streetwise

BY STEPHEN BARLAS, BRIAN PORTER, GROVER PORTER, ROBERT RANDALL, KATHY WILLIAMS

[NEWS]

The ERP Vendor/World-Class Finance Connection | Kathy Williams, Editor

MOST ENTERPRISE RESOURCE PLANNING (ERP) SOFTWARE VENDORS WOULD have you believe that you could achieve world-class finance performance with their system and not their competitors', but this isn't the case, according to new research from the Hackett Group, a business advisory firm and an Answerthink company.

Actually, Hackett's research found no direct correlation between the software package chosen and a company's ability to achieve world-class finance performance, particularly for the three leading vendors: SAP, PeopleSoft, and Oracle. Hackett says that these three packages, taken together, are used at more than 80% of all finance organizations in its database and at more than 92% of all companies that are able to achieve world-class performance in finance. No package dominates, and all support best practices in finance. Yet 96% of companies that implement one of these packages don't achieve world-class finance status.

So, what's the way to become world class? Companies must incorporate best-practice processes, organization design, and enabling technology, Hackett's research found. They must make process, organization, and policy changes, and, during the implementation process, they must configure their ERP systems to support best practices in finance. This shouldn't be left until later.

"Many companies delude themselves into believing that ERP packages will solve all their problems and automatically help them cut finance costs and improve effectiveness," Hackett IT Practice Leader Beth Hayes says. "But if companies are focused on getting to world class in finance, they need to improve how they do things, not simply change the tools they use to get things done."

Regarding processes, Hackett cited the purchase-to-pay area of finance as an example. The group said their research found a correlation between best practices such as centralization of payables processing, end-to-end process ownership, and minimization of low-value tasks and achieving world-class performance.

Hackett says that companies should look at their processes and organizational structure before investing time and money in application upgrades so they can make sure they are moving ahead correctly. If they are selecting an ERP vendor, companies shouldn't waste time comparing the small differences in core finance features and functionality unless these are critically important to their business. They should concentrate on the other areas where the ERP packages differ that could be more critical. ■

GREENER BUILDINGS

If you are concerned with any environmental issue regarding building materials, energy use, facility management, waste management, water use, and more, you may want to visit www.GreenerBuildings.com.

This free website was launched recently by the U.S. Green Building Council and the National Environmental Education & Training Foundation's GreenBiz.com to help companies understand the business case for green building and to help them access organizations, tools, case studies, news stories, and other resources related to greener building practices.

Visitors to the site can also keep up-to-date through a free electronic newsletter, *GreenerBuildings News*. ■

READERS' INPUT

ETHICS

I enjoyed reading the ethics column ["Will Sarbanes-Oxley Improve Ethics?"] in the March issue of *Strategic Finance*.

I agree that the "tone at the top" is critically important regarding ethical behavior in organizations. The recent corporate scandals resulted primarily from unethical/illegal behavior by top executives. The list includes executives from Arthur Andersen, Merrill Lynch, Enron, WorldCom, HealthSouth, Tyco, Adelphia, ImClone, Qwest, Xerox, etc.

SOX does not allow companies to "discharge, demote, suspend, threaten, harass, or in any way discriminate" against employees who "blow the whistle" on fellow employees. In my opinion, SOX supports an ethical standard such as the following: "If the ethical conflict still exists after exhausting all levels of internal review, it may be appropriate to notify parties outside the organization regarding significant matters."

Keep up the good work in the ethics area!

Grover L. Porter

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

[GOVERNMENT]

FASB Proposed Rule on Stock Option Accounting | Stephen Barlas, Editor

THE FASB PROPOSED RULE ON STOCK OPTION ACCOUNTING WAS EXPECTED and unsurprising, as were the quick statements of opposition from members of Congress who had been opposing the FASB on this. Both Sen. Mike Enzi (R.-Wyo.) and Rep. Richard Baker (R.-La.), who have introduced legislation that specifies much more limited options accounting than the FASB draft, complained that the FASB proposed rule forcing companies to begin accounting for employee stock options as an expense in 2005 could undermine U.S. competitiveness, restrict job growth, severely impact small businesses, and hamper the economic rebound. But that contention was undermined by a new report issued by the Congressional Budget Office (CBO) a few days after the FASB draft came out.

THE FASB PROPOSAL WOULDN'T HAVE A SIGNIFICANT EFFECT ON THE ECONOMY.

The CBO report, prepared at the request of Rep. Brad Sherman, a California Democrat, said the FASB proposal wouldn't have a significant effect on the economy. Enzi and other opponents had also argued that it's impossible to value options accurately. "The proposal ignores widespread valuation concerns and could create an accounting free-for-all," Enzi said. "The only thing that companies' estimates would have in common is that they would be wrong." The CBO also said that although it is complicated to calculate the fair value of employee stock options, they can be estimated as reliably as many other expenses.

SEC Issues Final 8-K Rule, Changes Made

The Securities & Exchange Commission made some significant changes in the final version of its 8-K rule issued on March 25. The initial proposal in June 2002 would have increased the number of items needed to be reported on the quarterly 8-K to 22. The proposal also would have shortened the form's filing deadline from five business days or 15 calendar days, depending on the particular event, to two business days with an automatic two-business-day extension upon a company's filing of a Form 12b-25. The SEC got some flak on that. A number of companies argued that having to file the 12b-25 would complicate things, and the increased filings would reduce the significance of a Form 12b-25 filing. The SEC was persuaded and decided to adopt a four-business-day deadline for Form 8-K, with no provision for extension under Rule 12b-25.

The eight new disclosure items (not 22) include entry into a material nonordinary course agreement; termination of a material nonordinary course agreement; creation of a material direct financial obligation or a material obligation under an off-balance-sheet arrangement; triggering events that accelerate or increase a material direct financial obligation or a material

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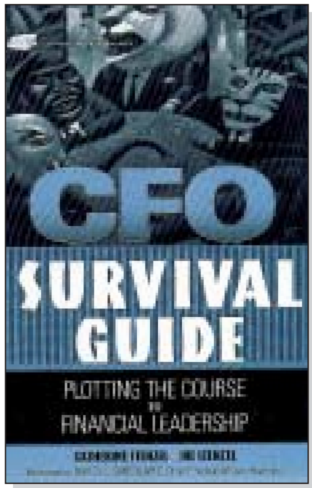
BOOKS

How CFOs Can Survive—and Prosper

WRITING A HANDBOOK ABOUT CFOS amidst the wreckage of Enron, WorldCom, and Arthur Andersen can be a daunting challenge for even the most skilled business writers. In their book, *CFO Survival Guide*, published by John Wiley & Sons, Inc., Catherine Stenzel and Joe Stenzel boldly take on the task, aiming "to challenge, annoy, provoke, and alter perception." By and large, the authors—who developed a seminar on CFOs and controllers for the Institute of Management Accountants—achieve their objective.

When they discuss the education and training of chief financial officers, the authors are on solid ground, providing a comprehensive review of all the assets, attributes, and knowledge that a "great" CFO needs. But the final two chapters, which address corporate governance and the CFO's role within it, may startle some accountants and financial managers, many of whom tend to be conservative by the nature of their jobs. The discussion of corporate governance tends to trail over into profound questions about the structure of the corporation and politics, with the CFO envisaged as a change agent, a role that most CFOs probably would be reluctant to assume.

The authors focus on the human component of the corporation with statements like, "Most executives have become so accustomed to speaking the financial accounting *lingua franca* that they have forgotten the native tongue of business: the one spoken by people while doing the work they do." They recommend three key steps for CFOs: remove the fiduciary workload; constantly learn more about the work of the company and the people who do it; and cultivate key alliances for learning exchanges.



Accountants have good reason to be proud despite recent scandals, but it's good to go back to the starting point, back to "the bedrock premise that accounting is perennially about accountability: telling the tale honestly." The fact that a relatively few financial managers featured on the front pages of American newspapers failed to honor this maxim evidently led the authors to add the caveat, "Financial goals are not inherently evil, but they are incomplete, and when they have no coun-

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BOOKS

A Money Management Reference Book

✷ **IN *THE GURU GUIDE TO MONEY MANAGEMENT*,** authors Joseph H. Boyett and Jimmie T. Boyett state that there are more than 8,000 personal finance and investment books in print, with over 300 published in 2002 alone. What exactly is the advice that all of these "experts" are trying to disseminate? Is there a common theme? Is the advice redundant, or does each author provide unique, and possibly conflicting, advice? Is the counsel practical or too complex for an ordinary person to follow? Are the ideas sophisticated and insightful or simply common sense? In their book, published by John Wiley & Sons, Inc., Joseph and Jimmie Boyett try to address such questions.

The Boyetts are experienced writers of this genre, having previously written *The Guru Guide to the Knowledge Economy*, *The Guru Guide to Marketing*, and *The Guru Guide to Entrepreneurship*. In their *Guru Guide* books, they attempt to summarize and synthesize the best of what has already been written on a specific topic to create a succinct and comprehensive literature review. Given the deluge of money management publications, this new installment is an appropriate addition to the series.

In *The Guru Guide to Money Management*, the Boyetts make no pretense to having read all the literature published on personal money management. Rather, they have whittled down a vast collection of writings to a manageable size of 80 different money management "gurus" and their publications, representing the best and most popular, including pieces from Jane Bryant Quinn, Suze Orman, David and Tom Gardner, Arthur Levitt, Charles Schwab, and Peter Lynch. Topics covered include budgeting, insurance, debt and credit, calculating one's net worth, finding the appropriate bank, money-saving strategies, mortgages, and retirement.

Because many of the topics are rather straightforward, there's rarely significant disagreement among the gurus. For example, the experts all concur that one should pay off high-interest debt (e.g., credit cards) first. Further, it's no surprise that most gurus agree that index mutual funds are a superior investment to managed mutual funds; dollar-cost averaging is a simple but shrewd investment strategy; and one should take maximum advantage of retirement plan contributions.

The more intriguing reading is when the gurus disagree. In these rare instances, the book does a fine job of comparing the various perspectives and explaining the differences. One example is the assorted opinions on asset allocation relative to age, the classic "rule of 100," which suggests the percentage of one's portfolio invested in bonds and/or cash equivalents should be equivalent to one's age, and the remainder (i.e., 100 minus one's age) invested in stocks. The book then provides modifications of this rule from various gurus. One notable exception, Charles Schwab, offers a much more aggressive approach to investment allocation. At age 50, Schwab recommends being 95% invested in stocks. Even at age 80, Schwab suggests having 40% invested in stocks, twice the amount computed by the "rule of 100."

Unfortunately, a book summarizing the personal money management literature is bound by its very nature to have two shortcomings. First, it contains numerous discussions and techniques that are little more than common sense. Much of money management advice can be summarized as "be prudent, be thrifty, and begin saving early in one's life." The second inevitable weakness is that the book includes some of the psychobabble inherent to money management literature. The chapter discussing the "proper relationship with money" is particularly replete with esoteric concepts and advice, such as, "Money behaves like a person, going to people who are strong and powerful, respectful of it, and open to receiving it," or, "The road to financial freedom begins not in a bank or even in a financial planner's office…but in your head. Think millionaire thoughts, not poverty thoughts." Fortunately, there are areas of the book that are more substantive, such as the extensive discussion comparing the legal differences between credit and debit cards.

The Guru Guide to Money Management is an admirable taxonomy of the personal money management literature. Readers who desire quick advice without sifting through supporting analytical proofs or theoretical discussions will find it very useful and practical, and even those with expertise in money management will find the book interesting or will at least be challenged by a different perspective.
—Brian Porter, Ph.D., CMA, CPA

[GOV'T] *cont'd from p. 24*
obligation under an off-balance-sheet arrangement; material costs associated with exit or disposal activities; material impairments; notice of delisting or failure to satisfy a continued listing rule or standard; transfer of listing; and nonreliance on previously issued financial statements or a related audit report or completed interim review (restatements). Compliance with these amendments will be required as of August 23, 2004.

Treasury/IRS Issue Guidance on Corporate Use of Partnerships

The Treasury Department and the Internal Revenue Service are cracking down on corporations who use partnerships to obtain inappropriate deductions for interest payments to related entities. On April 1, those transactions became "listed transactions," which must be disclosed to the IRS. In addition, promoters of listed transactions must keep lists of investors and, in certain cases, register those transactions with the IRS.

"This is another step in our ongoing efforts to prevent taxpayers, both individual and corporate, from engaging in abusive tax avoidance transactions," said Acting Assistant Secretary for Tax Policy Gregory F. Jenner. "In the transaction described in Notice 2004-31 (see http://www.ustreas.gov/press/releases/reports/notice_200431.pdf), related corporations provide financing through a partnership in an attempt to achieve a more favorable tax result than if they had done the financing directly. Congress did not intend that partnerships be used to implement tax reduction strategies instead of for legitimate business purposes." ■

[BOOKS] *cont'd from p. 25*
terbalances, they become truly dangerous."

Despite its somewhat turgid, academic style, this guide does have much to offer current and prospective CFOs. Every dimension of the CFO position is covered thoroughly, and the authors consistently urge financial managers to think outside the box. The assessment checklists scattered throughout the volume are helpful to CFO aspirants who want to measure their abilities against an ideal standard. And although a number of case studies are included in the text, more accounts of how actual CFOs solved real-life problems would have made the book even more useful.

Some readers perhaps will take exception to the authors' characterization of the corporation as "the child-king…running roughshod over the populace," but they will respect the authors' concern for corporate social responsibility and, particularly, care of the environment in which corporations function. One paragraph in the final chapter may raise eyebrows of members of financial and accounting organizations. "The accountability systems devised and revised by the Financial Accounting Standards Board (FASB), Financial Executives International (FEI), American Institute of Certified Public Accountants (AICPA), and other professional associations cannot fix this developmental dilemma because they are devout wealth extraction practitioners handicapped by their business and financial educations."

The discussion of the corporation and how most stockholders really haven't contributed capital to the company—unless they bought and held IPOs or secondary offerings—raises some interesting points. The thesis is that employees also have a stake in the corporation, even though they may not own any stock. But the reality is that the corporation is beholden to stockholders, not the employees. It's a truism that a corporation is not a democracy, and the authors, in effect, ask, "Should it be?" It is an intriguing question, but a reader might ask, "Should a CFO, among all the other responsibilities discussed here, have to worry about this philosophical question?"—*Robert Randall*