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THE CPA MANAGEMENT CONSULTANT

NEWSLETTER OF THE AICPA MANAGEMENT CONSULTING SERVICES DIVISION • SUMMER 1993

BULLETIN BOARD

STRATEGIC PLAN

The Executive Committee of the MCS Division has completed its strategic planning process for the current cycle. Members of the committee are working with division staff to create a structure for implementing the strategies identified in the plan. Highlights of the plan will be reported in the Fall 1993 issue of *The CPA Management Consultant*.

Continued on page 4

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BENCHMARKING: AN OPPORTUNITY FOR CONSULTANTS

BY RICHARD S. SAVICH, CPA, PHD AND STEVEN E. SACKS, CPA

Among the many processes increasingly in use by accounting and financial managers, *benchmarking* stands alone as a tool to improve performance because it is based on understanding what other organizations have accomplished. The concept is simple: Benchmarking involves placing an external focus on internal operations by observing existing activities and processes within the organization and determining a reference point against which they can be measured. This reference point—*or benchmark*—can be established for any aspect, level, or functional area of an organization.

The purpose of benchmarking is to identify the best practices that can be used as standards for an organization. Who best to provide assistance in benchmarking but CPA consultants with their comprehensive understanding of organizational operations and structure. With this knowledge and experience, CPA practitioners can help their clients use benchmarking to strengthen their operations. Accordingly, this article presents an overview of benchmarking. Practitioners are encouraged to refer to the numerous sources available that provide more detailed guidance.

A benchmark is a standard to which an organization aspires to be the best in its class. Benchmarking may begin in reaction to problems such as a review of internal processes, sales returns, or customer complaints. Benchmarking can also be prompted by a rethinking of long-term issues, such as cost-containment efforts, management changes,

or the addition of a new operation. Whether the impetus to undertake the benchmarking process is reactive or proactive, it can be used to help develop new objectives, procedures, or measures of performance. In benchmarking, an organization's current activities are analyzed to gain an understanding of the existing methods, and standards are determined for evaluating each method's performance. If the current ways of operating are ineffective, gathering information to set new goals becomes

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Mr. Sacks is a technical manager in the American Institute of CPAs Management Consulting Services Division. His views, as expressed in this article, do not necessarily reflect the views of the AICPA.

necessary. The CPA can use benchmarking as a consulting tool to assist client management in determining "What is the best we can do?" and the strategies for achieving that level of performance.

MOST CPAs USE BENCHMARKING

Most practitioners apply basic forms of benchmarking. For example, practitioners use financial ratios, such as the current ratio—current assets divided by current liabilities—as standards of measurement. For many years, the rule of thumb for a current ratio was 2:1. This rule, however, needed to be modified once the ratio was found not to apply in certain industries, such as those without inventory. Despite its shortcomings, the current ratio, along with other financial

ratios, may be appropriate to use because the concept of benchmarking includes considering market conditions and industry standards as well as other variables in setting performance goals. Financial ratios, it should be emphasized, are the results of processes that can be benchmarked. Over-reliance on ratios, however, can lead to misguided decision making. The CPA practitioner may need to use other quantitative and qualitative measures in benchmarking.

WHERE TO LOOK FOR BENCHMARKS

Where does the practitioner find the processes or operations to use as benchmarks? The best place to start is within the client company by gathering and assessing data—both quantitative and qualitative—about divisions or subsidiaries with similar functions. For example, two company divisions may be similar in sales volume, manufacturing capacity, size, and geographical markets, but one has a current ratio of 3:1 and the other 1.5:1. Without further examination, the CPA may be tempted to characterize the division with the 3:1 ratio as the best in its class and

to use it to set a standard. However, the financial ratios may not tell the whole picture. It is equally important to focus on the processes that produce the ratios. The company can engage the CPA to determine why one is outperforming the other by reviewing each division's approach to cash management, credit and collections, production, distribution, or merchandising.

Benchmarking also involves looking outside the client organization to

mined that L.L. Bean's warehousing and materials-handling operations were a model of excellence and emulated them, thereby realizing a gain in productivity, 3 to 5 percent of which was directly attributable to learning about Bean's operations. Similarly, in the retail banking business, First Chicago benchmarked airlines to determine how to handle long lines better. The Internal Revenue Service also improved its operations by studying American

Express's billing process and Motorola's accounting procedures.

WHY BENCHMARK?

To fully appreciate the benefits that can be derived from benchmarking, the practitioner needs to know why it is done. Benchmarking often results from management's wish to be proactive rather than reactive

in dealing with change. There could be the need to focus on customer needs, to create a system of early warnings of competitive disadvantage, or to promote teamwork throughout the organization. An organization may use benchmarking to survive among competitors with the hope of prospering in an ever-changing global economy.

Practitioners should not use benchmarking indiscriminately simply because they know how to determine the client's ratios and compare them with those of other divisions, competitors, or industry counterparts. Practitioners should ask the client whether any information in addition to the financial ratios would be useful in determining if other areas may need improvement. If the ratios themselves are not meaningful indicators, or if they are useful indicators but do not signify a need for improvement, then using them as benchmarks may be ineffective. Still, practitioners should perform a ratio analysis to compare the trends indicated by the client's ratios with those of the competition and the industry. This analysis could be an eye-opener that leads the client and

"Planning and competition can be combined only by planning for competition, but not by planning against competition."

***—Friederich August Von Hayek
The Road to Serfdom***

find the best practices. CPAs can provide a valuable service to clients by identifying the practices that companies have adopted to improve their operations and determining whether they can be adapted by their clients. When an external standard is sought, the practitioner can look in three places. First, the practitioner can look at the client's direct competitors to gain the perspective of customers for whom the client is competing. Second, the practitioner can compare the client with the industry as a whole to see what client customers expect from the industry.

The third approach to benchmarking is to determine which organization is best in class at performing an operation or a business process. For example, L.L. Bean (the Maine mail order company) is considered by many to have a distribution system that is best in class. Therefore, if the practitioner is looking at inventory turns and wants to review the best in class—not necessarily in the client's industry, which might be computer software—L.L. Bean's system could provide the benchmark. For instance, in the early 1980s, Xerox Corporation deter-

the practitioner to other steps in the benchmarking process.

To gain the most from the benchmarking process, the practitioner needs to understand the organization's operations and existing procedures. From these, the practitioner can identify the key areas of performance, the structural forces, and the areas that are ready for improvement. For example, if the organization is decentralized, the practitioner can compare the several locations to determine where the best operations are. A comparison of functional lines could provide details of those elements that are common among similar operations, identify those that should be the same but are different, and reveal what should be changed and why. In such a comparison, the practitioner assesses the effectiveness of the client structure by asking "Are we doing the right thing?" and the efficiency of the processes by asking "Are we doing the right thing right?"

The decision about which process or operation to begin with in the benchmarking process should involve top level client personnel as well as the consultant. If the client is dissatisfied with a certain operation—perhaps because of a high number of customer complaints, excessive returns, or relatively high costs—then it is an ideal target for productivity improvement. The practitioner can use benchmarking to show how the current operation compares with others in the company, competitors, the industry, and best-practice organizations.

The lessons to be learned from the competition may show only how to catch up, not how to surpass them. Looking outside the client's industry is vital to learn how the best practices are being accomplished in other organizations. Knowing what the best practices are, however, is not enough. The practices have to be put into operation to create the value for the benchmarking process. If the goal is to exceed customer expectations, the client's operations must be reviewed with a willingness to change the order of priorities to improve performance

levels. There needs to be a complete appreciation of the current practice and desired results and the recognition and acceptance of the changes that must occur to meet or exceed the goals that are set.

Differences between expectations or standards set by similar organizations and actual performance should be addressed in action plans.

FOCUS IS ON CRITICAL FACTORS

The practitioner and client management can decide what to benchmark by focusing on the organization's mission and the associated strategic issues. The organization's current practices, departments, functions, and so forth can be examined to identify the factors that are critical to gaining a competitive advantage. Other considerations that influence the decision about what to benchmark are the importance of a particular area to the organization's overall performance and the significance of its costs and financial indicators.

CPAs, because of their familiarity with business operations, will, along with client personnel, closely observe the manufacturing process, communications, and other aspects, to determine the level at which the organization should be performing.

their behavior can help to determine if value-added services are being provided. Not all customers are outside the client company. Internal customers in other departments or divisions can provide valuable feedback to help resolve a problem.

PRESENTING THE FINDINGS

The practitioner should prepare numerical data and graphs that show the organization's position compared with the competition, the industry, and the best in class. In many cases, the practitioner may not determine the best in class in the world but just the best among direct competitors and the industry. If the client falls below the best in class in several financial ratios, the practitioner has a basis for discussing opportunities for improvement and the consulting services that can be provided to meet established goals. In fact, a selling point may be to offer a pro bono ratio analysis and to follow up with a fee-for-service engagement.

Usually external qualitative and quantitative performance measurements are the basis for setting goals in the process of meeting customer expectations. The current ratio has been used in this article to illustrate a point. However, the number of quanti-

“ . . . a selling point may be to offer a pro bono ratio analysis and to follow up with a fee-for-service engagement.”

Tracking a product or service through a work flow is difficult without identifying the parties involved in delivering the product or service, understanding the reasons for their involvement, and determining if value is being added to the service from the standpoint of the customer. The CPA also should consider any restrictions, such as product specifications and environmental or public health regulations, that may prevent an organization from changing a particular process.

Customers can be a good source of information in identifying the causes of existing organizational problems. Listening to customers and observing

tative measures is endless. Each measurement relates to a particular characteristic of the organization that can be compared with the experience of competitors, the industry, or the best-practice organizations. However, the measurement may only give an appearance and sometimes can lead to misguided actions. For example, it can force an organization to do what is necessary to meet certain goals without understanding why the task is being performed. The underlying data can be massaged or estimated by different factors including market demand for the product, the local economy, or an overly optimistic performance estimate. Limitations can be imposed by a lack of useful information or built-in biases. For this reason, performing other types of tests is

necessary to go beyond the "numbers."

FINDING USEFUL INFORMATION

As mentioned earlier, in the benchmarking process, indicators other than financial ratios are also useful. These indicators include cycle times, time to market, and average time to service, or qualitative factors, such as the benefits of an internal training department. Consequently, the best first step may be to calculate the primary financial ratios since the client's financial data are usually readily available. Then by obtaining a listing of direct competitors or SIC codes, the practitioner can extract other data from some readily available sources, such as Moody's, Dun & Bradstreet, Robert Morris Associates, or Compustat. (See "Sources of Industry Data," *The CPA Management Consultant*, Autumn, 1992.)

The practitioner who is ready to move beyond financial ratios as the benchmark can obtain best-in-class information by accessing other data bases. The American Society for Training and Development (ASTD), for example, has information on training departments. The Benchmarking Network in Houston, Texas, maintains a data base of performance measures related to accounting and financial processes. In addition, the AICPA has undertaken a joint effort to develop a data base of performance indicators with the Hackett Group in Hudson, Ohio, a management consulting firm specializing in the restructuring of corporate finance.

The practitioner's firm can create its own data base. The practitioner can also contact best-practice firms to inquire about their practices. Some managers are willing to share information that is not classified. This information, however obtained, can serve as a basis for benchmarking to be used in subsequent engagements involving Total Quality Management (TQM), Business Process Reengineering (BPR), Activity-Based Costing (ABC), or other productivity improvement methods.

SELLING THE CONCEPT

A major part of the CPA consultant's success in offering this service, as with most other services, is to over-

come skepticism by convincing management of the benefits that benchmarking brings by changing the organization's culture. People usually respond poorly to change even if they see results in a very short time. Initially, some of the organization's efforts to ensure quality may have no impact at all on the methods of providing a better product, improving marketplace position, or enhancing customer service. This is why a CPA needs to strive to create an environment in which there is an incentive not only to improve, but also to seek improvement continuously. Every employee should be encouraged to take part in identifying and trying new approaches to existing problems. Sometimes focusing only on existing problem areas may not tell the whole picture. Positive results can serve as a guide to determining what can be replicated to extend achievement to other areas of the organization.

Benchmarking can also put an organization on notice that expecting and resolving problems is also a priority. It focuses attention on areas that currently need improvement while providing a target for improvement. By creating a change in attitude within the organization, benchmarking becomes a continuum. It should not be viewed as a quick fix, but as a tool or framework to keep an organization focused on its goals while keeping an eye on the industry leaders.

The purpose of benchmarking is to generate thought and action for enhancing the value of the organization while convincing all employees that they have a stake in its success. It should be done only if there is a clearly identified need to get better or to improve an existing practice. The CPA should convey the objectives along with the potential costs and benefits in an engagement letter. By convincing management to take action, the CPA consultant can generate additional business to ensure that management always focuses on improvement as a continuous practice.

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HOW TO LEARN MORE ABOUT BENCHMARKING

Practitioners can learn more about benchmarking strategies in accounting and finance in a self-study course offered by the AICPA. The course entitled *Benchmarking Strategies in Accounting and Finance* was developed by Mark T. Czarnecki, CPA, MBA, President of The Benchmarking Network, Inc., Houston, Texas. Mr. Czarnecki is a consultant and financial executive whose firm maintains performance measures for accounting and financial areas. The course level is basic and is recommended for 8 hours of CPE credit. The format is text, the price is \$119, and the product code is 730320NH. To order call the AICPA order department at 1-800-862-4272 and select submenu no. 1.

BULLETIN BOARD

Continued from page 1

CONSULTING SERVICES MANUAL

Publication of the AICPA *Consulting Services Manual* has been delayed in order to add materials that will make the manual more useful to practitioners. It should be in print on or about October 15. The manual can be obtained by writing or calling the AICPA Order Department at 1-800-862-4272 (Dept. #1), and requesting product no. 055016. The price of the manual is \$150; the discount price for MCS Section members and associates is \$120.

BUSINESS VALUATION

SPECIALIST ACCREDITATION

The requirements for the Business Valuation Specialist (BVS) accreditation are still being evaluated. When the final requirements are approved, they probably will be exposed for public comment. We will keep you informed of any decisions made or actions taken.

REGULATION OF PROFESSIONAL FEES PROPOSED

Accountants are among the professionals who may have their fees further regulated if proposed bankruptcy reform legislation is enacted. The Bankruptcy Amendments Act of 1993, S.540, was introduced by Senator Howell Heflin (D-Alabama) on March 10, 1993. S.540 is nearly identical to a measure (S.1985) passed unanimously by the Senate, which died because of a lack of time remaining in the 102nd Congress. S.540 would—

- Require the adoption of uniform, nationwide guidelines for applications of professional fees and expenses.
- Establish two new criteria for fee-evaluation: 1) only those fees for services deemed "beneficial toward the completion of a case" would be approved, and 2) the "total value of the estate and the amount of funds or other property available for distribution to all creditors both secured and unsecured" must be considered before fees are approved.
- Require consideration of whether the work was performed "within a reasonable amount of time commensurate with the complexity, importance, and nature of the problem."
- Prohibit the court from allowing reimbursement for services by professionals that are deemed "duplicative."

Existing regulations provide safeguards by requiring the review and approval of professional fees, including the requirement that all professionals, subject to scrutiny by the Court, keep detailed, contemporaneous time records measured to the nearest 1/10 hour. The U.S. Trustee's office or the Court presently may review any records and recommend changes in fee applications.

Under the new criteria, an accountant may be faced with a choice between the performance of uncompensated work or the material risk of a malpractice suit because of

failure to perform certain tasks deemed unlikely to give "results." Furthermore, it is common and necessary for two sets of professionals to perform valuations of an estate to evaluate competing plans for reorganization. Separate committees (secured creditors, unsecured creditors) rely on their own professionals for objective and independent advice on contentious issues. Under the new regulations, professionals may be penalized for responding to the needs of

their committees if it later appears that the work of several committees is duplicative. The AICPA currently is examining the question of whether professional fees in bankruptcy cases should be subject to further regulation. The Litigation Services Subcommittee of the Management Consulting Services Division is working with the AICPA's office of Congressional and Political Affairs to articulate a position regarding changes to the proposed legislation.

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OPPORTUNITIES ABOUND IN HEALTH CARE CONSULTING

WILLIAM T. CUPPETT, CPA, CLARKSBURG, WEST VIRGINIA

Almost daily, we hear and read news stories about public dissatisfaction with the system of health care in the United States and the proposed reforms on both the federal and state levels. In anticipation of these reforms, health care providers are preparing for changes in the health care delivery system. As a result, consulting opportunities abound for the CPA consultant to assist in meeting the challenges they expect.

The opportunities to provide consulting services are as diverse as the industry itself. However, services in the health care area that are presently in high demand include:

- Business valuations
- Merger and acquisition assistance
- Systems enhancement
- Service profitability evaluations
- Organizational planning and structuring

BUSINESS VALUATIONS

In response to market forces and anticipated health care reform initiatives, all types of health care providers are attempting to expand the volume and kinds of services provided. Rather than develop new services from scratch, providers seek to acquire other providers, such as home health services, durable medical equipment suppliers, hospice programs, primary care centers, outpatient surgery centers, and special inpatient units.

Many of these providers need assistance in determining the value of their health care organizations. The CPA consultant is uniquely qualified

to provide this assistance. In doing so, the CPA uses the business valuation techniques applied in any industry. However, to derive a reasonable and supportable valuation, the CPA consultant will also need knowledge of the health care industry. Some key factors include Medicare and Medicaid reimbursement mechanisms, rate-regulation systems, and patient utilization patterns. (See box on page 6.)

MERGER AND ACQUISITION ASSISTANCE

As health care providers aggressively enter new markets, they are increasingly seeking the assistance of the CPA consultant in negotiating and structuring mergers and acquisitions. This service may involve not only the negotiation of the price or the terms of the arrangement, but also substantial assistance in the implementation of the merger or acquisition. A due diligence review (also known as a businessman's review), performed to protect the client, can be critical to the success of the resulting entity. (See "Providing the Due Diligence Ser-

vice for a Merger or Acquisition." *The CPA Management Consultant*, Autumn, 1992.) Tax and other skills of the CPA are as important in this process as consulting skills.

SYSTEMS ENHANCEMENT

The need for clinical, financial, and management information by health care providers has never been greater and continues to grow. This information supports the highest priority of health care—the efficient provision of effective patient services. The provider cannot afford to incur duplicate costs on behalf of a patient to achieve the required clinical outcome.

Although clinical results continue to receive greater emphasis, many health care providers are severely limited by antiquated administrative methods, inefficient computers and information technology, and other deficiencies in management reporting systems. The CPA consultant can play a key role in the design of financial, clinical, and management information systems that allow providers to improve and monitor service delivery.

SERVICE PROFITABILITY EVALUATIONS

Health care providers are continually evaluating and re-evaluating the financial results of their operations. These evaluations can range from a limited review of the financial impact of hospital-based radiologists to an extensive analysis of the home care services of the hospital. The objective of such evaluations may be to monitor contractual arrangements, enhance third-party reimbursements, comply with state rate-setting policies, assess expanded or new services, determine compensation payments, or analyze the impact of service delivery changes. CPAs have what is needed to provide these services—a breadth and depth of understanding of financial statements and familiarity with diverse business operations.

ORGANIZATIONAL PLANNING AND STRUCTURING

As health care providers attempt to expand their importance in the health care delivery system, or as services are added or acquired, an evaluation of the organizational structure, from both an internal and external stand-

KEEPING UP WITH HEALTH CARE INDUSTRY TRENDS

Various publications describe health care industry trends, report statistics, and offer background information about hospitals and other providers. The Health Care Financial Management Association (800-252-4362) publishes the annual *Financial Report of the Hospital Industry*, which summarizes trends in the health care industry. The report is based on several financial indicators and is broken down by geographic region. The American Hospital Association (800-424-4301) prepares the *National Hospital Panel Survey Report* and *Hospital Statistics* and publishes *Hospitals*, a weekly journal. Another weekly journal, *Modern Healthcare* (800-678-9595) covers the health care industry. In addition, DRI/McGraw-Hill (202-383-3639) publishes *Health Care Costs*, a quarterly that provides cost indexes for hospitals, nursing homes, and home health care agencies.

In the next few months, the MCS Division will publish two practice aids that contain helpful background information for providing health care consulting services. They are *Nursing Homes* and *Dental Practices*, both of which are Industry Consulting Practice Aids. In addition, information about medical practices and their automation needs is provided in Consulting Services Practice Aid 92-5, *Automating Small and Medium-Sized Businesses in Selected Industries* (New York: AICPA, 1992).

The AICPA also publishes CPE self-study courses that will introduce the practitioner to several aspects of the health care industry:

- *Introduction to Hospitals*. This basic level course is in text format, and it is recommended for 6 hours of CPE credit. (Product no. 730121HR; \$99)
- *Introduction to Long-Term Care*. This basic level course is in text format, and it is recommended for 6 hours of CPE credit. (Product no. 730180HR; \$99)
- *Principles of Medicare Reimbursement*. This basic level course is in text format, and it is recommended for 15 hours of CPE credit. (Product no. 730131HR; \$155)

Financial ratings of health care institutions that have issued publicly held debt may also be obtained from Standard & Poor's Ratings Information Department (212-208-1527) or Moody's Investors Services (212-553-0533).

Most states and some large cities have hospital and nursing home associations that can provide publications and other information.

point, is required. Not-for-profit, tax-exempt organizations have expanded into traditional profit-making endeavors, multiple companies are being managed from central headquarters, and various ownership arrangements have been created with outsiders to provide capital and expertise. For the planning and structuring of these organizations, the CPA brings the necessary consulting, accounting, and tax skills.

The CPA consultants' skills can benefit any type of health care provider whether a hospital, nursing home, home health agency, hospice, physician, physician group, or durable medical equipment provider. In attempting to adapt to an environment yet undefined, this industry needs information that is critical to

ensuring quick adaptation to and compliance with the rules and policies of whatever national and state programs emerge.

Health care providers are accustomed to using outside consultants extensively for a wide variety of needs. Who best to meet the growing needs of health care providers but CPA consultants with the required business skills?

CPAs seeking a niche market to enhance their own practices, may find an answer in the health care industry.

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OVERCOMING CLIENT RESISTANCE TO OUTSIDE BOARDS

HOW TO DISPEL CLIENTS' TEN MOST FREQUENT MISCONCEPTIONS

CRAIG E. ARONOFF AND JOHN L. WARD

"The best thing we ever did was put independent, outside directors on our board," says one family business owner we know. "I sure wish I'd done it sooner. It would have saved us a lot of grief and a lot of money."

Family-business owners tell us again and again about the tremendous benefits they gain from having CEOs of other companies on their board. They praise the strategic stimulation they receive. They recognize the value of an objective perspective on family-business topics such as succession, family compensation, and shareholder involvement. Most of all, they appreciate the empathetic counsel they get as they struggle with the loneliness of leadership.

Why then do so few family businesses have outside boards? Our research suggests that no more than 5 to 10 percent of medium-sized private companies have the three or so outside directors necessary to have a creative, effective board.

Here are the excuses owners most often give for not having an outside board—and the responses consultants can give to convince them that they'll benefit from having one.

1. *I don't want to give up control.* This is the most frequent underlying concern. Business owners perceive that control rests with the board. In reality, it rests with the shareholders.
2. *No one of high quality would serve on my board.* Business owners are often too humble to believe they can attract the CEOs of other, usually larger, dynamic companies. However, in our experience, when one business owner approaches another for help with the interesting challenge of board

membership, the second owner is inclined to say yes. Business leaders will say yes because board membership benefits them. As they learn about another business, they think about their own. They enjoy learning from other leaders on the board.

3. *I don't even know people who would serve.* This is frequently true, and it's a good thing. Usually the better an owner knows a board candidate, the less appropriate the candidate is. The consultant needs to work with the client in defining the background and experience desired. Once it is clear what types of board members are needed, the owner and consultant can ask friends, suppliers, and other professional advisers (for example, bankers and lawyers) to identify candidates.
4. *The current family and employee directors would feel hurt.* If existing board members are asked to leave they may feel disappointed. But they should understand why the change is being made. Board meetings should be only one channel for keeping key people informed and involved. Executive committee meetings should fill that need for key managers; family meetings do it for the family. The owner can invite key managers or family members to board meetings occasionally. They can also receive copies of agendas and minutes. They don't need to be on the board to be in the loop.
5. *I can't keep meetings interesting enough.* An owner surely must have at least one important strategic question every three or four months. That's the best agenda

AN OUTSIDE BOARD HELPS TO OBTAIN CAPITAL TO EXPAND

Companies have a better chance of obtaining capital to expand if they have an outside board of directors, according to a study by Coopers & Lybrand. The 302 companies studied had sales between \$1 million and \$50 million and were named by the news media as being among the fastest-growing in the U.S. More than one-third relied on the impartial views of their outside directors and thereby seemed to increase their credibility with lenders. Thirty-seven percent of the firms with an outside board had recently obtained bank financing. Only 25 percent of firms without an outside board were able to do so. The firms with outside boards also paid less for their borrowed money.

Guidance on helping clients to establish an outside board is provided in Consulting Services Practice Aid 93-2, *Assisting Clients to Establish an Outside Advisory Board* (product no. 055141). This practice aid includes guidance for determining which client would benefit from an OAB, selecting and recruiting board members, establishing and operating the board, setting agendas, and facilitating board meetings. It also discusses marketing OAB engagements.

possible. The consultant or board members can propose topics when the owner must struggle to identify important issues.

6. *I might need to remove a director.* That would make me very uncomfortable. Dissatisfaction with outside directors is rare. One of our surveys shows that only 1 percent of directors were replaced each year because the CEO was unhappy with the board member. Still, we recommend clear, limited terms (two to five years) and a mandatory retirement age, such as 65 to 68. Exceptions can be

Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. and John L. Ward is the Ralph Marotta Professor Private Enterprise at Loyola University, Chicago. Portions of this article appeared previously in *Nation's Business*.

made when warranted.

7. *Boards involve too much work.* Preparation for a board meeting typically takes three or four hours per quarter. However, the financial and management reports developed for meetings should be valuable to management as well. Preparation also forces some "strategic reflection," which owners tell us is very valuable in its own right.
8. *We're growing too fast. A board will slow us down.* The board should include other "fast-growth" CEOs. They will encourage you to slow down if they think it's for the good of the business. Fast-growth companies need good boards the most. They can help to anticipate the problems and requirements associated with growth.
9. *Directors' liability insurance is too much hassle and expense.* Few existing boards have—or need—directors-and-officers insurance. Corporate indemnification is often quite sufficient. The unprotected exposure for directors of private companies is infinitesimal. In our research, we've found no example of a director's personal penalty. If liability is still a serious concern, the owner can form an "advisory council" of the same people to serve the same purpose.
10. *Outside directors don't want to be drawn into resolving family conflicts.* Correct. However, the mere existence of a distinguished, respected, outside board lessens family conflict dramatically. And when there is conflict, the board should encourage resolution; it doesn't—and shouldn't—resolve family conflicts itself.

The objections of business owners to having a board are based more on myth than fact. Real obstacles exist—such as family politics or a partner's lack of enthusiasm. In those cases, we recommend starting with an advisory council and letting the concept prove its own value. An outside board is the best investment owners can make in the future of their businesses and their families' security.

Note: Many educational institutions sponsor roundtables, seminars, and meetings to provide information

about the managerial, psychological, financial, and other issues faced by family businesses. See the listing of these institutions on page 9.

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BUSINESS VALUATION UPDATE

Did You Know That . . .

The federal agencies that regulate financial institutions have proposed raising to \$250,000 the threshold at which an appraisal must be performed by a licensed or certified appraiser. The current threshold is \$100,000. The higher threshold would support the Clinton administration's commitment to ease credit for small businesses. It is uncertain, however, what effect the proposed rule will have on another Clinton administration promise: to protect the consumer.

The proposed rule will have an impact on residential loans that are controlled by the requirements of the secondary market, which accounts for between 80 and 85 percent of all residential loans. Appraisals related to loans made through Fannie Mae, Freddie Mac, the FHA, and the Department of Veterans Affairs will still require a licensed or certified appraiser. One-to-four family residential loans between \$250,000 and \$1,000,000 would require a Title XI appraisal. However, if the residential property is taken as security to assure repayment of a business loan, an appraisal would not be required.

Business loans of less than \$1,000,000 will not require an appraisal in instances in which the sale of the property or rental income is not the primary source of repayment.

The CPA Management Consultant will keep you informed of any developments related to this and other business valuation and appraisal matters.

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NEW MCS PUBLICATIONS

MCS section members and associates should have received or will soon be receiving the following publications:

- Consulting Services Special Report 93-3, *Comparing Attest and Consulting Services: A Guide for the Practitioner*. This report is a revision of MAS Special Report, *Comparing Attest and MAS Services: A Guide for the Practitioner*. The new report reflects changes in AICPA professional standards and is intended to help practitioners identify the nature of the services needed in an engagement and the appropriate professional standards. A flowchart is provided to assist practitioners in determining the applicability of consulting, attest, and other professional standards. Case studies illustrate the decision making process delineated in the flowchart.
- Consulting Services Special Report 93-4, *Microcomputer Communications* provides an overview of communications between microcomputers via modems and standard telephone lines. It discusses various applications for microcomputer communications from the perspective of both the practitioner and the client.
- Consulting Services Practice Aid 93-5, *Developing a Consulting Services Control and Management Program* is a revision of MAS Practice Administration Aid No. 1, *Developing an MAS Engagement Control Program*. Its purpose is to assist CPA firms in developing or revising a program to control and manage the performance of consulting services engagements.
- Consulting Services Practice Aid 93-6, *Assisting Clients in Developing Policies and Procedures for Electronic Spreadsheet Applications* can be used by practitioners to design and implement such policies and procedures for their own practices or for their clients' operations. The objectives of these policies and procedures are to minimize the occurrence of errors, enhance ease of use, and promote efficiency.

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**FAMILY BUSINESS EDUCATION
AT COLLEGES & UNIVERSITIES**

STATE/INSTITUTION	CITY	CONTACT	TELEPHONE
California			
California State University-Fresno	Fresno	Doris Payne	209-278-2352
Santa Clara University	Santa Clara	Henry Demmert	408-554-4344
University of California-Davis	Sacramento area	Amy Lyman	415-776-5566
UCLA	Los Angeles	Stacey Webster	310-825-2985
University of San Diego	San Diego	Jackie Freiberg	619-260-4644
University of Southern California	Los Angeles	John Goodman	213-740-0157
Colorado			
University of Denver	Denver	Glynn Hanbury	303-871-2019
Connecticut			
Yale University	New Haven	Ivan Lansberg	203-497-8855
Georgia			
Kennesaw State College	Atlanta area	Maureen Johnson	404-423-6045
Illinois			
DePaul University	Chicago	Harold Welsch	312-362-8471
Loyola University of Chicago	Chicago	Drew Mendoza	312-604-5005
Southern Illinois University at Edwardsville	St. Louis area	Richard Lumma	618-692-2486
Indiana			
Goshen College	South Bend area	Leonard Geiser	219-535-7451
Louisiana			
Tulane University	New Orleans	John Vinturella	504-865-5737
Maryland			
Loyola University	Baltimore	Harsha Desai	301-323-1010 (X2395)
Massachusetts			
Babson College	Boston area	Wendy Handler	617-239-5022
Boston University	Boston	Marion McCollum	617-353-4287
Harvard University	Boston	H. Stephenson	617-495-6339
Northeastern University	Boston area	Paul Karofsky	617-320-8000 (X8015)
Michigan			
Hillsdale College	Hillsdale	Jack Oxenrider	517-437-3311
Minnesota			
University of St. Thomas	Minneapolis	Randel Carlock	612-962-4404
Missouri			
Southwest Missouri State University	Springfield	Arlin Renfrow	417-836-5667
St. Louis University	St. Louis	Robert Brockhaus	314-658-3850
Montana			
Montana State University	Bozeman	Karen Vinton	406-994-6187
Nebraska			
Creighton University	Omaha	Joyce Bunger	402-280-5521

FAMILY BUSINESS EDUCATION (Continued)

STATE/INSTITUTION	CITY	CONTACT	TELEPHONE
New Jersey			
Fairleigh Dickinson University	New York area	Mary Suchcicki	201-593-8842
New York			
Canisius College	Buffalo	Alan Weinstein	716-888-2615
North Carolina			
Elon College	Raleigh-Durham	Mickey Metcalf	919-584-2498
Ohio			
Baldwin Wallace College	Cleveland area	Don Jonovic	216-752-7970
Case Western Reserve University	Cleveland	Richard Osborne	216-368-2042
University of Toledo	Toledo	John Delp	419-385-3357
University of Cincinnati	Cincinnati	Sidney Barton	513-556-7180
Oregon			
Oregon State University	Corvallis	Patricia Frishkoff	503-737-3326
Pennsylvania			
Susquehanna University	Central PA area	William Sauer	717-372-4436
University of Pennsylvania	Philadelphia	William Alexander	215-898-4470
Rhode Island			
Bryant College	Providence area	William O'Hara	401-232-6477
South Dakota			
University of South Dakota	Vermillion	Tim Habbershon	605-677-5893
Tennessee			
Belmont College	Nashville	Cliff Eubanks	615-386-4522
Memphis State University	Memphis	Otis Baskin	901-678-2432
Texas			
Baylor University	Waco	Nancy Upton	817-755-2265
St. Mary's University	San Antonio	Paul Goelz	512-436-3124
Texas A&M	College Station	Dan Klinefelder	409-845-7171
University of Texas-El Paso	El Paso	Carmen Ghiselli	915-747-5241
Utah			
Brigham Young University	Provo	Gibb Dyer	801-378-4522
Virginia			
University of Virginia	Charlottesville	Stewart Malone	804-924-6134
VA Commonwealth University	Richmond	George Rimler	804-367-1487
Washington & Lee University	Lexington	Roger Dean	703-463-8610
Washington			
Pacific Lutheran	Tacoma	Joe McCann	206-535-7251
Wisconsin			
University of Wisconsin	Madison	Joan Gilman	608-263-2221

STRESS IN THE WORKPLACE

KRISTIN A. HALSTED

Client pressures. Deadlines. Phone calls. Late nights. Family responsibilities. Interruptions. Stress.

Stress is neither good nor bad; it's how we react to it that's important, according to Donald K. Farris, an experienced adult educator and mental health specialist trainer who has consulted with CPA firms, public agencies, and businesses since 1975. It's also important to realize that it's impossible to live a completely stress-free life. "You'll never be without stimulation and all stimulation produces some sort of stress," explains Farris.

"A more realistic goal should be to no longer be overwhelmed by your stress and problems. It's important to keep things in perspective. If you predicate your happiness on being problem-free, you'll never be happy because you'll never be able to rid your life of all problems," says Farris.

Farris goes on to say that CPAs are at high risk for stress-overload. "If I were a CPA, I'd make it a point to become an expert in stress management," he says.

Over a long period of time, an overload of unpleasant mental stressors, such as worry, anger, or disappointment, can cause serious health problems, such as ulcers, high blood

pressure, and damage to other vital organs.

Obviously then, learning to manage stress in today's environment is a matter of your good health.

Dr. Hans Selye, M.D., author of several books on stress, offers a variety of methods for dealing with the lifelong presence of stress:

- Work it off with physical activity. Even taking a walk will help.
- Talk it out. Share concerns with someone you trust and respect.
- Accept what you can't change. If something is beyond your control, accept it until you are in a position to take action.
- Don't take pills to relax. Drugs and alcohol just make you less able to handle any situation.
- Get enough rest. Lack of sleep lessens your ability to deal with stress.
- Have some fun. Schedule time for recreation.
- Do for others. Thinking about someone else takes your mind off your own problems and helps you make friends.
- Take one thing at a time. Do the most urgent things first.
- Learn to manage your time. You'll feel more in control.
- Give in sometimes instead of insisting on your way. Others will soon do the same for you.
- Get involved. Instead of withdrawing and feeling sorry for yourself, find something useful to do aside from your everyday work. For example, join a club or visit senior citizens.

Studies consistently show people who regularly practice a relaxation technique are

less anxious, tense, and better able to resist stressful situations. These people also are happier, more energetic, and self-confident. Deep relaxation also has an effect on lowering blood pressure and cholesterol levels. To elicit the relaxation response you have to learn to achieve an altered state of consciousness we don't ordinarily experience.

The following simple technique for doing this was first popularized by Dr. Herbert Benson in his best selling book, *The Relaxation Response*.

1. Find a quiet environment, free from distractions.
2. Choose a mantra: a word or phrase on which to focus. Dr. Benson recommends the word *one*, but you may choose others. Stick with this focus word; don't change it.
3. Sit upright in a comfortable position, with your hands resting on your lap.
4. Gently close your eyes and take a couple of minutes to quiet your mind. Relax your muscles. Inhale and exhale a few deep breaths.
5. While breathing normally, become aware of each breath. Working with the natural rhythm of your breathing, repeat your mantra silently on every exhale.
6. Disregard distractions. Thoughts, feelings, and images will drift into your awareness. Don't concentrate on these. Allow them to pass on.
7. Continue this exercise for ten to twenty minutes. When you're finished, remain quiet, slowly open your eyes over a period of several minutes, and gradually allow yourself to adjust to full wakefulness. Perform this exercise twice a day, in the morning, at noon, or in the evening.

If you practice this technique on a consistent basis, the chances are good you'll feel better and will be able to cope with all of those common daily stressors more easily than before.

Ms. Halsted is editor of the *Newsledger* and other publications of the Arizona Society of CPAs.



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"It has come to my attention that you have a life outside the office."

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BOOK REVIEW

Managing the Malpractice Maze by Mark F. Murray, J.D. New York: AICPA, 1992. 248 pages. (Product No. 090380).

At one time, few practitioners thought they needed to learn about professional liability or establish procedures that would protect them from malpractice claims made by their clients or third parties. However, society is more litigious now. Malpractice litigation has increased, and settlements and judgments have reached multimillion dollar levels. How can practitioners protect their firms and themselves from such a hostile environment? In *Managing the Malpractice Maze*, Mark Murray provides information that can help practitioners decrease the chances of being sued and improve the chances of a successful defense, if sued.

A first step in accomplishing these goals is to understand the types of claims made most frequently and the legal theories underlying them. Murray, who practiced law and managed the accountant's professional liability program for a prominent insurance company before joining the AICPA's Practice Management Division, quickly moves from theoretical to practical

matters. He offers specific guidance on lowering or transferring the risk of malpractice liability. He describes the risk management policies and procedures of an effective defensive-practices program. Along with advice on selecting an attorney, Murray describes the role of the attorney in the firm's defensive-practices program as well as in the investigation and defense of malpractice claims. A ten-step plan guides the reader through the stages of malpractice litigation, beginning with the first notice of a claim and concluding with the settlement or judgment.

Readers will learn from this book how to obtain the full value of malpractice insurance protection. In his discussion of the cost and availability of professional liability insurance, Murray dispels some of the myths that practitioners assert when arguing against the need for malpractice insurance coverage. He also provides a guide to purchasing coverage and for choosing an insurance program.

The appendixes provide sample engagement letters, a client screening form, and engagement checklists that will assist practitioners to avoid misunderstandings with clients, to control the quality of engagements, and if necessary, to defend their practices.

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CONFERENCES

AICPA National Conference on Litigation Services

October 7-8, 1993

Fairmont Hotel, Chicago

For more information, call the AICPA CPE Division at 1-800-TO-AICPA.

AICPA Environmental Conference: Legal, Accounting, and Disclosure Issues

October 27, 1993

Stouffer Orlando Resort
Orlando, Florida

Recommended for up to 8 hours of CPE credit

For more information, call the AICPA Meetings and Travel Services Department at (201) 938-3232.

AICPA National Industry Conference

October 28-30, 1993

Stouffer Orlando Resort, Orlando, Florida

Recommended for 20 hours of CPE credit.

For more information, call the AICPA Meetings and Travel Services Department at (201) 938-3232.

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