliver say 71 percent of the respondents, and 77 percent believe that tools must be customized for individual companies. Successful use of tools requires top-down support according to 94 percent of the respondents.

Financial Success

Bain finds no correlation between financial success and the numbers or types of tools used. There is a correlation, however, between financial success and the ways tools are used (see "The Best Tools for the Job" below). Based on their research, Bain offers four suggestions for using the tools:

1. *Get the facts.* Every tool has strengths and weaknesses. Success requires understanding the full effects. Prospective users should talk with other users and be critical of hyperbole and simplistic solutions. Survey respondents report that business periodicals, books, and colleagues are the most popular sources of information about management tools. Videos and the Internet are the least popular sources.

2. *Champion enduring strategies, not fleeting fads.* Line managers and tool gurus may have different agendas. Managers who promote fads can undermine the confidence of employees in their ability to effect change. Managers should champion realistic and strategic directions and consider the specific techniques for achieving them as expendable.

3. *Choose the best tools for the job.* Managers need a rational system for selecting, implementing, and integrating the tools and techniques that are appropriate for their companies. A management tool will improve results only to the extent that it uncovers unmet customer needs, builds distinctive capabilities, exploits competitor vulnerabilities, and develops breakthrough strategies by effectively integrating these accomplishments.

4. *Adapt the tools to your business system (not vice versa).*

Bain has compiled a compendium of the twenty-five tools and techniques that were the subjects of this survey. *Management Tools and Techniques: An Executive's Guide 1997* by Darrell K. Rigby describes each tool, its methodology, and common uses and provides a list of selected references for further investigation. To obtain a copy of this compendium and a copy of the survey results call or write to Darrell K. Rigby, Director, Bain & Company, Two Copley Place, Boston MA 02117-0897. Phone: 617-572-2771; fax: 617-572-2427; e-mail: darrell.rigby@bain.com ◆

Management Tools Included in Bain & Company Survey

- Activity-based costing
- Agile strategies*
- Balanced scorecard*
- Benchmarking
- Competitive gaming*
- Core competencies
- Customer retention
- Customer satisfaction measurement
- Cycle time reduction
- Groupware
- Growth strategies*
- Knowledge management*
- Market migration analysis*
- Mass customization
- Mission and vision statements
- Pay-for-performance
- Portfolio analysis
- Reengineering
- Scenario planning
- Self-directed teams
- Shareholder value analysis
- Strategic alliances
- Strategic planning*
- Total quality management
- Value chain analysis

*New tools for 1996 survey.

THE BEST TOOLS FOR THE JOB

	Financial Results	Customer Equity	Performance Capabilities	Competitive Positioning	Organizational Integration
Activity-Based Costing	●				
Agile Strategies				●	
Benchmarking				●	
Customer Retention	●	●		●	
Customer Satisfaction Measurement		●		●	
Cycle Time Reduction	●	●	●	●	
Groupware					●
Growth Strategies	●		●	●	
Mission and Vision Statements					●
Pay-for-Performance	●				
Portfolio Analysis	●				
Self-Directed Teams					●
Shareholder Value Analysis	●				
Strategic Alliances		●		●	
Strategic Planning	●	●	●	●	●
Total Quality Management		●			

BAIN & COMPANY

Consulting Firm Acquisitions Continue to Rise

Consulting firms are increasingly buying their way into new geographic regions and service areas, according to a new study by Kennedy Research Group (Fitzwilliam, NH). The study, *Management Consulting Mergers & Acquisitions*, reports that in the first half of 1997, consulting firm acquisitions were up 75 percent compared with the same period last year (see figure 1).

Report co-author Tim Bourgeois says, "We're seeing an increase in 'toe-hold' deals—those which buy entree into either a brand new geographic market or service line. Established firms are buying foreign-based consultancies to quickly achieve scale and avoid language and cultural differences as well as information technology firms to help implement technology solutions."

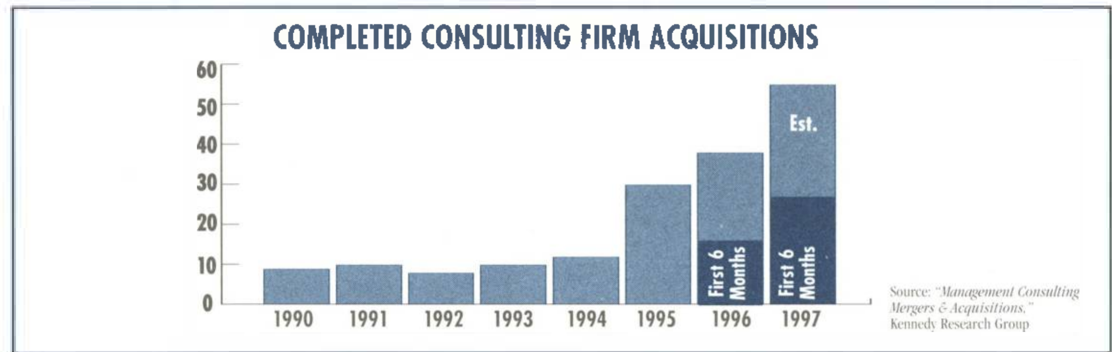
Consultancies are increasingly providing a wide range of services to clients. "If you're buying strategic advice from a firm, who better to implement it than that firm?" asks Bourgeois. "The retail superstore concept—one-stop shopping—is now being applied to high-brow consulting."

According to Bourgeois the mean price-to-sales ratio for consulting firms is 1.14. Since the current market capitalization for equities tracked by Morningstar is 0.8 times revenues, the 1.14 ratio represents nearly a 43 percent premium.

The report *Management Consulting Mergers & Acquisitions* is a comprehensive examination of the dynamics, characteristics, and trends in management consulting M&A activity. The 71-page study examines valuations based on types of firms acquired, sizes of acquired firms, buying and selling tactics, and best practices in consulting M&A. The study draws on in-depth interviews with leading firm principals and a database (contained in the report) of more than 200 transactions.

Kennedy Research Group is a business unit of Kennedy Information, LLC, publishers of *Consultants News* and *The Directory of Management Consultants*. ◆

FIGURE 1



BOOK REVIEW

Violence At Work: How to Safeguard Your Firm. **Mark F. Murray, JD with Andrew A. Chakeres, JD. Paperback. 110 pages. Product no.090430. $28—members; $37—nonmembers.**

Violence intrudes upon the workplace more than most of us realize. In a 1996 survey conducted by the Society for Human Resource Management, almost 50 percent of the respondents reported one or more violent incidents in their workplaces in the last few years. On-the-job violence was experienced by more than one-third of respondents to an American Management Survey, which included professional service firms, manufacturers, corporations, and sales offices.

Much of this violence is preventable. That is the objective of Mark Murray's *Violence At Work*: to show managers how to reduce the likelihood of a violent incident, how to respond if one does occur, and how to create a safe work environment. In addition to the physical and psychological trauma experienced by victims and their co-workers and employers, the firm often experiences financial trauma. Murray reports that "one incident of workplace violence costs an employer an average of $250,000 in medical and legal expenses. Judgments for inadequate security average $1.2 million nationwide, with settlements averaging $600,000."

Murray presents a compelling case for preparing for the possibility of workplace violence and outlines a comprehensive program for preventing and dealing with such incidents. CPA consultants will find practical guidance for their own firms as well as their clients in this thoroughly researched book. Murray covers crisis management plans, policies, teams, and education and training, but focuses most on measures for preventing violence. His chapter on "Work Environment" covers both management style and premises security. Guidance on "Hiring and Terminating Staff" includes employee termination guidelines designed to help the employer treat the employee fairly and humanely and maintain the safety of the workplace.

Since workplace violence arises from stressful employee situations, Murray devotes a chapter to pro-

viding an overview of "Employee Assistance Programs." He also provides a profile of the typical perpetrator of violence to help employers identify potential problem employees. The appendix of the book contains a sample workplace violence policy.

For the CPA consultant, *Violence at Work* offers not only guidance to prevent violence in their own firms, but also an overview of the issues that could be raised with clients whose policies and practices may not foster a safe environment.

A couple of sections very specifically address the concerns of CPA consultants: A chapter on "Safety on the Road" offers "do's and don'ts" to business travelers (see the excerpt below), and the appendix provides a client satisfaction survey (to help CPAs avoid the wrath of dissatisfied clients).

A list of organizations in the appendix is useful but would be more useful if their website universal resource locators (URLs) were included. A bibliography of sources dealing with the topics covered in more detail would also be a helpful addition to the book. Overall, however, Murray gives CPA consultants and their clients plenty of starting points to develop safe work environments. ◆

Safety on the Road—General Do's and Don'ts

Reprinted from *Violence at Work: How to Safeguard Your Firm* (New York: AICPA, 1997).

■ Travel with an emergency contact card listing local emergency telephone numbers, and the names and telephone numbers of two people to contact in the case of an emergency.

■ Carry a card describing any medical conditions or allergies to drugs.

■ Take a minimum amount of cash. Use credit cards and travelers checks for purchases and hotel charges.

■ Use automatic teller machines (ATMs) that have wide-angled mirrors and are located in well-lit, busy locations, such as in supermarkets. Avoid using machines surrounded by shrubbery. ATMs situated on street corners or next to driveways give criminals an easy approach and getaway.

■ Carry plenty of quarters in the event you need to use a public telephone. If you use a telephone calling card be careful when keying in your code numbers. Some criminals in airports are skilled at observing and recording codes.

■ Leave expensive jewelry and ostentatious clothing at home. They will only draw a criminal's attention to you. If you must wear a specific piece of jewelry, such as a wedding or engagement ring, turn the stone around so it is not visible, particularly when you are in high traffic areas, such as in airports or at taxi, shuttle, or bus stations.

■ Keep your wallet in your front pocket or drape your purse strap across your chest.

■ Arrange for staff to travel together whenever possible.

■ Avoid displaying large amounts of money when paying cab fare or when leaving tips.

■ Keep expensive equipment, such as laptop computers and cellular telephones, in suitcases or carry-on bags and out of sight whenever possible.

■ Carry a cellular telephone if you travel frequently or to isolated or dangerous areas.

■ Remain cautious and alert and keep a safe distance when being asked for directions or solicited by street vendors.

■ Use a luggage cart that allows you to keep one hand free.

■ Walk to meetings, parking lots, and destinations outside the hotel with another person whenever possible.

■ Avoid taking short cuts unless you know exactly where they lead and that they are as well-lit and well-traveled as usual routes.

■ Stay focused and confident, and walk with purpose. Look like you belong. Victims of crime often appear confused, lost, distracted, or unsure.

■ Contact the U.S. State Department's Office of Overseas Citizens Services in Washington, D.C. if you are traveling abroad to learn of any travel advisory issue for a country or region you plan to visit. The U.S. State Department's Overseas Security Advisory Council publishes books that prepare employees for international travel.

■ Don't leave any luggage or carry-on bags unattended at the terminal, taxi, or shuttle bus station, in the airplane or train, or hotel lobby. Thieves know carry-on bags usually contain valuables. Instead, keep all luggage directly in front of you and in sight at all times. Don't put laptop cases, purses, or other valuable items on the ground while picking up a piece of luggage. To store carry-on luggage, place it beneath your seat or in the overhead bin directly above your seat.

■ Don't use your home address and telephone number on your luggage tag. Instead, use your business address and telephone number.

■ Avoid districts known for drugs, prostitution, or pornography. They are usually situated in high crime areas. ◆

Upcoming Conferences

AICPA Fraud Conference

December 8–9, 1997

Hyatt Hill Country, San Antonio, Texas

Recommended for 16 hours of CPE credit

Optional sessions:

Fraud Detection December 7

Interviewing Skills December 10

AICPA Personal Financial Planning Conference

January 12–14

Hilton Walt Disney World, Orlando

Recommended for 21 hours of CPE credit

For information about these conferences, call the AICPA Order Department at 800-862-4272, option number 1. ◆

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