streetwise

BY STEPHEN BARLAS, WM LEON GRANGE, JERRY LEVEY, JERRY RADOWITZ, LANCE THOMPSON, KATHY WILLIAMS

[NEWS]

Is Six Sigma Beneficial for Midsize Companies?

KATHY WILLIAMS

Yes, if you consider the financial returns, and not really, if you consider quality issues, according to the results of a recent Aberdeen Group study. Titled *Lean Six Sigma Benchmark Report*, the research was released in September.

Although Six Sigma is usually associated with large companies, midsize companies are reaping greater financial rewards from the program, the study found. They are achieving greater savings from Six Sigma projects and better growth of EBITA (earnings before interest, tax, and amortization). For example, total project savings achieved to date by the respondents were about $825,000 by large companies and $1,281,000 by midsize companies (Aberdeen says it considers midsize companies those with revenues under $1 billion). Regarding EBITA, midsize companies with Six Sigma programs saw a 15% improvement in it and an 18% increase in revenue. And this is occurring even though the implementations of midsize companies are only two years old while the implementations of most large companies responding have been in place more than four years.

In the quality area, however, the midsize companies didn't fare as well. The participants used several different metrics to judge quality, such as DPMO (defects per million opportunities), PPM (parts per million defective), rolled throughput yield, and first pass yield. Aberdeen says it recommends that companies employ DPMO because it can be used by all kinds of companies, whereas the other measures are generally associated with manufacturers. Yet only 20% of its midsize respondents were using the measure. The study also found that the first steps taken by midsize companies toward improvement were to reduce nonvalue-added costs (52%) and to standardize work processes (46%) rather than adopting company-wide training programs about Six Sigma or adopting the DMAIC (Define, Measure, Analyze, Improve, Control) model.

In total, Aberdeen says, midsize companies that "follow the rigors of Six Sigma most strictly achieve even better results." It defines "true" Six Sigma companies as those that

- Have a formal Six Sigma program in place,
- Have adopted the DMAIC model,
- Require Black Belts to have completed two

continued on page 60

IFAC ISSUES PROPOSED STANDARD

The International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) has issued an exposure draft of a proposed International Public Sector Accounting Standard (IPSAS) to help improve the quality and uniformity of financial information reported by global public sector entities. ED 30, "Impairment of Cash-Generating Assets," deals with cash-generating assets held and operated by public sector entities, which are not government business enterprises, IFAC said. The IPASB already addressed assets held and operated primarily for the purposes of service delivery when it issued IPSAS 21, "Impairment of Non-Cash-Generating Assets," in December 2004, the organization noted.

You can read the ED at www.ifac.org/EDs. The IPSASB says that comments about the ED should be submitted by February 28, 2007, to publicsectorpubs@ifac.org. You also can fax them to the IPSASB technical director at (212) 286-9570 or mail them to IFAC, 545 Fifth Ave., 14th Floor, New York, NY 10017. All of the comments will be posted on IFAC's website. ■

Letters to the Editor

WHERE ARE THE CMAs?

After scanning the article on financial executives of the year nominees [October], something was bothering me. It took just a few seconds to realize that there was only one CMA/CFM in the group (and he is also a CPA) and one other CMA. Almost half (11 of 23) were CPAs, and the next highest group was "nothing" at 7! In fact, a couple seemed not to have anything to do with finance, being business owners and entrepreneur types.

This is not to denigrate all of the nominees' accomplishments, but it seems to me that if the IMA is going to have a financial executive of the year award, there should be some sort of criteria, like maybe being at least a CMA or CFM and actually working or [having] recently worked in a financial-type position for which the person is being nominated.

Given this year's list, if someone were to ask me what kind of credential(s) it takes to be nominated, I would say become a CPA or nothing seeing how those two groups account for 18 of the 23 nominees. My main point is there are enough organizations out there to give "generic" financial executive awards.

We (IMA) should be giving recognition to one of ours in the financial field. Maybe changing the name from Financial Executive of the Year to CMA/CFM Financial Professional of the Year would better describe it. When a press release on the winner is issued, which would we rather see, IMA presents its Financial Executive of the Year award or IMA

continued on page 59

[GOVERNMENT]

SEC Holds Second XBRL Roundtable

STEPHEN BARLAS, EDITOR

The Securities & Exchange Commission awarded four contracts totaling $54 million in late September aimed at accelerating the development of an interactive data system for corporate filings based on the eXtensible Business Reporting Language (XBRL). And the Commission held its second roundtable on the subject on October 3. To date, the SEC has not required companies to file their information in interactive format—largely because the XBRL labels haven't all been completed and because Edgar, the SEC filing system, can't utilize the extra capabilities of XBRL yet. The four contracts will close that gap, the SEC said, paving the way for universal XBRL filings by companies. Jeffrey C. Thomson, vice president, research and applications development for the Institute of Management Accountants (IMA®), wants the SEC to also focus on what he believes is the key objective if corporate use of XBRL is ever going to show a positive return on investment: using XBBL throughout the financial supply chain, including for internal reporting and decision analytics. That means using XBRL for more than just the financial reports filed with the SEC by a company's outside accountants, i.e., the Big 4. "The longer-term picture is project planning, building the architecture for XBRL, which includes the internal information supply chain," he says. "If you don't do that, you will miss the boat." In that vein, Thomson says the SEC needs to encourage greater inclusiveness by engaging more associations and organizations who play major roles across the entire value chain. Thomson states, "IMA believes that there is an imbalance in the accounting profession, with too much emphasis on the 'tail end of the dog' (end of the value chain)—e.g., audit, final financial report preparation and delivery, etc." Among the groups Thomson thinks "should be at the table" are: IMA's Financial Reporting Committee (FRC), XBRL-US and XBRL International, AICPA's Enhanced Business Reporting Committee (EBRC), and the Global Reporting Initiative (GRI).

Olson Responds to Section 404 Critics

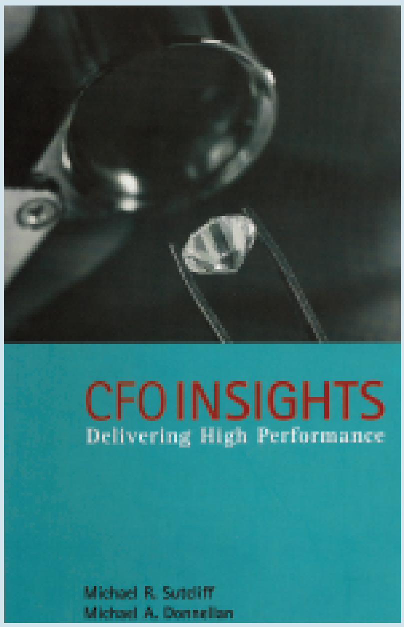
When he appeared before the House Financial Services Committee in September, Mark W. Olson, the new chairman of the Public Company Accounting Oversight Board (PCAOB), answered critics of the internal control provisions of Sarbanes-Oxley who recently suggested that the costs of employing auditors to certify management's report on internal controls was discouraging companies from listing on U.S. stock exchanges. Last April, former Commerce Secretary Donald Evans, now a lobbyist for the banking industry, cited diminished IPO activity in the U.S. and linked that to SOX costs. Olson responded to those general al-

continued on page 60

[BOOKS]

Mastering Finance for High Performance

To help business executives understand the finance and performance management capabilities required to create and sustain high performance, Michael Sutcliff and Michael Donnellan have written *CFO Insights: Delivering High Performance*. The authors found a correlation of over 70% between those companies they assessed as “masters of finance” and companies that were high performers in their industries. Sutcliff and Donnellan found that leading companies often demonstrated these competencies:



1. A *value-centered culture* that optimizes the delivery of value to multiple stakeholders through conscious decisions on which strategies are pursued and how resources are deployed;
2. *Enterprise performance management*, which enables an organization to understand and refocus its competitive position in order to maintain its industry leadership;
3. *Finance operations* focused on cost and efficiency in operations and processes through ERP, shared services, and outsourcing;
4. *Capital stewardship*, which deploys capital resources by managing the financial statements in an integrated way to maximize shareholder returns; and
5. *Enterprise risk management* to manage financial and nonfinancial risk across the enterprise’s portfolio of assets in support of its strategic objectives.

Excellence in finance operations is often the first step toward finance mastery. These high-performance organizations create an efficient engine to capture and process data, which achieves superior cost performance and gives the CFO the organizational credibility needed to tackle other enterprise challenges. One misconception is that many companies think that finance mastery is achieved by driving the total cost of finance as low as possible.

The book is part of the CFO Insight series from publisher John Wiley & Sons that involves recent business research conducted by Accenture. The Accenture research consisted of interviews with more than 250 senior financial executives from leading companies around the world as well as an extensive benchmarking study carried out in collaboration with the Hackett Group. Results show that the journey to finance mastery is different for each organization, but it is usually dictated by industry dynamics, business strategy, and, most importantly, an agreement by the management team that the specific performance improvements will create better alignment with corporate targets.

High performers really understand the sources of value in their industries and explicitly identify the value drivers that can propel their businesses to new levels of growth. They focus on a few core capabilities that differentiate them from their competitors—and strive to master those capabilities. High performers are autonomous and are very flexible about whether they source these core capabilities from their own workforce or from strategic partners.

“Masters of finance” excel at four imperatives: (1) managing for value, (2) fostering a value-centered culture across the enterprise, (3) appropriately investing in and leveraging technology, and (4) developing a talent pool of professionals who combine deep finance skills with intimate, hands-on knowledge of frontline business operations. CFOs consider the single most critical element for success to be the creation and sustainment of a value-centered culture within the finance function and then extending it across the enterprise.

All the CFOs interviewed *continued on page 60*

[LETTERS] *cont'd from p. 24*

presents its CMA/CFM Financial Professional of the Year award?

At least the latter might get some news types to ask what a CMA/CFM is when they write the story.

Jerry Levey CPA, CMA, CFS

Too Large-Business Oriented

I have been a member of our organization and its predecessors for more than 30 years and, as such, have been reading our monthly magazine very regularly.

For a long time now I have been tempted to write to you and tell you that the content of our magazine is much too large-business oriented and not in step with the vast majority of businesses in the real world. So I was very pleased to read "Taking a Stand" by William Brower in the August issue.

I have been employed in accounting, auditing, and related fields for over 50 years and am presently employed as a controller for a company with 11 employees.

I can assure you that by far most of the time the "owners" of the companies I have worked for were far more interested in the income statement than they were in the balance sheet.

If they were organized as corporations instead of the single proprietorships they really were, it was to limit their personal liability exposure, and they mostly hired accountants to keep them in compliance with income tax laws.

They have kept their businesses going and earned decent livings for their family and employees by learning to handle very basic situations that come up day after day, such as:

- Negotiating the best credit terms for buying and selling.
- Deciding when to introduce new products and at what selling price to introduce them to the marketplace.
- What they have to do so their banks consider them good customers and would be willing to bend the rules to help them.
- In a cash crunch know how to negotiate with a key supplier to keep the flow of materials coming until the crunch eases up.
- How to handle key employees who are disruptive to the organization—employees who do their duties very well but make other members of the company uncomfortable working with them.
- How much to pay their employees and keep them without creating problems "meeting" weekly payroll.
- How much help to give an employee with personal problems that are interfering with his job responsibilities.
- If the business is getting involved with global transactions, knowing where to go for a good customs broker and proper insurance coverage.
- If the principal owners are reaching retirement age, an effective succession plan.
- How to handle new suppliers who will only sell them C.O.D.
- How to find the best affordable specialists, such as computer experts, and what trade organizations to join.
- What basic, in-house mechanical knowledge is needed, and making sure the organization has it to keep operations going.
- Ability to accurately project cash balances needed to stay current on payment obligations.
- How not to go overboard in offering discounts or price concessions to speed up collections.
- A fair method to offer ownership opportunities to none relative employees.

I would like to see articles on each of the above written by practicing business people and fewer articles written by college professors writing in sterile laboratory-like conditions without the pressure of having to react to unexpected events.

Jerry Radowitz

Editor's Note: We would welcome articles on all of these topics. Please e-mail Kathy Williams at kwilliams@imanet.org.

What Kind of Response?

It would be interesting to hear the response (future actions taken) of the FAF to Mr. Sharman's challenge for the FASB and FAF to "rebalance" the influence of their disproportionate representation in their decision-making councils and to bring consistency with the actual demographics of the accounting profession.

I have perceived that there is also a "systematic institutional imbalance" in the representation in two other areas of the [accounting] profession. The first is the issue of academic accountants' influence on practitioner accountants' experience and knowledge (those who do the actual work), which must also be addressed. The academic accountants carry enormous influence in these governing bodies and put down the practitioner due to the fact they "don't have the credentials (Ph.D.) to know what they are talking about." I am a practitioner and have my academic credentials, but I have still struggled with the academic influence in attempting to research and resolve issues pertinent to my industry. I also am an adjunct professor in accounting, so I know the challenges of teaching the profession to students.

The second is within the government contractor accounting professionals. There is very little education or training in the university and/or academic system for us in this industry, and we deal with government regulations and cost standards equivalent to or even greater than the FASB regulations.

I appreciated and enjoyed Mr. Sharman's frankness and honesty, and I support his efforts in attempting to bring the IMA to the forefront of the accounting profession. The organization has taken the "back seat" position long enough. Mr. Sharman's timely speech is a starting point for the IMA to begin that push forward.

Wm Leon Grange, DBA, CMA, CFM

You can read Paul Sharman's speech at www.imanet.org/relations_advocacy_FAF.asp.

[NEWS] *cont'd from p. 23*

projects or one project with savings in excess of an established value,

- Require Six Sigma project results to be validated by the finance area, and
- Have produced real financial savings.

For more information about this and other studies, visit www.aberdeen.com.

Multinationals Seek Usable Data

Many senior executives of U.S. multinational companies say they see a potentially high value coming from the data in their information systems, yet less than half have been able to effectively convert the data to usable knowledge, Pricewaterhouse-Coopers found in its recent Management Barometer survey. And 68% of the study participants say they expect the data will become even more valuable as a source of competitive advantage during the next 12 to 18 months.

Those who haven't been able to use their data cite several important things they need regarding it: the ability to mine or interpret data, ability of the IT systems to deliver data assets, ability to get real-time information, integration of data with business processes, an enterprise-wide data strategy, and a data governance structure. If they don't realize these benefits, they say, their companies can't be as competitive. Unfortunately, data management often isn't a high priority for companies, the report also found.

The executives noted that if their company's data were to be treated as a key corporate asset, their organizations would realize several benefits in the next year or so. These benefits included reduced costs (cited by 75% of the respondents), increased workforce efficiency (cited by 68%), more effective compliance (67%), and revenue enhancements (66%). But 74% of the executives said that competing corporate priorities were a barrier to realizing significant value.

For more information about this survey and other economic trend surveys, visit www.barometersurveys.com. ■

[BOOKS] *cont'd from p. 25*

unanimously agreed that change management is the biggest challenge facing senior finance executives. Three principal drivers for these changes are:

1. An expectation that corporate performance will increase significantly, resulting in a superior valuation of the company;
2. Globalization and hyper-growth; and
3. Innovation and business turnaround.

This book is highly recommended for all business executives seeking to sustain high performance, especially financial executives. The recommendations it contains are based on industry research and the experience of Accenture consultants, combined with the metrics, best practices, and benchmarking expertise of the Hackett Group. The target audience includes all global companies, with separate chapters addressing high performance in the public sector, Latin America, Eastern Europe, Asia, Japan, and China. The book includes research results, case studies, and CFO interviews to clarify what companies do differently and how they sustain performance.—*Lance Thompson*

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[GOV'T] *cont'd from p. 24*

legations, saying, "We should welcome competition among markets around the globe but not support a competition that is based on cost alone….Indeed, in the two years since companies have been reporting and obtaining audits on their internal control, the amount of capital raised by non-U.S. companies on U.S. exchanges has grown, not shrunk as it did in the years directly after the scandals."

Congress Passes Bill on Credit Rating Agencies

Before leaving for the election-year recess (they will be back for a lame duck session in November), members of Congress approved a bill (S. 3850) meant to clear the way for competition to the two dominant credit rating agencies: Standard & Poor's and Moody's Investors Service. The House and Senate had two somewhat different bills on this topic, but the Senate bill was deemed a little tougher in terms of what it requires of credit ratings agencies applying for recognition from the SEC. They would have to have policies in place to prevent any conflicts of interest, for example. Presumably, if the bill does what it is advertised to do, the costs to corporations of rating their debt will decrease. "The Credit Rating Agency Reform Act will open the credit ratings market to competition and transparency and restore confidence in the credit rating market," says Jim Kaitz, president of the Association for Financial Professionals (AFP). "Importantly, the new law gives the SEC the tools necessary to hold recognized rating agencies accountable if they fail to produce credible and reliable ratings." ■