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CPA

MANAGEMENT CONSULTANT

WHAT'S INSIDE

A New Look and A New Schedule

Beginning with this issue, *CPA Management Consultant* will be published bi-monthly. We've increased the frequency of the issues to provide more timely guidance on emerging services, practice management, and marketing and reviews of products and publications.

We thank you for your continued support of the MCS Membership Section and encourage you to continue to share your thoughts on what we can do to support you in your efforts.

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

AICPA

Practice Development Opportunity: Corporate Ethics Audits

Bruce N. Lowery, CPA

Boards of directors in corporate America have a growing concern about ethical conduct in business for which they share overall governance. The focus of their concern is that effective ethics programs are in place that are meaningful within the corporate culture and ensure compliance under the Federal Sentencing Guidelines.

Unethical practices are occurring with greater frequency, often resulting in public disclosure of major losses due to inappropriate financial reporting, illegal business practices, and other activities. Adding to the concern of corporate boards are the Federal Sentencing Guidelines enacted in 1991 by the U.S. Sentencing Commission. These guidelines had their genesis in 1984, when Congress passed the Sentencing Reform Act and established the U.S. Sentencing Commission, which is reponsible for determining how organizations that violate federal laws should be punished. The Commission can impose severe financial penalties on an entity convicted of corrupt and unethical business practices.

The Guidelines are intended to deter unethical practices by placing the burden on management to ensure they understand the consequences of such practices. The Guidelines do not establish fines for the occurrence of an unethical practice but instead establish penalties for organizations convicted of wrongdoing if management failed to have programs in place that may have prevented such wrongdoing. The Guidelines emphasize the prevention of unlawful conduct principally by increasing the need for surveillance to ensure ethical business practices and by imposing penalties for those failing to have effective programs in place.

The fines levied for unethical business practices vary depending on whether the company implemented ethics programs, and the degree of management's cooperation in reporting and investigating corporate misdeeds. For example, in a fraud case the base fine typically would be the amount fraudulently gained by the defendant or the loss incurred by a victim. The amount of the fine can range from 5 percent to 200 percent of the lost amount and is based upon the extent to which compliance programs had already been implemented and of management's cooperation during the investigation.

Small Businesses Are Vulnerable

Large corporations are not alone in being at risk. At the May 1997 Business Ethics Conference sponsored by The Conference Board, William S. Laufer, Associate Professor of Legal Studies, The Wharton School, pointed out that small businesses (fewer than 500 employees) are very vulnerable. Laufer reported that, of all corporations convicted of unethical business practices in federal courts, more than 90

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Corporate Ethics *CONTINUED*

percent are small businesses and, on average, more than 95 percent are privately held. Laufer attributes their vulnerability to several factors:

- *Informality.* Small companies have a less formal structure and culture and means of communication and are less likely to have formal documentation, training, and standards.

- *Resource limitations.* Operating on a limited scale, smaller firms often do not have legal and compliance staff and resources.

Effective Compliance Programs

To determine whether a corporation has an effective program to ensure compliance with ethical behavior standards, the U.S. Sentencing Guidelines examine seven specific areas:

1. Are the organization's standards and procedures likely to reduce criminal conduct?
2. Do high level personnel have specific responsibilities to oversee these standards and procedures?
3. Has authority been delegated to individuals who are likely to engage in illegal activity?
4. Have the standards and procedures been effectively communicated to employees?
5. Have reasonable steps been taken to achieve compliance with the standards (for example, auditing systems)?
6. Have standards been consistently enforced (for example, with a disciplinary process)?
7. Have responses to detections of offenses been appropriate?

Source: *Beyond Computing* (June 1997)

- *Different business orientation.* Surveys reveal that small businesses are more concerned with customer interests and relations (for example, customer satisfaction) than matters of compliance. The values of the company leadership are often imbedded in corporate structure and culture. Some business leadership, for example, may pursue minimizing taxable income to the point of ignoring ethical standards.

The Ethics Audit

Corporate ethics audits include conducting reviews to ensure programs are in place for protection under the Federal Sentencing Guidelines. They go beyond reviews, however, to determine that Corporate Codes of Conduct are available, ethics training is provided to employees, and an Ethics Officer is identified. The scope of this service would also include auditing compliance with:

- Federal laws governing business practices; for example, laws related to employment, sexual harassment, discrimination, and similar issues.

- State laws and statues covering safety in the workplace and compliance with local environmental laws.

- Specific industry regulations; for example, regulations relating to financial services and banking, or contracting with the federal government.

Several independent organizations have been involved for ten years or more in helping companies develop ethics programs. These programs typically include preparing and implementing Codes of Conduct, providing employee training programs, establishing whistle-blower programs, and monitoring the effectiveness of these practices. Ethicists associated with major universities or college professors have developed their own consulting practices and are increasingly in demand for providing service to develop corporate ethics programs. The legal profession has also entered this field at the heels of the litigation explosion associated with highly visible failures caused by poor ethical practices.

Some large CPA firms are involved in conducting business-related audits or control reviews. Such audits include reviews of an organization's stated ethics programs as well as investigating compliance with industry regulations and federal and state laws and statutes. With the advent of the Federal Sentencing Guidelines, greater demand has been created for outsiders to assist not only in developing ethics programs, but also in conducting audits regarding adequacy of corporate business ethics programs.

The Market for Services

Prospective clients for ethics audits include any organization with fifty or more employees that is subject to the Federal Sentencing Guidelines. Corporate ethics audits are particularly important to organizations under the scrutiny of regulated industries (for example, the defense industry, financial services industry, government contractors). Organizations will look outside for objective assessment regarding their ethics and compliance programs.

The revenue potential for providing these services is promising. *Business Week* described "ethics consulting"

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as "a billion-dollar industry" (July 15, 1996). According to *The Wall Street Journal* (August 12, 1996), ethics consultants are paid retainers or are billed at hourly rates that range from $50 to $2,000.

Provider Qualifications

Ethics audits and associated services can easily be rendered by CPAs whose experience includes financial and operational auditing. CPA consultants are logical choices to assist corporate directors with their ethics and compliance programs. By virtue of their audit backgrounds they gain an understanding of business operations, as well as appropriate training and experience. This background prepares them to assist corporate directors in inventorying the risks associated with their business practices and recommending and implementing programs for strengthening weaknesses and deficiencies to ensure compliance with the sentencing guidelines as well as federal, state, and industry laws and regulations.

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Resources on Corporate Ethics

"Note on Federal Sentencing Guidelines for Organizations," Harvard Business School note 9-393-060. (Call 800-545-7685.)

Organizations

Ethics Officer Association
30 Church Street, Suite 331
Belmont, MA 07178
617-484-9400

Ethics Resource Center
1747 Pennsylvania Avenue, NW, Suite 400
Washington, DC 20006
202-737-2227; ethics@ethics.org; www.ethics.org

Josephson Institute of Ethics
4640 Admiralty Way, Suite 1001
Marina Del Rey, CA 90292-6610
310-827-1868; ji@jiethics.org

World Wide Web Sites

www.depaul/ethics/

DePaul University Institute for Business & Professional Ethics

This site focuses on providing ethics resources to teachers, trainers, and business people.

www.lmco.com

Lockheed Martin Corporation

Offers the company's code of ethics and business conduct published as "Setting the Standard." Its library has links to information including executive speeches, upcoming conferences and events, and periodicals.

www.navran.com

Navran Associates

A comprehensive listing of articles, tools, workshops, and links for information on organizational ethics.

Books

American Institute of CPAs. *Internal Control—Integrated Framework* (The COSO Report). New York: AICPA, 1994.

Kaplan, Jeffrey M. et al. *Compliance Programs and the Corporate Sentencing Guidelines: Preventing Criminal and Civil Liability.* New York: Clark Boardman Callaghan, 1993.

Landekich, Stephen. *Corporate Codes of Conduct.* Bold Step Series. Montvale, N.J.: Institute of Management Accounting, 1989.

Manley, Walter, II. *Executive's Handbook of Model Business Conduct Codes.* Englewood, N.J.: Prentice-Hall, 1991.

Stone, Christopher. *Where the Law Ends.* Prospect Heights, Ill.:

Waveland Press, 1991.

The Conference Board. *Business Ethics: Generating Trust in the 1990s and Beyond.* New York: The Conference Board, 1994.

______. *Corporate Ethics Practices.* New York: The Conference Board, 1992.

______. *The Evolving Role of Ethics in Business.* New York: The Conference Board, 1996.

U. S. Sentencing Commission. "Sentencing of Organizations," *Federal Sentencing Guidelines Manual.* St. Paul: West Publishing Company, 1993.

Periodical Articles

Davis, James R. and Welton, Ralph E. "Understanding Ethics Development and Employment Behavior," *Internal Auditing* (Winter 1993): 63-69.

Dobson, John. "Are Ethics Programs a Hoax?" *CFO* (January 1997): 12.

"Ethics Audits Contributing to Diversified Practice," *The Practical Accountant* (September 1996): 10.

"Ethics for Hire," *Business Week* (July 15, 1996): 26-27.

Kaplan, Jeffrey M. "Corporate Compliance Programs: Maintaining the Committment," *Legal Backgrounder* (May 2, 1997): 1-4.

Khalfani, Lynette. "More Employers Focus on Ethics Training, Cottage Industry for Consultants Grows," *The Wall Street Journal* (August 12, 1996).

Krohe, James, Jr. "The Big Business of Business Ethics," *Across the Board* (May 1997): 23-29.

Paine, Lynn Sharp. "Managing for Organizational Integrity," *Harvard Business Review* (March-April 1994): 106-117.

Quinn, John J. "Personal Ethics and Business Ethics: The Ethical Attitudes of Owner/Managers of Small Business," *Journal of Business Ethics.* Vol. 16, no. 2: 119-127 (1997).

Sims, Ronald R. "The Challenge of Ethical Behavior in Organizations," *Journal of Business Ethics* (1992): 505-513.

Smith, H. Jefferson, Ph.D. "Corporate Crime and Punishement," *Beyond Computing* (June 1997): 10-11.

Stark, Andrew. "What's the Matter With Business Ethics?" *Harvard Business Review* (May-June 1993): 38-48.

Corporate Ethics *CONTINUED*

The consultant's skills in providing these services can be enhanced with an understanding of:

■ Federal Sentencing Guidelines dealing with unethical and illegal business practices.

■ Regulations associated with a client's industry, if applicable

■ Federal and state laws associated with operating the business lawfully (for example, employee rights, safety, environmental protection laws).

■ The COSO (Committee of Sponsoring Organizations of the Treadway Commission) Report: *Internal Control–Integrated Framework*.

■ The Foreign Corrupt Practices Act.

Having gained a base of knowledge associated with these areas, the practitioner may want to consult other resources to ensure that he or she is aware of current issues associated with business ethics (see the list of resources provided on page 3). A practitioner not having experience with or knowledge of a particular industry may wish to align with another firm or specialist when providing services to clients in that industry.

Conducting the Audit

A corporate ethics audit involves conducting a risk assessment or risk liability inventory of a particular client's business practices. Functional areas and activities most sensitive to ethics abuses would be particular targets of the audit. The risks likely to be considered by the consultant will include potential adverse publicity, potential loss of business, legal implications, injury or loss to employees or customers, and disclosure of sensitive data. While a wide variety of ethics-sensitive functions may exist depending on the organization's industry, several are universally important:

■ Controls associated with accounting records; for example, employees involved with purchasing decisions with vendors have opportunities for inappropriate business practices if proper controls are not in place.

■ Compliance with regulations and general public expectations regarding environmental, safety, and health issues.

■ Sales and marketing practices, financial reporting, and compliance with the Foreign Corrupt Practices Act.

■ Acquiring and using sensitive-competitive information.

■ Human Resources practices (for example, compliance with the Americans With Disabilities Act, illegal hiring or discharge) and product safety practices.

An engagement to audit a client's corporate ethics program would begin with an assessment of the ethical climate of the organization and then identify specific risks applicable based on the tests performed.

Project Deliverables

A corporate ethics audit will produce high-level reports to management assessing the organization's ability to—

■ Prevent violations of federal and state law.

■ Ensure compliance with regulations of the industry, if applicable.

■ Provide an early warning to senior management about misconduct.

■ Facilitate the corporate directors' oversight responsibilities.

■ Prevent conduct by employees that could lead to unfavorable publicity for the company and its officers, directors, and other employees and harm the organization's reputation.

■ Reduce exposure of the organization and its officers, directors, and employees to criminal and civil liability.

■ Maximize the likelihood that the company will be able to prevail with the government that criminal prosecution is unwarranted should a violation occur.

Of course, the biggest benefit of the corporate ethics audit may be the opportunity to implement recommendations associated with the findings and identification of program components necessary to ensure compliance under the Federal Sentencing Guidelines and, therefore, to reduce potentially devastating fines that could be mandated for unlawful acts.

Risks Involved

Aside from the risks associated with any consulting services rendered by CPA consultants, the corporate ethics audit is essentially free of risk. However, before conducting the audit, the CPA consultant, as in all consulting engagements, needs to reach an understanding with the client about the objectives and scope of the audit, as well as the respective roles of the client and practitioner. At the outset, the CPA consultant should also clarify when it is appropriate to refer to legal counsel and what level of the organization should be informed of violations of federal laws (the Board, in-house legal counsel, the president, or the internal audit committee). ◆

MARK YOUR CALENDAR

Several AICPA Conferences of interest to *CPA Management Consultant* readers are scheduled for this fall. They include:

Advanced Litigation Services Conference
October 16–17, 1997
The Mirage, Las Vegas

National Conference on Business Valuation
November 16–18, 1997
Loews Coronado Bay Resort, San Diego

Fraud Conference
December 7–9, 1997
Hyatt Hill Country, San Antonio

For information, call the AICPA at 800-862-4272, option 1.

MCS Monitor

"The source for up-to-the-minute news impacting today's MCS professionals"

August 1997

UPDATE ON THE ABV ACCREDITATION PROGRAM

As reported in the November 1996 issue of *MCS Monitor*, approval of the ABV(Accredited in Business Valuation) designation by AICPA Council has resulted in the development of an accreditation program, which will include a written exam. As of this writing, the two committees formed to create the ABV program, the ABV Credential Committee, and the ABV Examination Committee are working on the program administration and exam.

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The initial ABV examination is scheduled for Saturday November 15, 1997. It will be held in ten cities across the country including San Diego, which is the host site for the AICPA's Third Annual National Business Valuation Conference scheduled for November 16-18 at the Loews Coronado Bay Resort. The San Diego exam will be held at the Sheraton in downtown San Diego. In addition to San Diego, the examination will be administered in Atlanta, Boston, Chicago, Dallas, Denver, New York, Philadelphia, San Francisco, and Seattle.

This summer, information packets will be sent to practitioners who have requested their names be added to a mailing list. The packets will include the ABV Candidate's Handbook, which contains complete program information, including a description of eligibility requirements, program questions and answers, exam content specifications, information on an exam review course, and other program information. The packets will also contain an exam application, an experience affidavit, and a test-site preference form. To be added to the mailing list to receive the information packets, AICPA members can access the AICPA's 24-hour fax retrieval system by dialing 201-938-3787, following the voice cues and asking for document no. 491. Information can also be requested through AICPA On-line.

ACCREDITATION PROGRAM ADMINISTRATION

The information packets will contain instructions for completing and submitting the examination application and the experience affidavit. If there is a question regarding information on the experience affidavit, candidates will be contacted immediately to resolve the open issues. However, should a question require a written response from the applicant, the application will still be conditionally accepted.

The candidate will be allowed up to ninety days from the date of notification of conditional acceptance to resolve the open issues. The candidate may take the examination during the ninety-day period; however, if

Review Course Schedule

City	Dates	State Society	Phone Number
Denver	Sept. 5-6*	Colorado Society of CPAs	(303) 773-2877
Atlanta	Sept. 11-12	Georgia Society of CPAs	(404) 231-8676
Seattle	Sept. 19-20	Washington Society of CPAs	(206) 644-4800
Chicago	Sept 22-23	Illinois CPA Foundation	(312) 993-0393
Philadelphia	Sept 26-27	Pennsylvania Institute of CPAs	(215) 735-2635
Boston	Oct. 8-9	Massachusetts Society of CPAs	(617) 556-4000
Los Angeles**	Oct. 17-18	California Society of CPAs	(800) 922-4272
Dallas	Oct. 23-24	Texas Society of CPAs	(972) 687-8500
New York	Oct 27-28	Foundation for Accounting Education	(212) 719-8300

* Tentative. Confirm dates with Colorado Society.

** No examination will be administered in Los Angeles. However, it will be given in San Diego and San Francisco on November 15.

the open issues are not resolved during that period, the candidate may need to retake the examination. Additionally, the ABV Credential Committee has created an internal review process that requires the consent of multiple reviewers before any application can be rejected for deficiencies in the experience requirement.

ABV EXAM REVIEW COURSE

The AICPA is offering a two-day examination review course in nine cities in September and October. (See schedule on page M1.) The review course in each city will offer two instructors who are leading experts in business valuation. They will cover the business valuation body of knowledge in an interactive approach designed to promote maximum participation. The cost for the two-day course is $449.

Brochures describing the ABV Exam Review Course were mailed in July. Those interested in attending the review course should contact the state society sponsoring the course to confirm the dates and locations. The program offers sixteen hours of recommended CPE credit.

Attendance at the review course does not guarantee qualification for the ABV Examination. Candidates for the exam are responsible for making sure they have met or will meet the qualifications for taking the exam. Those interested in receiving information packets when available, should complete and return the attached form via fax.

QUESTIONS ASKED ABOUT THE ABV ACCREDITATION PROGRAM

Q. Are there any provisions for grandfathering or granting the ABV designation through reciprocity to those that hold business valuation designations from other appraisal organizations?
A. No. The ABV accreditation program has been designed to ensure that the program be available to AICPA members who have demonstrated the necessary depth and breadth of experience and knowledge in business valuation and are members in good standing while holding a valid CPA certificate or license. These requirements provide that the credential holder has the proper level of professional competence and adheres to the AICPA Code of Professional Conduct.

Q. Are there any differences between the Certificate of Educational Achievement (CEA) in Business Valuation and the ABV designation?
A. Yes. The CEA is awarded to those who successfully complete the eight-module business valuation educational program. The CEA is an indication of completion of an educational program not an accreditation, and as such, may not be used as a professional designation. The ABV designation incorporates an experience requirement and a written examination designed to test knowledge in business valuation and requires ongoing experience and CPE in order to maintain the designation.

Q. Does simply assisting in the preparation of common-sized financial statements, doing ratio analysis, or performing certain analytical review procedures count toward the ten engagements-project experiences required to be able to sit for the ABV examination?
A. No. The experience component of the eligibility requirement to sit for the written ABV examination states that the candidate must provide evidence of ten business valuation engagements that demonstrate substantial experience and competence. For purposes of the ABV accreditation program, the ABV Credential Committee has defined a business valuation engagement or project as:
A valuation engagement or project involving sufficient research and analysis to arrive at a conclusion or estimate of value of an entity, instrument, or economic benefit requiring a documented conclusion.

Q. Can I take the ABV examination even though my experience affidavit is under review because of questions concerning certain aspects of my experience?
A. Yes, with a qualifier. The ABV Credential Committee may conditionally accept an applicant's experience affidavit. This conditional acceptance occurs when, in the course of reviewing an applicant's ten engagements, there is a question about experience indicated on the affidavit. The candidate will be allowed ninety days from the date of notification of conditional acceptance to resolve the open issues.

The candidate can still sit for the examination during this period; however, the candidate runs the risk of having to retake the examination should the open issues not be resolved during the ninety-day period. The ABV Credential Committee has created an internal review process that requires the consent of multiple reviewers before any application can be rejected for deficiencies in the experience requirement.

Q. In order to meet the requirement for ten engagement experiences to sit for the ABV examination, a candidate must demonstrate substantial experience. To meet the requirement of five engagement experiences to maintain the accreditation, the ABV credential holder must demonstrate substantial involvement. Is there a difference between *substantial experience* and *substantial involvement?*
A. Yes. The ABV Credential Committee has determined that substantial **experience** can be demonstrated by *participating* in a business valuation engagement (see definition of engagement above). To maintain the accreditation, substantial **involvement** requires that the individual be *responsible* for the business valuation engagement.

Q. What is an example of being "responsible" for a business valuation?
A. Individual A inputs raw data into a spreadsheet program. Individual B analyzes that data and arrives at a conclusion of value. Individual C reviews the data that A and B worked on and signs off on the project. In this example, both B and C meet the criteria of being responsible for the engagement. A does not.

Q. How do applications that have open issues get resolved?
A. The ABV Credential Committee has instituted an internal review process. It works as follows:

If a rejection is contemplated, the first Credential Committee reviewer passes the application to a second committee member for review. If the second reviewer agrees with the first reviewer, the application is rejected. However, if the second reviewer disagrees with the first reviewer, the application goes to a third reviewer. The third reviewer then reconciles the dispute. The reviewer's determination is the decision, and associated action is taken.

Q. When does the initial CPE three-year period for reaccreditation begin?
A. The CPE requirement for ABV reaccreditation will be consistent with other CPE requirements of the AICPA. However, the initial reaccreditation cycle shall begin immediately subsequent to the candidate's notification of accreditation and end December 31st of the third complete calendar year. For example, if a candidate is notified of his or her earning of the ABV designation on April 1, 1998, the initial reaccreditation period ends December 31, 2001.

Q. What happens if my job changes or other professional or personal circumstances preclude me from timely meeting of the reaccreditation requirements?
A. If reaccreditation requirements are not met, your accreditation ceases and all initial requirements, including examination, must again be met to regain accreditation. A waiver may be requested and will be granted if, in the sole judgment of the AICPA Credentials Committee, there is justification because of extreme hardship or extraordinary circumstances.

Q. One of the criteria for maintaining the ABV accreditation is that each credential holder completes sixty hours of related CPE during each three-year period subsequent to obtaining the ABV designation. How do you determine if the CPE is related?
A. For the CPE to be deemed related, it must add to the credential holder's knowledge and understanding of business valuation and skills in performing valuation engagements. The ABV Credential Committee has provided an outline of suggested CPE topics in the ABV Candidate's Handbook that are directly related to the conduct of a valuation engagement and are considered to be part of the required body of knowledge for the ABV credential holder.

Q. What are some of the CPE categories or subjects that the ABV Credential Committee recommends as part of the body of knowledge for the ABV holder?
A. The recommended CPE topics considered to be related to business valuation fall into several broad categories including:

- Security market operations
- Research techniques and research tools
- Company, industry, and economic data analysis
- Valuation calculations and conclusions
- Reporting standards and report preparation
- Code of Professional Conduct and Professional Standards

Q. Are computerized interactive CPE courses considered to be self-study for purposes of the twenty-hour limit for self-study, authoring articles, lecturing or serving as a course instructor?
A. No. Computerized interactive CPE courses are not classified as self-study for the purpose of the twenty-hour limitation.

ABV, Accredited in Business Valuation Information for Accreditation Program

This form is for record keeping purposes so that when information on the program specifics such as an examination application and other materials become available, you will receive them in a timely fashion.

Name ______________________________

Firm Name ______________________________

Firm Address ______________________________

____

____

Phone # ______________________________

Fax # ______________________________

E-Mail # ______________________________

AICPA Member # (if available) ______________________________

Return form via fax or e-mail to:
AICPA
ABV Program Administrator
fax: 212-596-6268

Strategic vs. Tactical Marketing

Getting the Most From Your Marketing

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An imperative for CPA consultants and other providers of professional services is to capture the attention of increasingly savvy buyers. Keeping up with ubiquitous rivals makes "getting the word out" a requirement for staying in business. Indeed, the battle for clients puts marketing leaders in a dizzying game of one-upmanship to raise awareness of their firms' services, capabilities, and methodologies. If it wasn't so serious, it would be comical. But there it is: For a professional services firm, effective marketing is absolutely critical to success.

Yet is it also frustratingly complex. For consultants, there remains a significant amount of confusion about the best marketing techniques and approaches. In fact, far too many management consulting firms pursue tactics-based marketing approaches and fall victim to tactics-based marketing dangers.

If you haven't addressed your firm's strategic marketing issues and created a marketing game plan, watch your back. You're a candidate to become the next victim of tactical marketing. Many professional service firms undermine whatever marketing advantages they enjoy by not understanding the difference between marketing strategies and tactics. Simply put, strategies are elements of a game plan to achieve a specific goal. The goal is generally to gain competitive advantage or market dominance by capturing and retaining the desired clients. The tactics are the activities a firm undertakes to achieve the strategic goal.

Promotion, building awareness, raising visibility—call it what you like—is the bedrock of most programs to market professional services today. The list of promotional vehicles in today's professional services environment is long. To name a few, they include:

- Getting quoted in the press
- Having a web page
- Making a speech
- Publishing an article in an external publication
- Publishing a client newsletter

But make no mistake about it—promotional activities are tactics.

Know Why You're Promoting

When you or the marketing leaders at the firm feel the need to promote the firm with these or other promotional vehicles, review the following guideposts in relation to your overall marketing plan before rushing ahead:

- *Rationale.* Why undertake this activity?
- *Expected results.* What will this activity get us? What beneficial results are we seeking? What are the potential pitfalls of this promotional activity? How will we know if we've achieved our definition of success?
- *Target audience.* Who are we trying to attract with this promotional vehicle? Is our audience so broad that we cannot tailor our message appropriately? How valuable is this audience to us?
- *Competitor activity.* How is this promotional vehicle the same as, or different from, what our competitors are undertaking? Are we copying our rivals or truly differentiating from them?
- *Audience perceptions.* Does this promotional vehicle support the favorable perception we are trying to create with our target audience? Or could it distort it?
- *Marketplace impact.* What will our promotional activity do to our marketplace? Will we create an evolution of our landscape as we promote? What innovations will we develop in our service mix as the services we promote get copied?
- *Investment.* What is the expected outlay of time and resources for this promotional effort, and will we see an appropriate "return" from our expenditure?
- *Leverageability.* Will we be able to cross-pollinate this investment into other marketing vehicles? Or is it a one shot deal?
- *The aftermath.* What are we planning to "do" once we stimulate inquiries from this promotional activity? Are we prepared to develop business opportunities that may arise as a result of our efforts to build awareness?

These questions represent the elements of strategy, because they require a review of the marketing context for a promotional activity. They also illustrate the need for a professional services marketing game plan. Once a foundation strategy is crafted, then promotional activities will make sense, will be easier to conduct, and will more likely reap the appropriate results.

The following two vignettes illustrate the painful truth that promotions not tied to the firm's marketing strategy may backfire:

- *The fox in the chicken coop.* The practice leaders of a top-tier management consultancy wanted to hold a seminar to introduce a new methodology and bring in new clients. Their marketing support staff secured a prestigious seminar facility, bought a mailing list from a respected list source, and distributed visually exciting, easy to read invitations. Their most expert partners developed crisp, content-rich presentations. They placed an advertisement in a top-flight business publication to boost registration for the seminar. Responses poured in. The practice leaders were elated to have such a large crowd to which they would present their cutting edge techniques. As the seminar got underway, however, their elation turned to horror when they realized that a significant number of competitors were in the audience.

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Misunderstandings About Marketing

Professional service firms perceive that they have addressed their strategic marketing challenges, but their behavior may suggest that they don't understand what strategic marketing is. This is the conclusion of a study conducted by Concord, Massachusetts-based Expertise Marketing in November and December 1996. The study's findings are based on the responses of 123 marketing decision makers in management consulting, accounting, financial services, executive search, and law firms.

The goal of the fax survey was to test the interest in and "ostensible need for" a marketing strategy in professional services firms. The answer: ". . . professional service firms today do discern the value of formulating and implementing strategic marketing programs. Yet gaining and maintaining a strategic focus is a very real struggle for all, regardless of their demographics. The respondents exhibited a significant myopia about the nature of, and the building blocks for, a solid marketing strategy."

Survey respondents generally accept the concept of strategic marketing. A majority (86.2 percent) reported that they have addressed their strategic marketing challenges in the last three years.

Closer examination of their activities, however, suggests that they do not fully grasp the fundamentals of strategic marketing. Nearly half of the respondents (46.3 percent), for example, reported that they examined their positioning in the marketplace and accordingly repositioned their firm's niche. Yet their responses also indicate that they have not taken strategic steps that are inextricably linked to positioning. A full 72.4 percent reported no activity in conducting a competitive analysis of rivals or implementing techniques to combat their rivals as a result. Similarly, 51.2 percent reported no activity in researching and/or revising their pricing policies.

These results illustrate the respondents' basic misunderstanding of the principles of strategic marketing. Positioning cannot be effectively accomplished without an examination of rivals or price structures. And similarly, an examination of price and competition must involve a look at positioning.

Informal Spending Approach

The study revealed additional evidence that the respondents misinterpret a strategic approach to professional services marketing. For example, 65.6 percent reported having no formal marketing budget, but spending money "informally—when we decide it's appropriate." The "informal" approach is a strong indicator of tactics-based marketing. In fact, some respondents reported that their marketing expenditures were for brochures, marketing materials, letterhead, or web site development. Such expenditures are promotional, not strategic, and may be wasted if they are not strategically appropriate.

Strategic vs. Tactical Marketing *CONTINUED*

What went wrong? This firm unwittingly engaged in tactical marketing. By placing an advertisement, they marketed their new methodology to their competitors, who scan the marketplace for intelligence about rival firms.

■ *All dressed up and still a wallflower.* A CPA management consulting firm's marketing director thought the firm's brochure looked dated. She believed a fresh visual image would help the firm gain ground against its competitors. She decided to redo the company logo, letterhead, and brochure. She spared no expense to design an elegant look. She secured a significant amount of senior partners' time in selecting a new logo, paper stock, and brochure layouts. She hired a top notch copywriter, who wrote compellingly about the firm's capabilities and distinctions. A respected printing company produced a stunning brochure. Upon its completion, she made sure the firm began including this brochure in all its proposals and marketing mailings. Alarmingly, the firm began losing a noticeable percentage of its new business opportunities.

What went wrong? This firm also unwittingly engaged in tactical marketing. The marketing director forgot to determine the value that clients placed on brochures in making their purchase decisions. In reality, the buyers of the firm's consulting services believe that brochures are too self-promotional, and therefore reduce the firm's credibility.

Base Promotion on Strategy

Is promotion an inappropriate activity in a professional services marketing program? Not at all. It is an essential element in helping a firm attract clients. But promotion must be conducted within a strategic context in order to achieve an appropriate end. A tactics-based response ignores the inevitable evolution of the marketplace. So to avoid wasting resources, as in the two examples, management consulting firms need to ensure that their marketing techniques support their marketing plan. ◆

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One CPA Firm's Story: Using an ESOP To Attract and Retain Employees

Mark A. Stepka, CPA

More than two years ago, Gary Shamis and Mark Goldfarb, the founding partners of our firm, developed a plan to recognize and financially reward the efforts of professionals of the firm. Additionally, the plan provides an ownership track other than partnership ownership for professionals who are not partners of the CPA firm.

The plan was developed to benefit both the firm and the participants in structuring of the "investment." For instance, some of the key plan provisions were:

- Individuals may invest up to one half of their annual salary.
- The investment is 90 percent debt and 10 percent equity (nonvoting class B shares), which provides a current return on the participant's cash investment (debt) of approximately 8 percent per year.

The debt component of the investment enables the firm to obtain a current interest expense deduction for the interest paid to participants. The equity component has a formula-based value that is derived from the percentage increase in annual cash receipts from the date of the initial investment to the date of separation of service. Furthermore, the equity component, according to the valuation formula, is multiplied by ten in calculating a participant's investment account value.

The valuation method, which is tied to cash receipts, is straightforward and has been widely accepted by the high number of employees who joined the plan in its initial year. Last year, a phantom stock was created for nonCPAs of the firm who want to participate in the plan but are unable to be shareholders in the firm.

Participation in the plan by eligible employees has continued to be very high, and over the past two years (since inception), participants have seen their investment increase by more than 60.5 percent and have received current interest income of 8 percent each year (see the example provided in the sidebar). The funds invested by the employees have been used to purchase new computer equipment and to retire bank debt obligations.

By thinking outside the box, Saltz, Shamis & Goldfarb, Inc. has implemented a plan that is favorable to the firm and its employees who have a vested interest in the retention of clients, expansion of the firm's client base, and timely cash collections. ◆

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An Employee's Return on Investment

Following is an example of an employee's return on investment after two years. A nonCPA employee-investor would receive the same return, except that the structure of the investment would differ in that the "equity" would be a phantom stock "debt" unit.

	Debt	Equity	Total
Initial investment	$2,700	$ 300	$3,000
End of year 2 return	8.8 %	60.5 %[b]	
	238	181	
Formula multiplier	NA	10	
Year one interest	238		
Year two interest	238[a]	1,813	
	476	1,813	2,289
Initial investment and return end of year two			**$5,289**

[a] Paid in cash quarterly. Equates to approximately an 8% return on the total investment.

[b] Based upon the increase in cash receipts of the firm from the year of initial investment.

A Client Service Opportunity: Image Processing and OCR

Sheldon H. Eveloff, CPA

Image processing and optical character recognition (OCR) are two technologies that many businesses should be considering in their daily operations. These technologies enable companies to become more efficient and to provide better customer service. Although image processing and OCR are not new, their implementation is becoming more widespread as their costs decrease.

Image processing is a method of converting an image on a piece of paper into a binary representation in a computer. The binary representation is then stored, retrieved, and manipulated and consists of reading characters on a form (text and numerical) and transmitting this data to a data processing file or database. Capturing data by OCR is different from image pro-

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Image Processing and OCR *CONTINUED*

cessing. OCR data can exist without image storage, and images can be stored without OCR data capture. Generally, however, they are found together.

Image processing technology is similar to the technology used in a fax machine, in which the image on a piece of paper is read into the fax machine and converted into a binary representation. This binary representation is then transmitted over telephone lines to another fax machine, where the binary representation is read and the document is produced. As with fax technology, image processing technology was extremely expensive several years ago but now prices are low enough to make this technology cost beneficial for smaller companies. Previously available only on large mainframe computers, image processing technologies are now available for use on personal computers.

Benefits to Users

Image processing and OCR have several major advantages. Image processing gives employees fast access to a copy of the original document. For many organizations, this fast access can translate into fast customer service, which can give the organization a competitive advantage. Customer service can translate into customer loyalty and increased sales for current and new products and services.

Image processing also reduces the administrative time spent looking for lost documents. This time is a hidden cost that many organizations underestimate or fail to acknowledge. One of the major advantages of converting manual systems into automated systems is the elimination of time expended on filing and tracking paperwork. An image of the original document is available for viewing on a microcomputer screen. This image may be viewed by more than one person at a time. Also, a copy can be produced if a customer or other party requires it.

Image processing eliminates the need to store massive amounts of paper in expensive office locations. The paper document can be stored off-site in less expensive warehouse space.

OCR reduces manual data entry that is costly and error prone because it "inputs" the data directly from paper form into an electronic database for processing and report writing. It does not eliminate data entry entirely, however, because some documents may not be readable by OCR equipment.

Image processing and OCR can not only decrease cost, but also increase market share by differentiating an organization from its competitors. A CPA firm and its clients can use these technologies to provide a higher quality of service and thereby gain a better competitive position in the marketplace. ◆

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