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

[NEWS]

Developing Ethical Financial Leaders | Kathy Williams, Editor

WITH JAIL TERMS LOOMING FOR SOME CORPORATE FINANCIAL EXECUTIVES and fallout still occurring from the recent accounting scandals, the accounting profession and companies are struggling with corporate governance issues and trying to figure out how to make sure their leaders are honest and set an ethical tone at the top. Financial professionals must set this tone by example and by insisting their staffs follow suit.

A recent survey sponsored by the Finance Development & Training Institute (www.FDTI.org) reveals some best practices followed by 11 best-in-breed companies that have moved to a deliberate process of developing future financial leaders rather than just hoping they come along. The companies are using new tools described in the study to readily identify, develop, and retain top corporate financial talent.

"It may be counterintuitive, but some of the most dramatic and innovative strides in leadership development are being pioneered in the CFO communities of major global corporations," notes Jonathan Schiff, the study's author and head of the FDTI.

For example, one company has developed a College of Leadership to recognize and develop future leaders and a College of Accounting to educate their associates in a variety of technical skills including product costing, internal controls, and business measurement. Another company created a Finance Leadership Forum, an intense three-year program undergone by the top up-and-coming finance people identified by the CFO and other leaders. And another has put strong performance measures in place that the finance staff must adhere to before they can be considered for upper management.

These are just a few of the kinds of methods these excellent companies are creating and using to make sure they have future financial leaders who are ethical and who will encourage their associates and staffs to be ethical. To download a free PDF of the entire report, visit www.schiffconsulting.com and click on the link to "Top Talent Development in the Finance Function." For more information about the report, you can contact Jonathan Schiff at (845) 371-0700. ■

FASB DELAYS STOCK OPTION RULING

The Financial Accounting Standards Board has postponed issuing a proposal to require companies to expense employee stock options. It plans to issue proposed rules in the first quarter of 2004 and final rules by the end of September. This timing corresponds with an announcement by the International Accounting Standards Board (IASB) to do the same.

FASB said it wanted to do more work on determining how options should be valued, as the Black-Scholes model might not be the best approach.

The Board also issued an Exposure Draft, "Employers' Disclosures about Pensions and Other Postretirement Benefits," that would improve financial statement disclosures for defined benefit plans. To download the Draft, visit FASB's website at www.fasb.org. ■

ILLUSTRATION: ARTDISC

READERS' INPUT

NOTE FROM THE AUTHORS

In the article "The Cash Factor" (September 2003), several references are made to the "partnership"-like aspects of factoring. Certainly, a factoring relationship creates a special business arrangement that has some of the features of a "partnership," but it is not a formal partnership, in the strict legal sense of the word. The references in the article were made for ease of description and were in no way intended to imply that a company and its factor are partners in the eyes of the law or that the relationship has the formal elements or structure that the law requires for a true partnership. ■

We welcome all opinions on articles and departments published in *Strategic Finance*. E-mail correspondence to Kathy Williams at kwilliams@imanet.org.

[ETHICS]

Corporate Responsibility: High Priority for CEOs

by Curtis C. Verschoor, CMA, Editor

A SURVEY OF CHIEF EXECUTIVE OFFICERS AROUND THE GLOBE BY PRICEWATER-houseCoopers revealed that CEOs assign considerable priority to maintaining a high degree of corporate responsibility.[1] The study gathered this information from almost 1,200 CEOs in 33 countries. Results of the research showed that many of the respondents seem to view their companies' reputations as a work in progress. While 47% are resolutely proud of their companies (for having a positive social reputation), another 41% offer a qualified view—"to some extent."

The survey reported that North American CEOs had the highest confidence in their companies' social reputation. Sixty-four percent feel strongly that the public perceives their company as a positive social performer, and 30% have somewhat guarded confidence. Asia-Pacific CEOs have the lowest confidence in the public's perception of their companies as positive social performers, with only 28% feeling strongly confident and 54% feeling more cautiously confident.

The fact that public perceptions trailed the executives' views by only a small margin was surprising, as CEOs are bound to have a somewhat more rosy perception of their company than the outside world does. Also, the CEOs' definition of what constitutes corporate social responsibility differs across regions. As a group, the executives prioritize workplace safety and responsiveness to all stakeholders, regardless of legal requirements, as the key defining components of social reputation, with more than 80% supporting this view. North American CEOs prioritize supporting community projects over workplace safety in their definition, however, while Central/South American and European CEOs say workplace safety is most important.

Perhaps one of the most telling findings in the study concerns the importance of corporate social responsibility. Most CEOs agree that corporate social responsibility doesn't amount to public relations "spin" (51%), that corporate social responsibility is vital to profitability (68%), and that it must remain a priority, even in the current economic downturn (60%). Interestingly, a relatively large percentage of CEOs responded to all three of the above propositions with uncertainty, "unsure" of where they stand. The survey did not ask whether CEOs reported their company's performance to stakeholders other than shareholders. Although 80% say responsiveness to all stakeholders is an important aspect of corporate social responsibility, greater transparency of actual performance would indicate a higher level of commitment to taking action in accordance with socially responsible principles.

A key finding of the study compared what the CEOs believed was most important to assessing the value of the company with what they believed were the perceptions of analysts and investors. Although there was general agreement in many areas, a significant valuation factors gap exists regarding several important issues. In each case, the CEOs valued the factor more highly than they believe investors did.

The largest gaps involved social factors and long-term issues, where the CEOs' results ranged from 17 percentage points to

continued on page 4

[GOVERNMENT]

Congress Not Expected to Add to Sarbanes-Oxley

Stephen Barlas, Editor

THE SENATE BANKING AND HOUSE Financial Services Committees will begin hearings this fall on how well the Sarbanes-Oxley law is working. But the two lawmakers responsible for passage of that landmark law are signaling that the hearings won't result in any dilution of its original provisions. Business groups have complained that it costs too much to comply with the law and that the legislation has had the unintended consequence of dampening the sort of risk taking that drives corporate expansion. Rep. Michael Oxley (R.-Ohio), who chairs the House Committee, says, "Don't look for any changes anytime soon." Sen. Paul Sarbanes (D.-Md.), top Democrat on the Senate Committee, says frequent changes would make the law even more difficult and costly to follow.

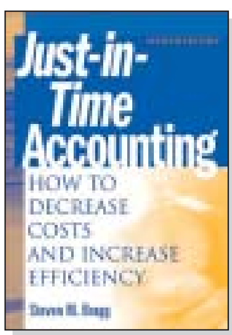
PCAOB to Address Internal Controls

While Congress isn't likely to adjust Sarbanes-Oxley, which resulted in a Securities & Exchange Commission (SEC) requirement that management assess and certify corporate internal controls, it doesn't mean corporate financial waters will remain calm. That's because Sarbanes-Oxley also required the Public Company Accounting Oversight Board (PCAOB) to issue a rule setting standards for the way outside auditors "attest" to the effectiveness of the internal controls relied on by management. According to spokeswoman Christi Harlan, the question for the PCAOB is whether it should require auditors to actually test the internal controls a company says it is using to good effect. This would be considerably more expensive than a more cursory form of attestation where the auditors would test the assessment management performed. Grace Hinchman, senior vice president at Financial Executives International (FEI), continued on page 5

BOOKS

Improving Accounting Efficiency

✷ **THE TIME AND EFFORT ACCOUNTING DEPART**ments spend in processing accounting transactions detracts from their ability to focus on activities that contribute to the growth and welfare of the company. That's why it's imperative to streamline accounting systems so that transactions can be processed with minimal errors and staff time, raising the level of efficiency and allowing more time for other business activities. Stephen M. Bragg's book, *Just-in-Time Accounting: How to Decrease Costs and Increase Efficiency*, describes how to develop such an efficient, effective accounting system. It examines methods to increase the operations speed in many important areas, including cash, inventory, accounts payable, cost accounting, payroll, the budget, and sales and accounts receivable.



Several factors contribute to the long processing times, but Bragg believes the biggest are cluttered systems, poorly documented systems, archaic systems, excessive amounts of clerical work, and excessive document wait times. His major suggestions to get rid of these problems are:

- Eliminate redundant or unnecessary control points, which waste time and resources,
- Reduce the number of people involved in processing transactions,
- Remove any steps from the transaction that can be handled in advance,
- Automate control points, and
- Apply new technolo- continued on next page

[BOOKS] *cont'd from p. 3*

gies to the process.

Bragg analyzes each major accounting function and discusses methods for shortening the process by reducing the number of controls, automating procedures, and reducing paperwork transfers among employees. He also addresses the major problems associated with implementing system changes, such as control issues, quality problems, sample/costs/benefit cost analyses, new management reports and performance measurements, information technology solutions, and common implementation considerations.

In the last section, Bragg provides a quick overview of other areas that can support the improvement of accounting functions: Internet and intranet accounting applications, electronic data interchange, advanced data collection and storage systems, quick period-end financial closes, outsourcing, process documentation, and managing change. Most of the ideas on enabling information technology aren't new, but they are nicely summarized and cover many of the latest technology solutions (e.g., self-service kiosks, intranet accounting manuals, and electronic communications among suppliers, banks, and within the company).

Some of the most valuable materials in the book were the before-and-after detailed process map flowcharts (for both traditional and recommended processes), the step-by-step value stream analysis for each process, controls mitigation, and new measurements and reports (focusing on critical areas driving performance).

The chapter on cost accounting discusses new JIT approaches that drastically change (and simplify) the focus from the many traditional material, labor, and overhead variance analysis to include other nonfinancial measures such as inventory, labor routing, and bill of material accuracy and overtime percentages. The chapter on budgeting is refreshing as it describes an approach that provides strategic alignment and prioritization resulting in fewer iterations to create the final detailed budget.

For those organizations looking to create a more efficient and effective accounting process, this comprehensive nuts-and-bolts book is recommended for all accounting process improvement and reengineering initiatives. Consultants and other business professionals who seek a detailed analysis of the major functions of an accounting organization would also benefit.—*Lance A. Thompson*

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

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

29 percentage points higher. Eighty-one percent of the CEOs pay attention to workforce quality and retention, but only 54% say investors also pay some attention to this factor. Other large gaps concern issues of customer/client acquisition, retention and profitability, maintaining the customer/client base, and innovation/research and development. In other words, CEOs believe investors aren't paying enough attention to the importance of these factors.

These results seem to confirm previous understandings that investors pay considerable, possibly too much, attention to short-term factors of earnings and cash flow. Investors expect companies to shed employees, cut research spending, and limit advertising to maintain earnings growth during challenging economic times, possibly to the long-term detriment of the company. The adage "What gets reported gets managed" may apply here. Since many companies report their accomplishments only in financial terms, it may explain investor preoccupation with financial matters.

More and more companies are undertaking reports of their environmental and social activities. This is particularly true outside the U.S. Groups like the Global Reporting Initiative have set standards for corporate reporting in social/environmental or "sustainable" terms. ■

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

1 PricewaterhouseCoopers, *Uncertain Times, Abundant Opportunities*, 5th Annual Global CEO Survey, 2003. Available at www.pwcglobal.com.

[GOV'T] *cont'd from p. 3*
says FEI supports the latter. The accounting industry wants the former. Many corporate financial types believe accounting firms are pushing for intensive testing as a means of building their revenue. Corporate officials are worried about the impact a "testing" requirement would have on the costs of audits. "Controls are not free," Greg W. Matz, director of internal audit at Agilent Technologies Inc., said at a PCAOB meeting this summer. It's possible that companies are "going to overspend without a lot of benefit or safety for the investor." But John A. Fogarty, director of audit policies at Deloitte & Touche, told the same meeting that when the next corporate blowup occurs, an explanation that auditors tested just a few internal controls or depended upon the client's in-house auditing team to do the bulk of the work "is very unlikely to be a satisfactory and believable response."

CEO Pay Oversight?

While there are no Sarbanes-Oxley requirements concerning executive pay, many critics of corporate excess think there should have been. SEC Chairman William Donaldson doesn't necessarily agree, but he does think that corporate boards and corporate directors need to do a better job of, if not necessarily limiting, then justifying, corporate executive compensation. How much corporate bosses should be paid and how their work should be judged remain "great and as-yet unsolved questions," he says. In June the SEC approved new rules proposed and adopted by the New York Stock Exchange and Nasdaq requiring shareholder approval of equity compensation plans, including stock option plans. But Donaldson apparently believes that boards and directors ought to be obligated to undertake some sort of scrutiny prior to approving any package and setting it before shareholders.

SEC Pushing New Accounting Paradigm

The SEC is pushing a new corporate accounting paradigm called objectives-oriented standards. The idea is to move away from the rules-based standards used by the Financial Accounting Standards Board, which corporate accountants and auditors use in a "check-list" way, and move to a principles-based regime where financial statement preparers are called on to exercise professional judgment in a different way than is currently required. FASB, of course, has begun to inch its way along the principles-based path, which requires corporate accountants to show they made reasonable, good-faith judgments and interpretations of the applicable accounting literature. To do so, according to the SEC, they would have to maintain a considerable amount of contemporaneous documentation demonstrating their good judgment. The report the SEC issued on this topic was meant to keep the pressure on FASB. ■