streetwise

BY STEPHEN BARLAS, LANCE THOMPSON, CURT VERSCHOOR, KATHY WILLIAMS

[NEWS]

George Batavick Named to FASB | Kathy Williams, Editor

GEORGE J. BATAVICK, CPA, FORMER COMPTROLLER OF TEXACO, INC., HAS been appointed a member of the Financial Accounting Standards Board. His term began August 1 and will end June 30, 2008. He succeeds John M. "Neel" Foster, a former vice president and treasurer of Compaq Computer Corp., whose term ended June 30, 2003.

Batavick's career at Texaco spanned 27 years. As comptroller from 1999 to 2002, he had company-wide responsibility for strategy and policy matters regarding all aspects of accounting and financial reporting. Before this, he held a number of key positions including deputy comptroller and director of internal auditing. Before joining Texaco, Batavick was with Getty Oil Company in Los Angeles. He began his career at Arthur Andersen LLP in Philadelphia after graduating from St. Joseph's University with a bachelor's degree in accounting.

Manuel H. Johnson, chairman of the Financial Accounting Foundation, which oversees the FASB and selects its members, said, "I am very pleased that the Foundation has recruited George J. Batavick, whose expertise in financial reporting at a large, global public company should prove to be an important asset to the FASB."

COSO Wants Your Input

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has just released an exposure draft on Enterprise Risk Management that develops a framework providing integrated principles, common terminology, and implementation advice for companies that want to develop or benchmark their risk management practices. The framework also identifies the interrelationships between risk and enterprise risk management and with COSO's *Internal Control—Integrated Framework*, published in 1992.

The group is seeking input from IMA members and other financial professionals about the exposure draft's content. At the moment, there is no common terminology regarding risk management, and there are few widely accepted principles that management can use as a guide in developing an effective risk management architecture, so COSO wants to make sure this framework is viable, it says.

COSO's sponsoring organizations are IMA, AAA (American Accounting Association), AICPA (American Institute of CPAs), FEI (Financial Executives International), and IIA (Institute of Internal Auditors). IMA members participating in the project are Frank C. Minter, CPA, former IMA President (now called

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FINANCIAL MANAGEMENT WEBSITE

If you want to check out an informative, entertaining website that will help you study for the CMA/CFM exams, visit http://web.utk.edu/~jwachowi/wacho_world.html. It's also a great source for all financial professionals who want to find almost any link to accounting or finance information of any kind.

Wachowicz's Web World: Web Sites for Discerning Finance Students is run by John Wachowicz, CPA, Ph.D., professor of finance at the University of Tennessee. He started the site in 1996 as a simple one-page list to help his students understand the material in his textbook, *Fundamentals of Financial Management*, coauthored with James Van Horne of Stanford University. But interest grew so quickly that he expanded it to include in-

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[ETHICS]

Is Ethics Education of Future Business Leaders Adequate?

by Curtis C. Verschoor, CMA, Editor

EVER SINCE THE ONSET OF THE ACCOUNTING AND business scandals that began two years ago, critics have asserted that a good portion of the blame for the cause of the scandals should be assigned to business educators. Corporate leaders "should have learned how to apply ethical principles in business situations at the university," detractors announce. Defensively, business school faculty have just as stridently declared that it really wasn't their fault. They claimed: "We were only preparing students for the real world."

A study of business school students' ethical attitudes showed very interesting results and surprising changes from a similar survey conducted only a year earlier. The survey covered 1,700 MBA students at 12 prominent business schools, including two in Canada and one in England.[1] It measured how future business leaders view the role of a company in society, how their attitudes toward the roles and responsibilities of a company in society are shaped by the MBA experience, and what messages MBA students are receiving from business schools about acceptable values and behaviors.

> *"To educate a person in mind and not in morals is to educate a menace to society."*
>
> *— President Theodore Roosevelt*

In brief, today's MBAs are concerned about possible values conflicts in their careers and are unsure that their business education is preparing them adequately. They believe issues of social responsibility should be integrated into all teaching disciplines. This suggests that today's MBAs are thinking broadly about the role of business in society. The average index of responses to the importance of managing a well-run company according to its values and a strong code of ethics was 0.7, with 1.0 representing "very important."

MBAs place primary blame for the recent spate of corporate scandals largely on the personality/character of the business leaders involved. Yet nearly half agree that the priorities communicated during business school were also a contributing factor. By a slight margin, MBA students now believe that fulfilling customer needs is the most important responsibility of a company. Last year's survey found that maximizing value for shareholders was the most important.

Half the students feel that they will have to make business decisions that conflict with their personal values. Issues include tradeoffs between the well-being of shareholders, employees, and customers and social and environmental responsibility. A key finding of the study was that only 22% of respondents feel their education is providing "a lot" of preparation for managing potential conflicts, while 19% believe they are "not being prepared at all."

The most substantial increase in desired coverage of issues relating to the social responsibility of companies occurred in accounting/auditing. Last year, only 32% thought this topic should be covered there, whereas 84% thought so this year, the second highest of any discipline.

The good news is that today's business students have a growing interest in ethics and the importance of corporations in the well-being of society. The negative news is that they believe their university preparation in ethical issues may not be adequate.

Let's hope that public and media attention will continue to be directed toward *continued on page 5*

[GOVERNMENT]

Some in Congress Seek to Foreclose FASB Action on Stock Options | Stephen Barlas, Editor

SOME INFLUENTIAL MEMBERS of Congress are trying to prevent the Financial Accounting Standards Board (FASB) from requiring that companies account for stock options the same way they do other expenses. Currently, the FASB allows companies to "account" for stock options via a footnote. But many accounting industry leaders and academics believe outsized stock option grants to top corporate officials at Enron, MCI, and elsewhere had a good bit to do with those fiascos. High-tech companies oppose having to expense stock options, however, and have convinced influential members of Congress to introduce anti-FASB legislation. The Broad-Based Stock Option Plan Transparency Act (H.R. 1372) would block the FASB from changing its current policy and instead tell the Securities & Exchange Commission to adopt a rule requiring "plain English" discussion of share value dilution, including tables or graphic illustrations of the dilutive effects; expanded disclosure of the dilutive effect of employee stock options on the company's earnings-per-share number; the prominent placement and increased comparability of stock option-related information; and a summary of stock options granted to the five most highly compensated executive officers, including any outstanding stock options. After the rule had been in effect for three years, the Department of Commerce would do a study to see whether additional action is necessary. Rep. David Dreier (R.-Calif.), a member of the House Republican leadership, is a chief sponsor of the bill. He says that an FASB dictate on stock option accounting "will hurt the risk takers who are creating jobs and wealth in this country." At hearings in the House Financial Services Committee in June, Robert H. Herz, chairman of the FASB, said the board strongly opposes the Dreier bill for a number of reasons, explaining, "it would send a

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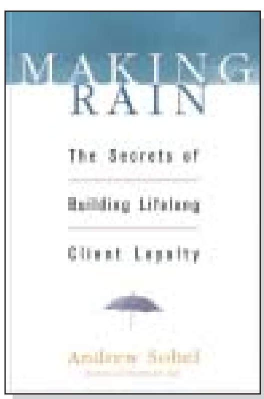
BOOKS

Building Client Loyalty

✷ **IN ORDER TO ESTABLISH LONG-TERM RELATION**ships with clients and build lifelong client loyalty, you need to understand the attributes, attitudes, and strategies that enable professional service providers to consistently add value and build trusted personal relationships to create a market position as a client advisor rather than as an expert for hire. In his book, *Making Rain: The Secrets of Lifelong Client Loyalty*, Andrew Sobel explains how to do just that. The goal, as he puts it, is to make rain. Professionals who make rain create a better, more sustainable, steady revenue stream that forms the foundation for both personal and firm success. On the opposite side are rainmakers, who are traditionally quick-hit sales artists who snag the big clients, close the big deals, and then disappear to chase the next big client.



Making Rain shows how to apply the principles for developing and managing client relationships that were first described in *Clients for Life: How Great Professionals Develop Breakthrough Relationships*, coauthored by Sobel. New concepts introduced here are the loyalty equation, relationship capital, relationship growth strategies, and a framework for an entire firm to systematically build lifelong client loyalty.

Relationships with clients evolve through three distinct phases. You begin as an expert for hire (providing commodity expertise on a transactional basis),

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[BOOKS] *cont'd from p. 3*
become a steady supplier, and then, possibly, develop into a broad-based extraordinary business advisor who provides insight and wisdom within the context of a long-term relationship. Here are the major attributes that add value: become a deep generalist, demonstrate big-picture thinking, show keen judgment, and build a trusted personal relationship. Deep generalists go deeper into their client relationships by developing a selected group of broad-based, advisory client relationships. The idea is to demonstrate specialized expertise while behaving like an advisor.

Client loyalty is based on the value added, the trust built, and the extent of going the extra mile for clients. This is the client loyalty equation. Value can be core value, surprise value, and personal value. Trust depends on integrity and your client's perception of your competence for a particular job. Going the extra mile enhances trust, shows that you're focused on the client's interest rather than your personal agenda, and develops reciprocity. These things need to be done consistently, but somewhat differently, during the three phases of the relationship.

Sobel believes that we have entered into the networked age or the age of relationship capital. Success will depend on your ability to develop trusted relationships with clients and on the richness of your personal network. Relationships need to be developed with different individuals (who represent your clients and customers, counselors, catalysts, collaborators and companions) in order to create relationship capital. A model is presented that describes four phases of relationship building: affiliating, adding value, sustaining, and multiplying.

Also included are examples of several historical advisors who were masters at building relationship capital in their own time, such as the Rothschild bankers (extraordinarily adept at building their relationship capital and then leveraging it through their proprietary information), Benjamin Franklin (the consummate relationship builder), Leonardo da Vinci (the consummate deep generalist), and King Arthur's Merlin (the archetypal advisor, completely dedicated to client success with little regard for his own agenda).

The last chapter offers readers the opportunity to begin implementing the concepts of the book. Separate assessment tools for individuals and organizations are available on the Web (www.andrewsobel.com) to evaluate your client relationships and your ability to make rain. These tools cover all major facets of relationship building and loyalty creation.

This book is recommended for all people involved with service-related industries who are interested in developing relationships that bring value to both clients and their professional service providers. It is aimed at professional service providers with clients but is applicable to other industries where collaborative customer and supplier relationships are important. For those familiar with the value propositions described in Michael Treacy and Fred Wiersema's *Discipline of Market Leaders*, this book is valuable if they are offering a Customer Intimacy value proposition where customer service and relationships are critical.

The book presents a comprehensive approach with real-world examples that, if successfully implemented, provide exceptional business results for both clients and their service firms.—*Lance A. Thompson*

Lance A. Thompson is president of Thompson Management Consulting Services, LLC. He can be reached at lancephx@aol.com.

[GOV'T] *cont'd from p. 3*
clear and unmistakable signal that Congress is willing to intervene in the independent, objective, and open accounting standard-setting process based on factors other than the pursuit of sound and fair financial reporting. That signal would likely prompt others to seek political intervention in future technical activities of the FASB."

SEC Considers Rulemaking on CEO Compensation

Nearly every witness at Senate Commerce Committee hearings in May on excessive CEO compensation mentioned stock options, which explains why the Dreier bill will face considerable resistance in Congress. Another explanation for what some view as out-of-control executive pay is the failure of corporate boards of directors to police pay, sometimes because board members are best buddies with the CEO. That theory is behind the petition the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) submitted to the SEC in May, asking the Commission to democratize the director election process. The petition asks the Commission to adopt rules giving long-term significant investors in public companies the right to have short slates of directors they nominate listed on management's proxy along with management board candidates. "In particular, it is only through this type of reform that boards will become independent enough to really negotiate CEO pay packages," says Damon A. Silvers, associate general counsel of the AFL-CIO. The SEC staff was asked to report to the Commission on the issue by July 15. ■

[ETHICS] *cont'd from p. 2*

any new ethical misdeeds that are discovered in corporations. Further, we look forward to seeing appropriate sanctions, fines, and jail sentences in criminal cases, such as Enron, WorldCom, Tyco, HealthSouth, and the Wall Street analysts and the firms that supported them. Where criminal activity isn't involved, the plaintiffs' bar and the additional staff at the SEC will have to provide justice.

Future business leaders need to know that the ability to apply ethical principles is as important as or even more important than the ability to apply knowledge of business principles. We can't presume that everyone will act ethically. We have to actively promote ethical behavior in business and in all aspects of our lives. ■

Curtis C. Verschoor, CMA, is the Ledger & Quill Research Professor, School of Accountancy and MIS, DePaul University, Chicago, and is Research Scholar in the Center for Business Ethics at Bentley College, Waltham, Mass. His e-mail address is cverscho@condor.depaul.edu.

[1]The Aspen Institute, *Where Will They Lead?: MBA Student Attitudes About Business & Society 2003,* Business and Society Program, May 2003. See www.aspeninstitute.org.

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Chair), executive in residence at Samford University; Dennis L. Neider, CMA, CPA, partner with PricewaterhouseCoopers; and Jerry W. DeFoor, CPA, VP and controller, Protective Life Corporation.

You may download the document from www.erm.coso.org by clicking on The Framework button on the left-hand side of the page. Please submit any comments by October 14, 2003, through the above website address. The final framework will be released in early 2004.

IFAC Proposes Ethics Changes

The International Federation of Accountants (IFAC) is recommending significant changes to its "Code of Ethics for Professional Accountants" that will expand the Code from a "model code" on which to base national requirements to a "standard," requiring IFAC member body compliance. IMA is one of IFAC's member bodies.

IFAC is proposing the changes to raise the quality of practice by accountants worldwide. The proposed revisions expand guidance for all individual accountants regarding integrity, objectivity, professional competence, confidentiality, and professional behavior. The revised Code provides new, in-depth guidance for professional accountants in business by addressing issues such as potential conflicts, preparing and reporting information, financial interests, inducements, and disclosure of information. For public accountants, the Code offers clearer identification of threats and safeguards in the areas of second opinions, fees and remuneration, and custody of client assets.

To download the proposed Code, visit www.ifac.org/EDs, scroll down the list, and click on Proposed Revised Code of Ethics for Professional Accountants. Please submit your comments by November 30, 2003, by e-mail to Edcomments@ifac.org or by fax to the attention of the IAASB technical director at (212) 286-9570. You can also mail them to the technical director's attention at IFAC, 545 Fifth Ave., 14th Floor, New York, NY 10017. ■

[WEBSITE] *cont'd from p. 1*

formation in all areas of finance and accounting.

Now it contains categorized and briefly annotated links, more than 1,000 PowerPoint slides, interactive quizzes, and more. The site is free and doesn't require registration or a password. ■