streetwise

BY STEPHEN BARLAS, JAMES COOKE, DAVID MATTESON, BOB RANDALL, KATHY WILLIAMS

[NEWS]

How Does Your Company Measure Performance? | Kathy Williams, Editor

MARKETPLACE PRESSURES ARE FORCING COMPANIES TO REJECT THE TRADITIONAL corporate performance management (CPM) approach of variance analysis on a line-by-line functional reporting basis because it fails to capture the net profit implications of business decisions and sheds no light on what should be done differently in the future. Best-in-class companies instead are turning to the balanced scorecard and other more complex measures that help them identify and exploit opportunities and risks, the Aberdeen Group found in a recent survey in which IMA members took part.

Aberdeen discovered that more than 70% of companies that adopted some sort of CPM program reported major improvements in return on assets (ROA) and gross margin. The average improvement was a 5% gain in ROA and a 4.9% gain in percent gross margin. Best-in-class companies performed even better, probably because they took a significantly different approach than their peers to CPM, the research group says. These companies focus on:

- Tracking new product introductions,
- Balanced scorecard vs. individual metrics,
- Continuous improvement and closed-loop decision processes,
- Cross-functional root cause analysis, and
- Forward-looking business data analysis and simulation.

To get the most value from their measurement activities, Aberdeen notes, companies should:

- Analyze performance from the viewpoint of its profit impact across the value chain and not by functional silo. This requires access to financial and operating data at a customer/product/channel/market level of granularity.
- Develop the ability to identify the root cause of performance variances through better business data analysis because the real cause of a shortfall is rarely where the impact is measured.
- Put in place a continuous learning environment with a closed-loop decision process to inject findings into the future decision-making process.
- Support end-user access to decision data and "what-if" simulation tools on demand.
- Pay attention to an early analysis of the performance of their new and enhanced products vs. the performance of their competitors' products.

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2005 SALARY GUIDE IS AVAILABLE

The Robert Half International *2005 Salary Guide* is now available. Members can use it to see how their salary compares to that of their peers by job title, company size, and region, and they can see what the hiring outlook is in a variety of industries. For example, some of the specialties in high demand are cost accountants, general accountants, internal auditors, credit and collections specialists, financial analysts, and bookkeepers.

The booklet also describes what skills employers are seeking in their new hires and gives advice on how to staff for success.

To obtain a free copy of the guide, visit www.roberthalf.com, or call (800) 474-4253. ■

READERS' INPUT

YOU MUST UNDERSTAND THE PROCESS

I completely agree with Larry White's comments about management accounting [Perspectives, July 2004]. All areas of accounting are important, but I find that most often financial managers are not real partners with the other areas of the business such as manufacturing, distribution, and sales. Too often the accountants are bean counters, scorekeepers with little knowledge of the business and unable to help improve its performance. I have spent too much time preparing financial reports that look nice but don't provide any insight into the business and do nothing to improve profits.

Although my degree is in accounting, I have spent time in distribution, warehousing, customer service, traffic, inventory control, and engineering. My first experience in the operations side of the business was a real eye opener as it showed me how little I knew about the company and all of the processes that were necessary for it to be successful. I firmly believe that you can't be a good accountant unless you understand the process that you are trying to account for. Whenever I hire an accountant, I require them to spend 40 hours of their first two weeks on the job out on the floor—assembling

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[RESEARCH]

Benchmarks Drive Performance | James Cooke

IMA AND APQC ARE OFFERING IMA MEMBERS AN OPPORTUNITY TO benchmark their organization's performance against top performers and industry peers for free by participating in the Open Standards Benchmarking Collaborative℠ (OSBC) research sponsored by APQC. Using standard definitions and measures, the OSBC research results will enable management accountants and financial managers to compare their performance to that of their peers and pinpoint improvement opportunities in these areas:

- Finance organization,
- Accounts payable and expense reimbursement,
- Fixed-asset accounting,
- General accounting and reporting,
- Payroll,
- Profit and cost management,
- Revenue accounting,
- Internal controls,
- Taxes, and
- Treasury.

By contributing performance data to the online OSBC database, participants will receive a custom report comparing their organization's performance against that of top performers and other respondents. Contributors gain insight into which practices yield the highest reward and where weaknesses exist. Finance and accounting managers receive performance comparisons related to the cycle time to process invoices, management accounting systems, and more. For instance, if top performers spend $3.04 to process an invoice and the median response for the same process was $4.76, you can compare your costs to these figures to determine your organization's competitiveness in this area.

This benchmarking opportunity is available to all organizations at no charge. As a nonprofit research organization, APQC serves as the sole custodian of the OSBC database, which guarantees objectivity and confidentiality for all participants. All database metrics are validated, normalized, and aggregated to ensure the data is accurate and relevant.

Again, by participating in the survey, you can gain an objective assessment of how your organization's performance compares to that of industry peers and learn where to focus improvement efforts to reap the highest reward. To participate in the survey, visit www.apqc.org/OSBCdatabase, or contact APQC's researchers via e-mail at OSBC@apqc.org or by phone at (800) 776-9676 or (713) 681-4020. When completing the online surveys, select IMA in the "referred by" field so that IMA can track the number of its responses. Again, all responses are confidential, and only APQC will have access to them. ■

ILLUSTRATION: ARTDISC

[GOVERNMENT]

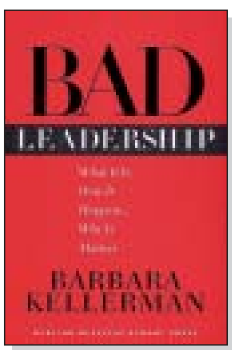
Congress Tries End-Around on FASB Stock Options | Stephen Barlas, Editor

ALTHOUGH CONGRESS WENT HOME for the year without passing legislation hamstringing the Financial Accounting Standards Board's ability to issue a rule on accounting for stock options, it may have slowed the Board down by prevailing on the Securities & Exchange Commission (SEC) to do some preparatory work. In its last days in session in 2004, the Senate declined to pass a bill (S. 1890) that the House had passed in the summer by a vote of 312-111. The bill would have forced the FASB to stop well short of what it is expected to require in the final proposal it issues this month. For example, the House and Senate bills require the expensing of stock options for only the top five executives of a company. The Senate failed to pass the "Anti-FASB" bill because of the refusal of Senate Banking, Housing, and Urban Affairs Committee Chairman Sen. Richard Shelby (R.-Ala.) to bring the bill up for a vote in his committee. In the weeks before adjournment, however, various senators beseeched SEC Chairman William Donaldson to use his FASB oversight authority to slow down the FASB's speeding options-accounting train. The senators were particularly concerned about the Board's decision to not require companies to use a specific valuation model to calculate stock options. Companies will be able to choose a stock option valuation model that is appropriate to each individual company. "We are extremely concerned that without additional field-testing of the various valuation models and implementation guidance from the SEC, U.S. companies will be subject to unending lawsuits if they choose the 'wrong' valuation model," wrote 35 Republican senators, who were backed by Senate Majority Leader Bill Frist (R.-Tenn.), who wrote his own letter, and the chairman of the Senate Appropriations Committee, Sen. Ted Stevens (R.-Alaska), who has the *continued on next page*

BOOKS

When Leadership Fails

✷ PEOPLE ASSOCIATE A "LEADER" AS SOMETHING inherently "good," but Barbara Kellerman, a lecturer in public policy and research director of the Center for Public Leadership at Harvard University's John F. Kennedy School of Government, has set out to change that perception. She says it's time to separate the bad leaders from the good ones. In *Bad Leadership*, published by Harvard Business School Press, Kellerman identifies leaders in government, business, and nonprofit organizations who fit the label of bad leaders and then discusses how and why their leadership failed in some respect.



According to Kellerman, there are seven different categories of bad leadership: incompetent, rigid, intemperate, callous, corrupt, insular, and evil. Kellerman selected seven individuals to exemplify each category, and readers will recognize most of them: former Washington, D.C., Mayor Marion Berry, Jr. (intemperate); "Chainsaw" Al Dunlap (callous); and former Bosnian Serb President Radovan Karadzic (evil). Curiously, former President Bill Clinton winds up in the "insular" column because he did nothing to stop the massacres in Rwanda. Kellerman notes, "To insular leaders, human rights in general are less important than the rights, and even the needs and wants, of their specific constituencies."

Some current industry and government leaders are characterized as "rigid." Mary Meeker, financial analyst at Morgan Stanley Dean Witter & Company, was a major cheerleader *continued on next page*

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power to play havoc with the budget of any federal agency. "While many studies have found that current valuation models are highly inaccurate for large companies' stock option grants, the lack of accuracy is an even greater concern for entrepreneurial and start-up companies. Virtually no research has been conducted regarding the accuracy of valuation models to be used by small companies."

The FASB did make a concession the week after Congress left town by extending the effective date of the new rule six months to June 15, 2005. But the FASB still expects to publish the rule this month, and it reiterated the validity of its valuation methods.

Reporting Executive Compensation

While the SEC hasn't signaled whether it intends to get involved in stock options valuation evaluation, Alan Beller, head of the SEC's Division of Corporation Finance, told a conference of the National Association of Stock Plan Professionals (NASPP), the *Corporate Counsel*, and the *Corporate Executive* in October that the agency is looking very closely at how companies report executive compensation and may propose an updating of its 10-year-old regulations on the subject. The regulations, part of what is known as Regulation S-K, order companies to disclose information such as the salaries and other compensation paid to the chief executive and the next four most-highly compensated officers. The SEC had made something of a splash a few weeks previously by announcing a consent decree with General Electric having to do with the company's failure to fully disclose the retirement perks provided to former Chief Executive Jack Welch. The wrist slap prohibits GE from making the same mistake again. There was no fine, but it may turn out that the SEC was using its gentle handling of GE as a not-so-gentle warning to other companies—a possibility that is now more likely given Beller's comments on October 20.

SEC Pushing XBRL

The SEC is trying to drum up support for the XBRL (eXtensible Business Reporting Language) standard as a way of bringing financial reporting into the 21st century. In a concept release issued at the end of September, the Commission proposed that filers to the EDGAR system tag individual facts and figures in their financial statements using XBRL in a voluntary filing program to begin in 2005 (focusing on 2004 calendar-year-end statements). It is also seeking public comment on alternative reporting methods and the costs and benefits associated with XBRL-tagged data. At least one of the key players in the financial reporting arena applauded the SEC's push. "XBRL benefits the entire business reporting value chain, including the companies that prepare financial reports, as well as the capital markets and investors who rely on and use this information. In addition, XBRL improves the timeliness of financial information and accuracy of data in SEC filings," said Barry Melancon, president and CEO of the AICPA. "We encourage the accounting profession to comment on the concept release and support the use of XBRL in SEC filings. We urge public companies to consider the benefits of XBRL and adopt it as part of their reporting processes." ■

[BOOKS] cont'd from p. 19
during the '90s stock market boom. An opinion leader, she inspired thousands of transactions that made millions for her clients. She didn't change her advice when the bubble began to burst, however, and thus became a scapegoat. Another example in this category is octogenarian Sumner Redstone, CEO of Viacom, who even refused to address who would succeed him.

Corrupt leaders are in a category by themselves. Former head of the United Way of America, William Aramony, who was convicted of fraud, among other felonies, serves as a prime example of this type of leadership. Andrew Fastow, Enron's former chief financial officer, also exemplified this category of leadership: "Fastow crafted a series of deals so crooked that they finally cracked Enron apart."

Leading exemplar of the incompetent executive is Juan Antonio Samaranch, who "served as president of the International Olympic Committee for nearly two decades before his bad leadership became an open secret." Another leader in this category is Jill Barad, who was promoted to CEO of Mattel, Inc., based on her success with the Barbie Doll promotion and was asked for her resignation after the company ended up in the red only three years later.

To her credit, Kellerman also indicts these leaders' followers for blind allegiance and the boards of directors for lack of competent oversight. "Leaders and followers literally co-create, co-constitute leadership," but "it's past time for this to change. It's past time for students of leadership to resist the dominant model—and embrace a more holistic one. Leaders should be looked at only in tandem with their followers."

Kellerman sees the world of leadership changing. She writes, "Evil leaders and evil followers are more likely now to face charges in national or international tribunals…," and "around the world, corporate leaders are being pushed out in record numbers." Whether or not the traditional paradigm of leadership will ever change is open to question, but this book breaks new and thought-provoking ground in the literature of leadership.—*Robert F. Randall*

[NEWS] *cont'd from p. 17*

These are just a few of the findings from Aberdeen's research report titled *Corporate Performance Management Benchmark Report: Improving Corporate Decision Making Through Proactive Analysis.* IMA members can obtain a free copy of the entire report by visiting www.aberdeen.com. Click on the title of the report in the list of recent research, and click on Download This Research Report. Then fill out Box C.

What Does an Accountant in Business Do?

This is a question management accountants are asked all the time. The answer, according to some new research by the International Federation of Accountants (IFAC), is providing assurance, facilitating management decision making and strategic development, and serving as the gatekeeper of corporate integrity. These key roles are highlighted in a new IFAC publication titled *The Diverse Roles of Professional Accountants in Business.*

The booklet, published by IFAC's Professional Accountants in Business Committee, features interviews with 16 senior-level accountants working in a variety of organizations in 11 countries. Among those interviewed are the chair of the largest independent Chinese bank in Hong Kong, the chief accounting officer of a multinational automotive company, the vice president of investor relations for an international corporation, the third in command at the FBI, and the general manager of a small Australian family business. Robert Bruce, a leading accountancy journalist, conducted the interviews.

Several common themes emerged from the interviews, IFAC says:

- The work of professional accountants in business has changed significantly in recent years. It now has as much to do with strategy and assurance as with the integrity of the numbers the company produces.
- Today's accountants in business deal with ongoing pressure over ethics, mainly because of aggressive earnings management.
- Continuing professional education is seen as necessary to staying current on increasingly complex business and accounting issues.
- Professional accountants in business have key roles in corporate governance and view themselves as the "leaders of integrity."

You may download the booklet for free from the IFAC website at www.ifac.org. Print copies are available for $25 plus shipping through the IFAC online bookstore or by calling (212) 286-9344. ■

[PERSPECTIVES] *cont'd from p. 6*

community on audit standards, financial reporting, and many other economic issues.

It is increasingly clear that IMA has a great opportunity to play a leading role in rebalancing the accounting profession. This will yield benefits for members as governments, businesses, and academics begin to realize accountancy is not a homogeneous skill set defined by "public accounting" and come to demand more relevant and appropriate qualifications such as the Certified Management Accountant (CMA) and Certified Financial Manager (CFM) when they need the accounting skill set that provides decision support, planning, and control over their value-creating operations.

IMA will continue to lead. I urge all of you to be assertive in educating your companies and communities about the role you play as a management accountant—building the value inside businesses that creates the productive foundation for the capital markets and economic growth.

I welcome your comments, so please contact me at lwhite@imanet.org. ■

[LETTERS] *cont'd from p. 18*

product, picking orders, etc.

My favorite part of the job is putting the accounting together with operations and finding ways to improve the business and increase profits. It is nice to be able to accurately report financial information, but it is even better to be able to use financial information and knowledge to improve the bottom line.

David Matteson, CMA, CFM
Controller
Kerr Group
Jackson, Tenn.