

# Managerial Accounting and the Business Environment

管理会计与商业环境

Management Accounting: It's More Than Just  
Crunching Numbers



“Creating value through values” is the credo of today’s management accountant. It means that management accountants should maintain an unwavering commitment to ethical values while using their knowledge and skills to influence decisions that create value for organizational stakeholders. These skills include managing risks and implementing strategy through planning, budgeting and

forecasting, and decision support. Management accountants are strategic business partners who understand the financial and operational sides of the business. They not only report and analyze financial measures, but also nonfinancial measures of process performance and corporate social performance. Think of these responsibilities as profits (financial statements), process (customer focus and satisfaction), people (employee learning and satisfaction), and planet (environmental stewardship). ■

Source: Conversation with Jeff Thomson, president and CEO of the Institute of Management Accountants.

## LEARNING OBJECTIVES

After studying Chapter 1, you should be able to:

- L01** Understand the role of management accountants in an organization.
- L02** Understand the basic concepts underlying Lean Production, the Theory of Constraints (TOC), and Six Sigma.
- L03** Understand the importance of upholding ethical standards.

**T**hroughout this book you will study how management accounting functions within organizations. However, before embarking on the study of management accounting, you need to develop an appreciation for the larger business environment within which it operates. This chapter is divided into nine sections: (1) globalization, (2) strategy, (3) organizational structure, (4) process management, (5) the importance of ethics in business, (6) corporate governance, (7) enterprise risk management, (8) corporate social responsibility, and (9) the Certified Management Accountant (CMA). Other business classes provide greater detail on many of these topics. Nonetheless, a broad discussion of these topics is useful for placing management accounting in its proper context.

## Globalization 全球化

The world has become much more intertwined over the last 20 years. Reductions in tariffs, quotas, and other barriers to free trade; improvements in global transportation systems; explosive expansion in Internet usage; and increasing sophistication in international markets have created a truly global marketplace. Exhibit 1–1 illustrates this tremendous growth in international trade from the standpoint of the United States and some of its key trading partners. Panel A of the exhibit shows the dollar value of imports (stated in billions of dollars) into the United States from six countries; Panel B shows the dollar value of exports from the United States to those same six countries. As you can see, the increase in import and export activity from 1995 to 2007 was huge. In particular, trade with China expanded enormously as did trade with Mexico and Canada, which participate in the North American Free Trade Agreement (NAFTA).

In a global marketplace, a company that has been very successful in its local market may suddenly find itself facing competition from halfway around the globe. For example, in the 1980s American automobile manufacturers began losing market share to Japanese competitors who offered American consumers higher quality cars at lower prices. For consumers, heightened international competition promises a greater variety of goods and services, at higher quality and lower prices. However, heightened international competition threatens companies that may have been quite profitable in their own local markets.

Although globalization leads to greater competition, it also means greater access to new markets, customers, and workers. For example, the emerging markets of China, India, Russia, and Brazil contain more than 2.5 billion potential customers and workers.<sup>1</sup> Many companies such as FedEx, McDonald's, and Nike are actively seeking to grow their sales by investing in emerging markets. In addition, the movement of jobs from the United States and Western Europe to other parts of the world has been notable in recent years. For example, one study estimates that by the end of the decade more than 825,000 financial services and high-tech jobs will transfer from Western Europe to less expensive labor markets such as India, China, Africa, Eastern Europe, and Latin America.<sup>2</sup>

The Internet fuels globalization by providing companies with greater access to geographically dispersed customers, employees, and suppliers. While the number of Internet users continues to grow, as of 2008, more than 78% of the world's population was still not connected to the Internet. This suggests that the Internet's impact on global business has yet to fully develop.

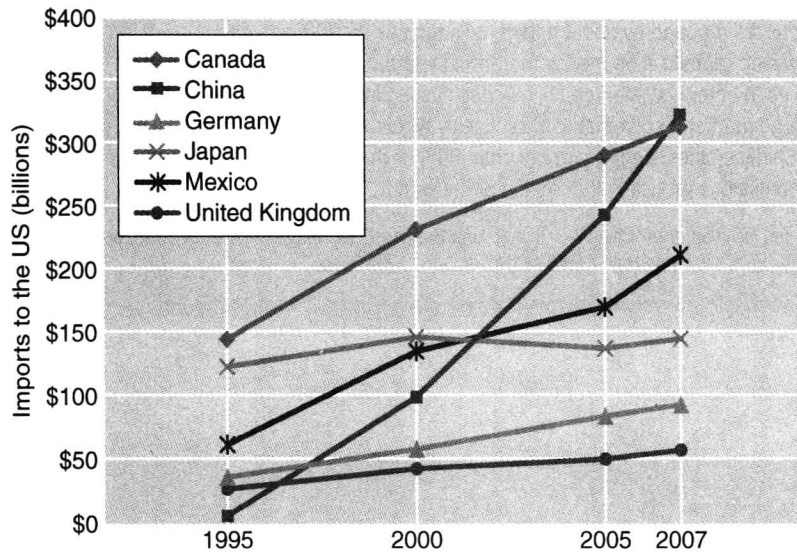
<sup>1</sup> *The Economist: Pocket World in Figures 2004*, Profile Books Ltd., London, U.K.

<sup>2</sup> "Job Exports: Europe's Turn," *BusinessWeek*, April 19, 2004, p. 50.

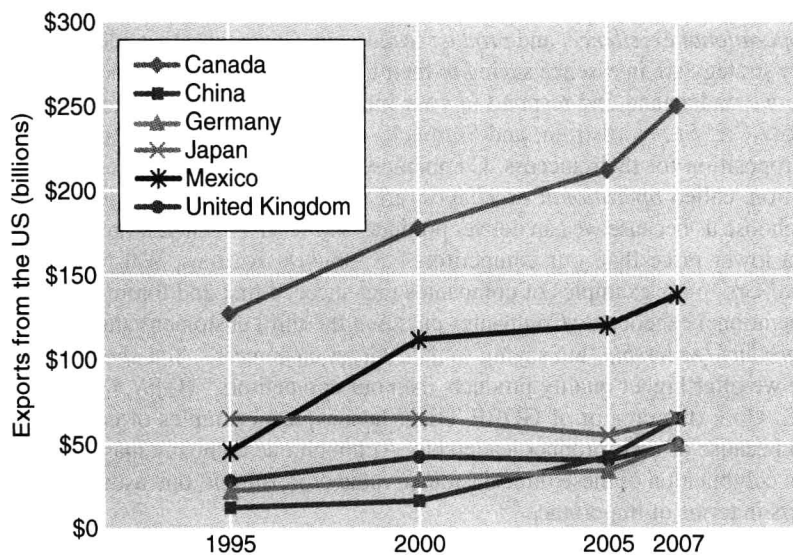
**EXHIBIT 1-1**

United States Global Trade Activity (in billions of U.S. dollars)

Panel A: Imports to the United States (billions of dollars)



Panel B: Exports from the United States (billions of dollars)



Source: U.S. Census Bureau, Foreign Trade Division, Data Dissemination Branch, Washington, D.C. 20233. [www.census.gov/foreign-trade/balance](http://www.census.gov/foreign-trade/balance).

## IN BUSINESS



## THE IMPLICATIONS OF GLOBALIZATION

International competition goes hand-in-hand with globalization. China's entrance into the global marketplace has highlighted this stark reality for many U.S. companies. For example, from 2000 to 2003, China's wooden bedroom furniture exports to the United States increased by more than 233% to a total of \$1.2 billion. During this same time, the number of workers employed by U.S. furniture manufacturers dropped by about a third, or a total of 35,000 workers.

However, globalization means more than international competition. It brings opportunities for companies to enter new markets. FedEx has pushed hard to be an important player in the emerging Asian cargo market. FedEx makes 622 weekly flights to and from Asian markets, including service to 224 Chinese cities. FedEx currently has 39% of the U.S.-China express market and it plans to pursue continuous growth in that region of the world.

Sources: Ted Fishman, "How China Will Change Your Business," *Inc.* magazine, March 2005, pp. 70-84; Matthew Boyle, "Why FedEx is Flying High," *Fortune*, November 1, 2004, pp. 145-150.

## Strategy 战略

Even more than in the past, companies that now face global competition must have a viable *strategy* for succeeding in the marketplace. A **strategy** is a "game plan" that enables a company to attract customers by distinguishing itself from competitors. The focal point of a company's strategy should be its target customers. A company can only succeed if it creates a reason for customers to choose it over a competitor. These reasons, or what are more formally called *customer value propositions*, are the essence of strategy.

Customer value propositions tend to fall into three broad categories—*customer intimacy*, *operational excellence*, and *product leadership*. Companies that adopt a *customer intimacy* strategy are in essence saying to their target customers, "You should choose us because we understand and respond to your individual needs better than our competitors." Ritz-Carlton, Nordstrom, and Starbucks rely primarily on a customer intimacy value proposition for their success. Companies that pursue the second customer value proposition, called *operational excellence*, are saying to their target customers, "You should choose us because we can deliver products and services faster, more conveniently, and at a lower price than our competitors." Southwest Airlines, Wal-Mart, and The Vanguard Group are examples of companies that succeed first and foremost because of their operational excellence. Companies pursuing the third customer value proposition, called *product leadership*, are saying to their target customers, "You should choose us because we offer higher quality products than our competitors." BMW, Cisco Systems, and W.L. Gore (the creator of GORE-TEX® fabrics) are examples of companies that succeed because of their product leadership. Although one company may offer its customers a combination of these three customer value propositions, one usually outweighs the others in terms of importance.<sup>3</sup>

Next we turn our attention to how businesses create organizational structures to help accomplish their strategic goals.

<sup>3</sup> These three customer value propositions were defined by Michael Treacy and Fred Wiersema in "Customer Intimacy and Other Value Disciplines," *Harvard Business Review*, Volume 71 Issue 1, pp. 84-93.



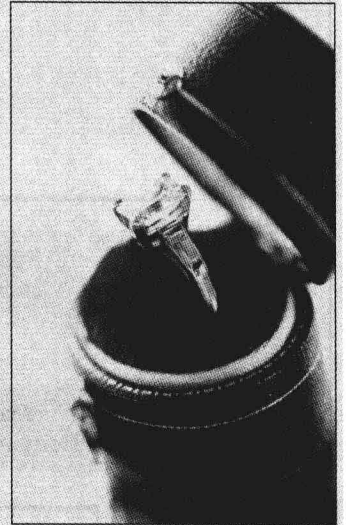
## IN BUSINESS

## OPERATIONAL EXCELLENCE COMES TO THE DIAMOND BUSINESS

An average engagement ring purchased from Blue Nile, an Internet diamond retailer, costs \$5,200 compared to \$9,500 if purchased from Tiffany & Co., a bricks-and-mortar retailer. Why is there such a difference? There are three reasons. First, Blue Nile allows wholesalers to sell directly to customers using its website. In the brick-and-mortar scenario, diamonds change hands as many as seven times before being sold to a customer—passing through various cutters, wholesalers, brokers, and retailers, each of whom demands a profit. Second, Blue Nile carries very little inventory and incurs negligible overhead. Diamonds are shipped directly from wholesalers after they have been purchased by a customer—no retail outlets are necessary. Bricks-and-mortar retailers tie up large amounts of money paying for the inventory and employees on their showroom floors. Third, Blue Nile generates a high volume of transactions by selling to customers anywhere in the world; therefore, it can accept a lower profit margin per transaction than local retailers, who complete fewer transactions with customers within a limited geographic radius.

Perhaps you are wondering why customers are willing to trust an Internet retailer when buying an expensive item such as a diamond. The answer is that all of the diamonds sold through Blue Nile's website are independently certified by the Gemological Institute of America in four categories—carat count, type of cut, color, and clarity. In essence, Blue Nile has turned diamonds into a commodity and is using an operational excellence customer value proposition to generate annual sales of \$154 million.

Source: Victoria Murphy, "Romance Killer," *Forbes*, November 29, 2004, pp. 97–101.



## 公司组织结构 Organizational Structure

Our discussion of organizational structure is divided into two parts. First, we highlight the fact that presidents of all but the smallest companies cannot execute their strategies alone. They must seek the help of their employees by empowering them to make decisions—they must *decentralize*. Next, we describe the most common formal decentralized organizational structure in use today—the functional structure.

## LEARNING OBJECTIVE 1

理解管理会计人员在企业中的作用。

## Decentralization

**Decentralization** is the delegation of decision-making authority throughout an organization by giving managers the authority to make decisions relating to their area of responsibility. Some organizations are more decentralized than others. For example, consider Good Vibrations, an international retailer of music CDs with shops in major cities scattered across the Pacific Rim. Because of Good Vibrations' geographic dispersion and the peculiarities of local markets, the company is highly decentralized.

Good Vibrations' president (often synonymous with the term *chief executive officer*, or *CEO*) sets the broad strategy for the company and makes major strategic decisions such as opening stores in new markets; however, much of the remaining decision-making authority is delegated to managers at various levels throughout the organization. Each of the company's numerous retail stores has a store manager as well as a separate manager for each music category such as international rock and classical/jazz. In addition, the company has support departments such as a central Purchasing Department and a Personnel Department.

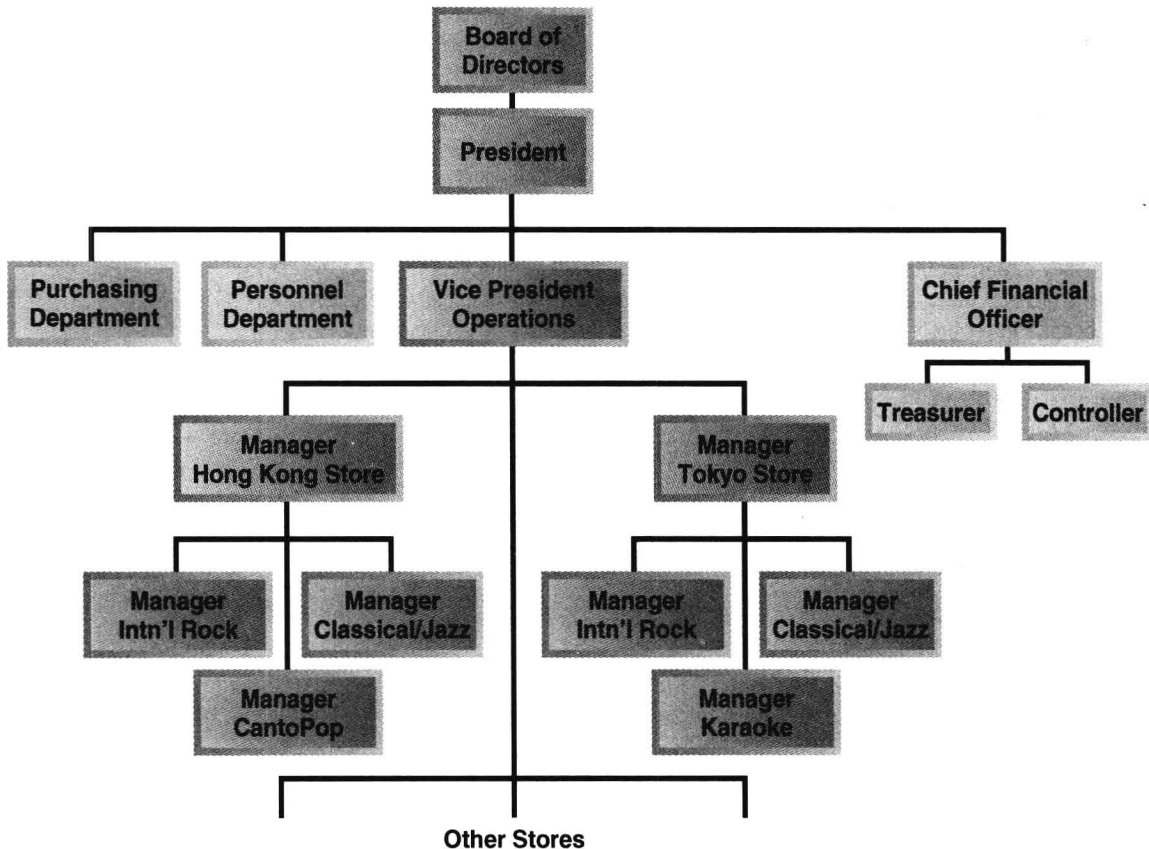


## The Functional View of Organizations

Exhibit 1–2 shows Good Vibrations' organizational structure in the form of an **organization chart**. The purpose of an organization chart is to show how responsibility is divided among managers and to show formal lines of reporting and communication, or *chain of command*. Each box depicts an area of management responsibility, and the lines between the boxes show the lines of formal authority between managers. The chart tells us, for example, that

**EXHIBIT 1-2**

Organization Chart, Good Vibrations, Inc.



the store managers are responsible to the operations vice president. In turn, the operations vice president is responsible to the company president, who in turn is responsible to the board of directors. Following the lines of authority and communication on the organization chart, we can see that the manager of the Hong Kong store would ordinarily report to the operations vice president rather than directly to the president of the company.

An organization chart also depicts *line* and *staff* positions in an organization. A person in a **line** position is *directly* involved in achieving the basic objectives of the organization. A person in a **staff** position, by contrast, is only *indirectly* involved in achieving those basic objectives. Staff positions provide assistance to line positions or other parts of the organization, but they do not have direct authority over line positions. Refer again to the organization chart in Exhibit 1-2. Because the basic objective of Good Vibrations is to sell recorded music at a profit, those managers whose areas of responsibility are directly related to selling music occupy line positions. These positions, which are shown in a darker color in the exhibit, include the managers of the various music departments in each store, the store managers, the operations vice president, the president, and the board of directors.

By contrast, the managers of the central Purchasing Department and the Personnel Department occupy staff positions, because their departments support other departments rather than carry out the company's basic missions. The chief financial officer is a member of the top management team who also occupies a staff position. The **chief financial officer (CFO)** is responsible for providing timely and relevant data to support planning and control activities and for preparing financial statements for external users. In the United States, a manager known as the **controller** often runs the accounting department and reports directly to the CFO. More than ever, the accountants who work under the

CFO are focusing their efforts on supporting the needs of co-workers in line positions as one report concluded:

Growing numbers of management accountants spend the bulk of their time as internal consultants or business analysts within their companies. Technological advances have liberated them from the mechanical aspects of accounting. They spend less time preparing standardized reports and more time analyzing and interpreting information. Many have moved from the isolation of accounting departments to be physically positioned in the operating departments with which they work. Management accountants work on cross-functional teams, have extensive face-to-face communications with people throughout their organizations, and are actively involved in decision making. . . . They are trusted advisors.<sup>4</sup>

## IN BUSINESS



### WHAT DOES IT TAKE?

A controller at McDonald's describes the characteristics needed by its most successful management accountants as follows:

[[I]t's a given that you know your accounting cold. You're expected to know the tax implications of proposed courses of action. You need to understand cost flows and information flows. You have to be very comfortable with technology and be an expert in the company's business and accounting software. You have to be a generalist. You need a working knowledge of what people do in marketing, engineering, human resources, and other departments. You need to understand how the processes, departments, and functions work together to run the business. You'll be expected to contribute ideas at planning meetings, so you have to see the big picture, keep a focus on the bottom line, and think strategically.

Source: Gary Siegel, James E. Sorensen, and Sandra B. Richtermeyer, "Becoming a Business Partner: Part 2," *Strategic Finance*, October 2003, pp. 37–41. Used with permission from the Institute of Management Accountants (IMA), Montvale, N.J., USA, [www.imanet.org](http://www.imanet.org).

## 过程管理 Process Management

As global competition intensifies, companies are realizing that they must complement the functional view of their operations with a cross-functional orientation that seeks to improve the *business processes* that deliver customer value. A **business process** is a series of steps that are followed in order to carry out some task in a business. It is quite common for the linked set of steps comprising a business process to span departmental boundaries. The term *value chain* is often used when we look at how the functional departments of an organization interact with one another to form business processes. A **value chain**, as shown in Exhibit 1–3, consists of the major business functions that add value to a company's products and services. The customer's needs are most effectively met by coordinating the business processes that span these functions.

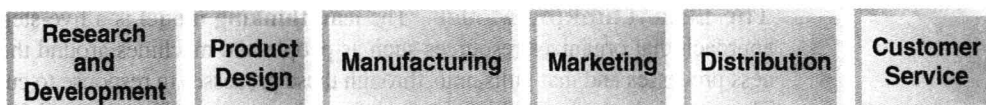
### LEARNING OBJECTIVE 2

理解精益生产、约束理论及六西格玛管理的基本概念。



### EXHIBIT 1-3

Business Functions Making Up the Value Chain



<sup>4</sup> Gary Siegel Organization, *Counting More, Counting Less: Transformations in the Management Accounting Profession, The 1999 Practice Analysis of Management Accounting*, Institute of Management Accountants, Montvale, NJ, August 1999, p. 3.

This section discusses three different approaches to managing and improving business processes—Lean Production, the Theory of Constraints (TOC), and Six Sigma. Although each is unique in certain respects, they all share the common theme of focusing on managing and improving business processes.

### *Lean Production*

Traditionally, managers in manufacturing companies have sought to maximize production so as to spread the costs of investments in equipment and other assets over as many units as possible. In addition, managers have traditionally felt that an important part of their jobs was to keep everyone busy on the theory that idleness wastes money. These traditional views, often aided and abetted by traditional management accounting practices, resulted in a number of practices that have come under criticism in recent years.

In a traditional manufacturing company, work is *pushed* through the system in order to produce as much as possible and to keep everyone busy—even if products cannot be immediately sold. This almost inevitably results in large inventories of *raw materials*, *work in process*, and *finished goods*. **Raw materials** are the materials that are used to make a product. **Work in process** inventories consist of units of product that are only partially complete and will require further work before they are ready for sale to a customer. **Finished goods** inventories consist of units of product that have been completed but have not yet been sold to customers.

The *push* process in traditional manufacturing starts by accumulating large amounts of raw material inventories from suppliers so that operations can proceed smoothly even if unanticipated disruptions occur. Next, enough materials are released to workstations to keep everyone busy. When a workstation completes its tasks, the partially completed goods (i.e., work in process) are “pushed” forward to the next workstation regardless of whether that workstation is ready to receive them. The result is that partially completed goods stack up, waiting for the next workstation to become available. They may not be completed for days, weeks, or even months. Additionally, when the units are finally completed, customers may or may not want them. If finished goods are produced faster than the market will absorb, the result is bloated finished goods inventories.

Although some may argue that maintaining large amounts of inventory has its benefits, it clearly has its costs. In addition to tying up money, maintaining inventories encourages inefficient and sloppy work, results in too many defects, and dramatically increases the amount of time required to complete a product. For example, when partially completed goods are stored for long periods of time before being processed by the next workstation, defects introduced by the preceding workstation go unnoticed. If a machine is out of calibration or incorrect procedures are being followed, many defective units will be produced before the problem is discovered. And when the defects are finally discovered, it may be very difficult to track down the source of the problem. In addition, units may be obsolete or out of fashion by the time they are finally completed.

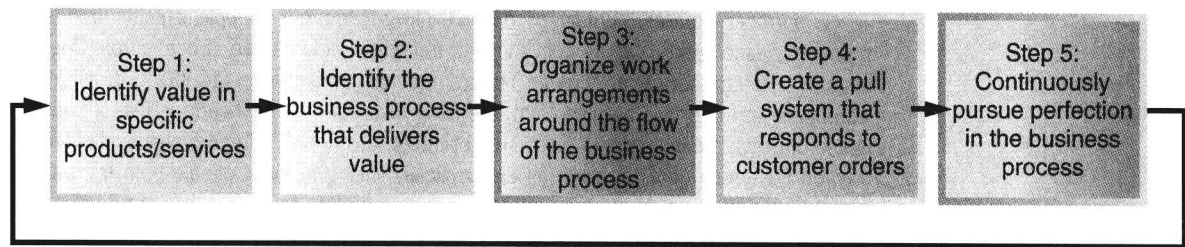
Large inventories of partially completed goods create many other problems that are best discussed in more advanced courses. These problems are not obvious—if they were, companies would have long ago reduced their inventories. Managers at Toyota are credited with the insight that large inventories often create many more problems than they solve. Toyota pioneered what is known today as *Lean Production*.

**The Lean Thinking Model** The **lean thinking model** is a five-step management approach that organizes resources such as people and machines around the flow of business processes and that pulls units through these processes in response to customer orders. The result is lower inventories, fewer defects, less wasted effort, and quicker customer response times. Exhibit 1–4 (page 9) depicts the five stages of the lean thinking model.

The first step is to identify the value to customers in specific products and services. The second step is to identify the *business process* that delivers this value to customers.<sup>5</sup>

<sup>5</sup> The Lean Production literature uses the term *value stream* rather than *business process*.



**EXHIBIT 1-4****The Lean Thinking Model**

Source: This exhibit is adapted from James P. Womack and Daniel T. Jones, *Lean Thinking: Banish Waste and Create Wealth in Your Corporation, Revised and Updated*, 2003, Simon & Schuster, New York, NY.

As discussed earlier, the linked set of steps comprising a business process typically span the departmental boundaries that are specified in an organization chart. The third step is to organize work arrangements around the flow of the business process. This is often accomplished by creating what is known as a *manufacturing cell*. The cellular approach takes employees and equipment from departments that were previously separated from one another and places them side-by-side in a work space called a *cell*. The equipment within the cell is aligned in a sequential manner that follows the steps of the business process. Each employee is trained to perform all the steps within his or her own manufacturing cell.

The fourth step in the lean thinking model is to create a pull system where production is not initiated until a customer has ordered a product. Inventories are reduced to a minimum by purchasing raw materials and producing units only as needed to meet customer demand. Under ideal conditions, a company operating a pull system would purchase only enough materials each day to meet that day's needs. Moreover, the company would have no goods still in process at the end of the day, and all goods completed during the day would be shipped immediately to customers. As this sequence suggests, work takes place "just-in-time" in the sense that raw materials are received by each manufacturing cell just in time to go into production, manufactured parts are completed just in time to be assembled into products, and products are completed just in time to be shipped to customers. This facet of the lean thinking model is often called **just-in-time** production, or **JIT** for short.

The change from *push* to *pull* production is more profound than it may appear. Among other things, producing only in response to a customer order means that workers will be idle whenever demand falls below the company's production capacity. This can be an extremely difficult cultural change for an organization. It challenges the core beliefs of many managers and raises anxieties in workers who have become accustomed to being kept busy all of the time.

The fifth step of the lean thinking model is to continuously pursue perfection in the business process. In a traditional company, parts and materials are inspected for defects when they are received from suppliers, and assembled units are inspected as they progress along the production line. In a Lean Production system, the company's suppliers are responsible for the quality of incoming parts and materials. And instead of using quality inspectors, the company's production workers are directly responsible for spotting defective units. A worker who discovers a defect immediately stops the flow of production. Supervisors and other workers go to the cell to determine the cause of the problem and correct it before any further defective units are produced. This procedure ensures that problems are quickly identified and corrected.

The lean thinking model can also be used to improve the business processes that link companies together. The term **supply chain management** is commonly used to refer to the coordination of business processes across companies to better serve end consumers. For example Procter & Gamble and Costco coordinate their business processes to ensure that Procter & Gamble's products, such as Bounty, Tide, and Crest, are on Costco's

## IN BUSINESS

## LEAN SUPPLY CHAIN MANAGEMENT

Tesco, a grocery retailer in Britain, used lean thinking to improve its replenishment process for cola products. Tesco and Britvic (its cola supplier) traced the cola delivery process from “the checkout counter of the grocery store through Tesco’s regional distribution center (RDC), Britvic’s RDC, the warehouse at the Britvic bottling plant, the filling lines for cola destined for Tesco, and the warehouse of Britvic’s can supplier.” Each step of the process revealed enormous waste. Tesco implemented numerous changes such as electronically linking its point-of-sale data from its grocery stores to its RDC. This change let customers pace the replenishment process and it helped increase store delivery frequency to every few hours around the clock. Britvic also began delivering cola to Tesco’s RDC in wheeled dollies that could be rolled directly into delivery trucks and then to point-of-sale locations in grocery stores.

These changes reduced the total product “touches” from 150 to 50, thereby cutting labor costs. The elapsed time from the supplier’s filling line to the customer’s cola purchase dropped from 20 days to 5 days. The number of inventory stocking locations declined from five to two, and the supplier’s distribution center was eliminated.

Source: Ghostwriter, “Teaching the Big Box New Tricks,” *Fortune*, November 14, 2005, pp. 208B–208F.

shelves when customers want them. Both Procter & Gamble and Costco realize that their mutual success depends on working together to ensure Procter & Gamble’s products are available to Costco’s customers.



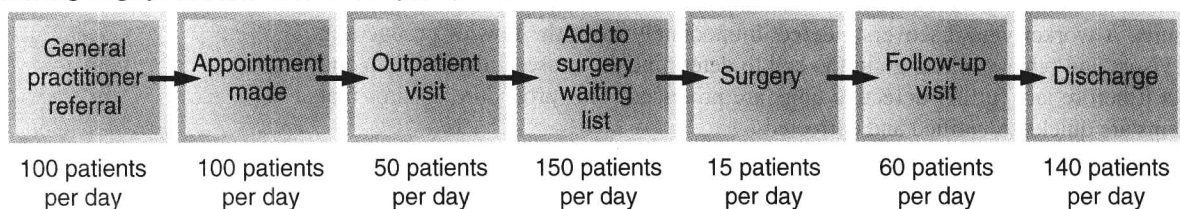
### The Theory of Constraints (TOC)

A **constraint** is anything that prevents you from getting more of what you want. Every individual and every organization faces at least one constraint, so it is not difficult to find examples of constraints. You may not have enough time to study thoroughly for every subject *and* to go out with your friends on the weekend, so time is your constraint. *United Airlines* has only a limited number of loading gates available at its busy Chicago O’Hare hub, so its constraint is loading gates. *Vail Resorts* has only a limited amount of land to develop as homesites and commercial lots at its ski areas, so its constraint is land.

The **Theory of Constraints (TOC)** is based on the insight that effectively managing the constraint is a key to success. As an example, long waiting periods for surgery are a chronic problem in the National Health Service (NHS), the government-funded provider of health care in the United Kingdom. The diagram in Exhibit 1–5 illustrates a simplified version of the steps followed by a surgery patient. The number of patients who can be processed through each step in a day is indicated in the exhibit. For example, appointments for outpatient visits can be made for as many as 100 referrals from general practitioners in a day.

#### EXHIBIT 1-5

Processing Surgery Patients at an NHS Facility (simplified)\*



\*This diagram originally appeared in the February 1999 issue of the U.K. magazine *Health Management*.

The constraint, or *bottleneck*, in the system is determined by the step that has the smallest capacity—in this case surgery. The total number of patients processed through the entire system cannot exceed 15 per day—the maximum number of patients who can be treated in surgery. No matter how hard managers, doctors, and nurses try to improve the processing rate elsewhere in the system, they will never succeed in driving down wait lists until the capacity of surgery is increased. In fact, improvements elsewhere in the system—particularly before the constraint—are likely to result in even longer waiting times and more frustrated patients and health care providers. Thus, to be effective, improvement efforts must be focused on the constraint. A business process, such as the process for serving surgery patients, is like a chain. If you want to increase the strength of a chain, what is the most effective way to do this? Should you concentrate your efforts on strengthening the strongest link, all the links, or the weakest link? Clearly, focusing your effort on the weakest link will bring the biggest benefit.

The procedure to follow to strengthen the chain is clear. First, identify the weakest link, which is the constraint. In the case of the NHS, the constraint is surgery. Second, do not place a greater strain on the system than the weakest link can handle—if you do, the chain will break. In the case of the NHS, more referrals than surgery can accommodate lead to unacceptably long waiting lists. Third, concentrate improvement efforts on strengthening the weakest link. In the case of the NHS, this means finding ways to increase the number of surgeries that can be performed in a day. Fourth, if the improvement efforts are successful, eventually the weakest link will improve to the point where it is no longer the weakest link. At that point, the new weakest link (i.e., the new constraint) must be identified, and improvement efforts must be shifted over to that link. This simple sequential process provides a powerful strategy for optimizing business processes.

## IN BUSINESS

At one hospital, the emergency room became so backlogged that its doors were closed to the public and patients were turned away for over 36 hours in the course of a single month. It turned out, after investigation, that the constraint was not the emergency room itself; it was the housekeeping staff. To cut costs, managers at the hospital had laid off housekeeping workers. This created a bottleneck in the emergency room because rooms were not being cleaned as quickly as the emergency room staff could process new patients. Thus, laying off some of the lowest paid workers at the hospital had the effect of forcing the hospital to idle some of its most highly paid staff and most expensive equipment!



Source: Tracey Burton-Houle, "AGI Continues to Steadily Make Advances with the Adaptation of TOC into Healthcare," [www.goldratt.com/toctquarterly/august2002.htm](http://www.goldratt.com/toctquarterly/august2002.htm).

## Six Sigma

**Six Sigma** is a process improvement method that relies on customer feedback and fact-based data gathering and analysis techniques to drive process improvement. Motorola and General Electric are closely identified with the Six Sigma movement. Technically, the term Six Sigma refers to a process that generates no more than 3.4 defects per million opportunities. Because this rate of defects is so low, Six Sigma is sometimes associated with the term *zero defects*.

The most common framework used to guide Six Sigma process improvement efforts is known as DMAIC (pronounced: du-may-ik), which stands for Define, Measure, Analyze, Improve, and Control. As summarized in Exhibit 1–6, the Define stage of the process focuses on defining the scope and purpose of the project, the flow of the current process, and the customer's requirements. The Measure stage is used to gather baseline performance data concerning the existing process and to narrow the scope of the project to the most important problems. The Analyze stage focuses on identifying the root causes

**EXHIBIT 1-6**

The Six Sigma DMAIC Framework

Stage	Goals
Define	Establish the scope and purpose of the project. Diagram the flow of the current process. Establish the customer's requirements for the process.
Measure	Gather baseline performance data related to the existing process. Narrow the scope of the project to the most important problems.
Analyze	Identify the root cause(s) of the problems identified in the Measure stage.
Improve	Develop, evaluate, and implement solutions to the problems.
Control	Ensure that problems remain fixed. Seek to improve the new methods over time.

Source: Peter C. Brewer and Nancy A. Bagranoff, "Near Zero-Defect Accounting with Six Sigma," *Journal of Corporate Accounting and Finance*, January-February 2004, pp. 67-72.

of the problems that were identified during the Measure stage. The Analyze stage often reveals that the process includes many *activities that do not add value to the product or service*. Activities that customers are not willing to pay for because they add no value are known as **non-value-added activities** and such activities should be eliminated wherever possible. During the Improve stage potential solutions are developed, evaluated, and implemented to eliminate non-value-added activities and any other problems uncovered in the Analyze stage. Finally, the objective in the Control stage is to ensure that the problems remain fixed and that the new methods are improved over time.

Managers must be very careful when attempting to translate Six Sigma improvements into financial benefits. There are only two ways to increase profits—decrease costs or increase sales. Cutting costs may seem easy—lay off workers who are no longer needed because of improvements such as eliminating non-value-added activities. However, if this approach is taken, employees quickly get the message that process improvements lead to job losses and they will understandably resist further improvement efforts. If improvement is to continue, employees must be convinced that the end result of improvement will be more secure rather than less secure jobs. This can only happen if management uses tools such as Six Sigma to generate more business rather than to cut the workforce.

## The Importance of Ethics in Business 商业道德的重要性

### LEARNING OBJECTIVE 3

理解坚守职业道德标准的重要性。



A series of major financial scandals involving Enron, Tyco International, HealthSouth, Adelphia Communications, WorldCom, Global Crossing, Rite Aid, and other companies have raised deep concerns about ethics in business. The managers and companies involved in these scandals have suffered mightily—from huge fines to jail terms and financial collapse. And the recognition that ethical behavior is absolutely essential for the functioning of our economy has led to numerous regulatory changes—some of which we will discuss in a later section on corporate governance. But why is ethical behavior so important? This is not a matter of just being “nice.” Ethical behavior is the lubricant that keeps the economy running. Without that lubricant, the economy would operate much less efficiently—less would be available to consumers, quality would be lower, and prices would be higher.

Take a very simple example. Suppose that dishonest farmers, distributors, and grocers knowingly tried to sell wormy apples as good apples and that grocers refused to take back wormy apples. What would you do as a consumer of apples? Go to another grocer? But what if all grocers acted this way? What would you do then? You would probably either stop buying apples or you would spend a lot of time inspecting apples before buying them. So would everyone else. Now notice what has happened. Because farmers, distributors, and grocers could not be trusted, sales of apples would plummet and those



who did buy apples would waste a lot of time inspecting them minutely. Everyone loses. Farmers, distributors, and grocers make less money; consumers enjoy fewer apples; and consumers waste time looking for worms. In other words, without fundamental trust in the integrity of businesses, the economy would operate much less efficiently. James Surowiecki summed up this point as follows:

[F]lourishing economies require a healthy level of trust in the reliability and fairness of everyday transactions. If you assumed every potential deal was a rip-off or that the products you were buying were probably going to be lemons, then very little business would get done. More important, the costs of the transactions that did take place would be exorbitant because you'd have to do enormous work to investigate each deal and you'd have to rely on the threat of legal action to enforce every contract. For an economy to prosper, what's needed is not a Pollyannaish faith that everyone else has your best interests at heart—"caveat emptor" [buyer beware] remains an important truth—but a basic confidence in the promises and commitments that people make about their products and services.<sup>6</sup>

## IN BUSINESS

### NO TRUST—NO ENRON

Jonathan Karpoff reports on a particularly important, but often overlooked, aspect of the Enron debacle:

As we know, some of Enron's reported profits in the late 1990s were pure accounting fiction. But the firm also had legitimate businesses and actual assets. Enron's most important businesses involved buying and selling electricity and other forms of energy. [Using Enron as an intermediary, utilities that needed power bought energy from producers with surplus generating capacity.] Now when an electric utility contracts to buy electricity, the managers of the utility want to make darned sure that the seller will deliver the electrons exactly as agreed, at the contracted price. There is no room for fudging on this because the consequences of not having the electricity when consumers switch on their lights are dire. . . .

This means that the firms with whom Enron was trading electricity . . . had to trust Enron. And trust Enron they did, to the tune of billions of dollars of trades every year. But in October 2001, when Enron announced that its previous financial statements overstated the firm's profits, it undermined such trust. As everyone recognizes, the announcement caused investors to lower their valuations of the firm. Less understood, however, was the more important impact of the announcement; by revealing some of its reported earnings to be a house of cards, Enron sabotaged its reputation. The effect was to undermine even its legitimate and (previously) profitable operations that relied on its trustworthiness.

This is why Enron melted down so fast. Its core businesses relied on the firm's reputation. When that reputation was wounded, energy traders took their business elsewhere. . . .

Energy traders lost their faith in Enron, but what if no other company could be trusted to deliver on its commitments to provide electricity as contracted? In that case, energy traders would have nowhere to turn. As a direct result, energy producers with surplus generating capacity would be unable to sell their surplus power. As a consequence, their existing customers would have to pay higher prices. And utilities that did not have sufficient capacity to meet demand on their own would have to build more capacity, which would also mean higher prices for their consumers. So a general lack of trust in companies such as Enron would ultimately result in overinvestment in energy-generating capacity and higher energy prices for consumers.

Source: Jonathan M. Karpoff, "Regulation vs. Reputation in Preventing Corporate Fraud," *UW Business*, Spring 2002, pp. 28–30.

<sup>6</sup> James Surowiecki, "A Virtuous Cycle," *Forbes*, December 23, 2002, pp. 248–256. Reprinted by Permission of Forbes Magazine©2006 Forbes Inc.

Thus, for the good of everyone—including profit-making companies—it is vitally important that business be conducted within an ethical framework that builds and sustains trust.

The Institute of Management Accountants (IMA) of the United States has adopted an ethical code called the *Statement of Ethical Professional Practice* that describes in some detail the ethical responsibilities of management accountants. Even though the standards were specifically developed for management accountants, they have much broader application.

### *Code of Conduct for Management Accountants*

The IMA's Statement of Ethical Professional Practice consists of two parts that are presented in full in Exhibit 1–7 (page 15). The first part provides general guidelines for ethical behavior. In a nutshell, a management accountant has ethical responsibilities in four broad areas: first, to maintain a high level of professional competence; second, to treat sensitive matters with confidentiality; third, to maintain personal integrity; and fourth, to disclose information in a credible fashion. The second part of the standards specifies what should be done if an individual finds evidence of ethical misconduct. We recommend that you stop at this point and read all of Exhibit 1–7.

The ethical standards provide sound, practical advice for management accountants and managers. Most of the rules in the ethical standards are motivated by a very practical consideration—if these rules were not generally followed in business, then the economy and all of us would suffer. Consider the following specific examples of the consequences of not abiding by the standards:

- Suppose employees could not be trusted with confidential information. Then top managers would be reluctant to distribute such information within the company and, as a result, decisions would be based on incomplete information and operations would deteriorate.
- Suppose employees accepted bribes from suppliers. Then contracts would tend to go to suppliers who pay the highest bribes rather than to the most competent suppliers. Would you like to fly in aircraft whose wings were made by the subcontractor who paid the highest bribe? Would you fly as often? What would happen to the airline industry if its safety record deteriorated due to shoddy workmanship on contracted parts and assemblies?
- Suppose the presidents of companies routinely lied in their annual reports and financial statements. If investors could not rely on the basic integrity of a company's financial statements, they would have little basis for making informed decisions. Suspecting the worst, rational investors would pay less for securities issued by companies and may not be willing to invest at all. As a consequence, companies would have less money for productive investments—leading to slower economic growth, fewer goods and services, and higher prices.

As these examples suggest, if ethical standards were not generally adhered to, everyone would suffer—businesses as well as consumers. Essentially, abandoning ethical standards would lead to a lower standard of living with lower-quality goods and services, less to choose from, and higher prices. In short, following ethical rules such as those in the Statement of Ethical Professional Practice is absolutely essential for the smooth functioning of an advanced market economy.

### *Company Codes of Conduct*

Many companies have adopted formal ethical codes of conduct. These codes are generally broad-based statements of a company's responsibilities to its employees, its customers, its suppliers, and the communities in which the company operates. Codes rarely spell out specific do's and don'ts or suggest proper behavior in a specific situation. Instead, they give broad guidelines. For example, Exhibit 1–8 (page 16) shows Johnson & Johnson's code of ethical conduct, which it refers to as a Credo. Johnson & Johnson created its Credo in 1943

Members of IMA shall behave ethically. A commitment to ethical professional practice includes: overarching principles that express our values, and standards that guide our conduct.

### **PRINCIPLES**

IMA's overarching ethical principles include: Honesty, Fairness, Objectivity, and Responsibility. Members shall act in accordance with these principles and shall encourage others within their organizations to adhere to them.

### **STANDARDS**

A member's failure to comply with the following standards may result in disciplinary action.

#### **I. COMPETENCE**

Each member has a responsibility to:

1. Maintain an appropriate level of professional expertise by continually developing knowledge and skills.
2. Perform professional duties in accordance with relevant laws, regulations, and technical standards.
3. Provide decision support information and recommendations that are accurate, clear, concise, and timely.
4. Recognize and communicate professional limitations or other constraints that would preclude responsible judgment or successful performance of an activity.

#### **II. CONFIDENTIALITY**

Each member has a responsibility to:

1. Keep information confidential except when disclosure is authorized or legally required.
2. Inform all relevant parties regarding appropriate use of confidential information. Monitor subordinates' activities to ensure compliance.
3. Refrain from using confidential information for unethical or illegal advantage.

#### **III. INTEGRITY**

Each member has a responsibility to:

1. Mitigate actual conflicts of interest. Regularly communicate with business associates to avoid apparent conflicts of interest. Advise all parties of any potential conflicts.
2. Refrain from engaging in any conduct that would prejudice carrying out duties ethically.
3. Abstain from engaging in or supporting any activity that might discredit the profession.

#### **IV. CREDIBILITY**

Each member has a responsibility to:

1. Communicate information fairly and objectively.
2. Disclose all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, analyses, or recommendations.
3. Disclose delays or deficiencies in information, timeliness, processing, or internal controls in conformance with organization policy and/or applicable law.

### **RESOLUTION OF ETHICAL CONFLICT**

In applying the Standards of Ethical Professional Practice, you may encounter problems identifying unethical behavior or resolving an ethical conflict. When faced with ethical issues, you should follow your organization's established policies on the resolution of such conflict. If these policies do not resolve the ethical conflict, you should consider the following courses of action:

1. Discuss the issue with your immediate supervisor except when it appears that the supervisor is involved. In that case, present the issue to the next level. If you cannot achieve a satisfactory resolution, submit the issue to the next management level. If your immediate superior is the chief executive officer or equivalent, the acceptable reviewing authority may be a group such as the audit committee, executive committee, board of directors, board of trustees, or owners. Contact with levels above the immediate superior should be initiated only with your superior's knowledge, assuming he or she is not involved. Communication of such problems to authorities or individuals not employed or engaged by the organization is not considered appropriate, unless you believe there is a clear violation of the law.
2. Clarify relevant ethical issues by initiating a confidential discussion with an IMA Ethics Counselor or other impartial advisor to obtain a better understanding of possible courses of action.
3. Consult your own attorney as to legal obligations and rights concerning the ethical conflict.

### **EXHIBIT 1-7**

#### **IMA Statement of Ethical Professional Practice**



## IN BUSINESS

## WHO IS TO BLAME?

Don Keough, a retired Coca-Cola executive, recalls that, "In my time, CFOs [Chief Financial Officers] were basically tough, smart, and mean. Bringing good news wasn't their function. They were the truth-tellers." But that had changed by the late 1990s in some companies. Instead of being truth-tellers, CFOs became corporate spokesmen, guiding stock analysts in their quarterly earnings estimates—and then making sure those earnings estimates were beaten using whatever means necessary, including accounting tricks and in some cases outright fraud. But does the buck stop there?

A survey of 179 CFOs published in May 2004 showed that only 38% of those surveyed believed that pressure to use aggressive accounting techniques to improve results had lessened relative to three years earlier. And 20% of those surveyed said the pressure had increased over the past three years. Where did the respondents say the pressure was coming from? Personal greed, weak boards of directors, and overbearing Chief Executive Officers (CEOs) topped the list. Who is to blame? Perhaps that question is less important than focusing on what is needed—greater personal integrity and less emphasis on meeting quarterly earnings estimates.

Sources: Jeremy Kahn, "The Chief Freaked Out Officer," *Fortune*, December 9, 2002, pp. 197–202, and Don Durfee, "After the Scandals: It's Better (and Worse) Than You Think," *CFO*, May 2004, p. 29.

and today it is translated into 36 languages. Johnson & Johnson surveys its employees every two to three years to obtain their impressions of how well the company adheres to its ethical principles. If the survey reveals shortcomings, corrective actions are taken.<sup>7</sup>

It bears emphasizing that establishing a code of ethical conduct, such as Johnson & Johnson's Credo, is meaningless if employees, and in particular top managers, do not

## EXHIBIT 1-8

## The Johnson &amp; Johnson Credo

## Johnson &amp; Johnson Credo

We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices. Customers' orders must be serviced promptly and accurately. Our suppliers and distributors must have an opportunity to make a fair profit.

We are responsible to our employees, the men and women who work with us throughout the world. Everyone must be considered as an individual. We must respect their dignity and recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly and safe. We must be mindful of ways to help our employees fulfill their family responsibilities. Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified. We must provide competent management, and their actions must be just and ethical.

We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens—support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

Our final responsibility is to our stockholders. Business must make a sound profit. We must experiment with new ideas. Research must be carried on, innovative programs developed and mistakes paid for. New equipment must be purchased, new facilities provided and new products launched. Reserves must be created to provide for adverse times. When we operate according to these principles, the stockholders should realize a fair return.

<sup>7</sup> [www.jnj.com/our\\_company/our\\_credo](http://www.jnj.com/our_company/our_credo)



adhere to it when making decisions. If top managers continue to say, in effect, that they will only be satisfied with bottom-line results and will accept no excuses, they are building a culture that implicitly coerces employees to engage in unethical behavior to get ahead. This type of unethical culture is contagious. In fact, one survey showed that “[t]hose who engage in unethical behavior often justify their actions with one or more of the following reasons: (1) the organization expects unethical behavior, (2) everyone else is unethical, and/or (3) behaving unethically is the only way to get ahead.”<sup>8</sup>

## IN BUSINESS

### WHERE WOULD YOU LIKE TO WORK?

Nearly all executives claim that their companies maintain high ethical standards; however, not all executives walk the talk. Employees usually know when top executives are saying one thing and doing another and they also know that these attitudes spill over into other areas. Working in companies where top managers pay little attention to their own ethical rules can be extremely unpleasant. Several thousand employees in many different organizations were asked if they would recommend their company to prospective employees. Overall, 66% said that they would. Among those employees who believed that their top management strives to live by the company's stated ethical standards, the number of recommenders jumped to 81%. But among those who believed top management did not follow the company's stated ethical standards, the number was just 21%.

Source: Jeffrey L. Seglin, “Good for Goodness’ Sake,” *CFO*, October 2002, pp. 75–78.

### Codes of Conduct on the International Level

The Code of Ethics for Professional Accountants, issued by the International Federation of Accountants (IFAC), governs the activities of all professional accountants throughout the world, regardless of whether they are practicing as independent CPAs, employed in government service, or employed as internal accountants.<sup>9</sup>

In addition to outlining ethical requirements in matters dealing with integrity and objectivity, resolution of ethical conflicts, competence, and confidentiality, the IFAC's code also outlines the accountant's ethical responsibilities in other matters such as those relating to taxes, independence, fees and commissions, advertising and solicitation, the handling of monies, and cross-border activities. Where cross-border activities are involved, the IFAC ethical requirements must be followed if they are stricter than the ethical requirements of the country in which the work is being performed.

## 公司治理 Corporate Governance

Effective *corporate governance* enhances stockholders' confidence that a company is being run in their best interests rather than in the interests of top managers. **Corporate governance** is the system by which a company is directed and controlled. If properly implemented, the corporate governance system should provide incentives for the board of directors and top management to pursue objectives that are in the interests of the company's owners and it should provide for effective monitoring of performance.<sup>10</sup>

Unfortunately, history has repeatedly shown that unscrupulous top managers, if unchecked, can exploit their power to defraud stockholders. This unpleasant reality became all too clear in 2001 when the fall of Enron kicked off a wave of corporate scandals. These

<sup>8</sup> Michael K. McCuddy, Karl E. Reichardt, and David Schroeder, “Ethical Pressures: Fact or Fiction?” *Management Accounting* 74, no. 10, pp. 57–61.

<sup>9</sup> A copy of this code can be obtained on the International Federation of Accountants' website [www.ifac.org](http://www.ifac.org).

<sup>10</sup> This definition of corporate governance was adapted from the 2004 report titled *OECD Principles of Corporate Governance* published by the Organization for Economic Co-Operation and Development.