streetwise

BY STEPHEN BARLAS, MIKE OSHEROFF, SHRIKANT SORTUR, KATHY WILLIAMS

[NEWS]

SEC Amends SFAS No. 123R Compliance Dates | KATHY WILLIAMS, EDITOR

Last month the Securities & Exchange Commission amended the dates for companies to comply with the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards No. 123R, "Share-Based Payment." Companies that report earnings on a calendar-year basis will now have to expense stock options at the beginning of their next fiscal year after June 15, 2005 (December 15, 2005, for small businesses), instead of the beginning of the first interim reporting period after June 15, 2005 (December 15, 2005, for small business issuers). This means they won't have to comply until they file their interim financial statements for the first quarter of 2006.

Midsize and large companies that have a June 30, 2005, fiscal year-end, however, must comply when they file their interim financial statements with the SEC for the quarter beginning July 1, 2005. The SEC's new rule doesn't change the accounting required by SFAS No. 123R, just the dates for compliance.

Regarding the change, SEC Chief Accountant Donald T. Nicolaisen explained, "Feedback from public companies, accounting firms, and others indicated that implementing Statement No. 123R in a period other than the first quarter of a fiscal year potentially could make compliance more complicated for companies and comparisons of quarterly reports more difficult. Concerns also were raised that the accounting staffs at companies and accounting firms already have been stretched thin by other compliance responsibilities, such as internal controls reporting. In addition, implementing the new standards at the beginning of a fiscal year allows companies to change their accounting systems in a more orderly fashion and should allow auditors to conduct more consistent audit and review procedures." He added, though, that if companies want to implement SFAS No. 123 earlier than required, they would be encouraged to do so.

Closed-Loop Performance Management Benchmark Report Is Available

Leading enterprises are aggressively implementing programs to manage marketplace and value-chain risk by adopting daily or weekly decision cycle times, a new report from the Aberdeen Group shows. And those companies that implement best-in-class performance management programs are significantly outperforming their competitors. They are concentrating on these critical areas:

- Explicitly linking plans to specific cross-functional

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FOURTH IMA MEMBER HELPS COSO

Malcolm Schwartz, founder of CRS Associates LLC, and SVP, Compliance Practice Leader, Technology Solutions Company, Chicago, Ill., is the fourth IMA member to be named to COSO's Small Business Control Guidance Advisory Group Task Force (see the April "Streetwise" section for more details about this project of the Committee of Sponsoring Organizations of the Treadway Commission). He was appointed by COSO Chairman Larry Rittenberg in late December 2004.

Schwartz says that the group's work has progressed to the point that they have organized as four sub-task forces, each dealing with the subject matter of two chapters in the *COSO Internal Control—Integrated Framework*. He is leading the group that deals with the COSO control components of Information & Communication and Monitoring. IMA members Kristine Brands and Jim Smith are on his team. ■

Letters to the Editor

Impressed with IMA

I became a member of IMA very recently, and ever since I have been highly impressed by the Institute and, in particular, by Larry White's thoughts on the profession.

I am a Chartered Accountant and also a Cost Accountant from India. Last year I took my CPA exam in the U.S. and got certified, and I joined IMA with an intention of getting certified as a CMA. I also moved to the U.S. a few months back. I have been very active with the Institute activities in India and have been a member of various professional institutes. I [must say] that I am very impressed by IMA—with the service so far and in particular with *Strategic Finance* magazine. The last three months that I have been receiving it I have noted that it has a rich content of articles that are thought provoking as well. The journal of an institute is often its biggest advertisement, and I once again add that it is right up there.

I also wanted to send a note of appreciation for Larry White's leadership efforts.

Shrikant Sortur

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

[GOVERNMENT]

Sarbanes and Oxley Nix Changes | STEPHEN BARLAS, EDITOR

In March, Sen. Paul Sarbanes (D.-Md.) and Rep. Mike Oxley (R.-Ohio) made it clear they have no intention of acceding to business pressure to change the Sarbanes-Oxley accounting law, which requires companies to ensure the effectiveness of their internal controls. Companies have been arguing that compliance with Sarbanes-Oxley has resulted in unreasonable, additional accounting fees. Sarbanes warned that the public shouldn't fall victim to "collective amnesia" about "a systemic breakdown" in the recent past, a reference to the skein of accounting scandals that began with Enron. Oxley pointed out that disclosures about accounting irregularities persist. The number of company financial report restatements peaked last year at 414, he said, an indication that the new law is ferreting out problems. Oxley also cited fiscal mistakes uncovered by regulators that will result in Washington mortgage giant Fannie Mae restating earnings by more than $9 billion. "Just two months ago, earnings smoothing was confirmed at Fannie Mae," Oxley said. "This should be sobering news for those who think Sarbanes-Oxley is no longer needed." Earnings smoothing refers to a practice of shifting costs and revenue to produce the appearance of steady growth.

Disclosures about accounting irregularities persist.

SEC to Issue Options Accounting Guidance

The Securities & Exchange Commission will issue guidance to help companies comply with new rules on accounting for stock options since the Financial Accounting Standards Board (FASB) said that companies will be allowed to choose among several models to value the options. Senators Wayne Allard (R.-Colo.) and Robert F. Bennett (R.-Utah) complained at a Senate Banking Committee hearing in March that this latitude is causing confusion. According to the *Washington Post*, Bennett told SEC Chairman William Donaldson, "You, sir, are the last gatekeeper against this kind of insanity. I'm pleading with you and your accountants to find some way through this thicket."

Donaldson responded by calling stock options a rather complex subject and noting that the SEC hopes "to be in a position to give guidance so people can deal with this." Donaldson assured lawmakers that if companies use an approved model and disclose their estimates and assumptions properly, "the chances of…litigation coming from us is zero."

SEC Clips PCAOB Budget

The SEC forced the Public Company Accounting Oversight Board (PCAOB) to cut its 2005 budget by more than $15 million,

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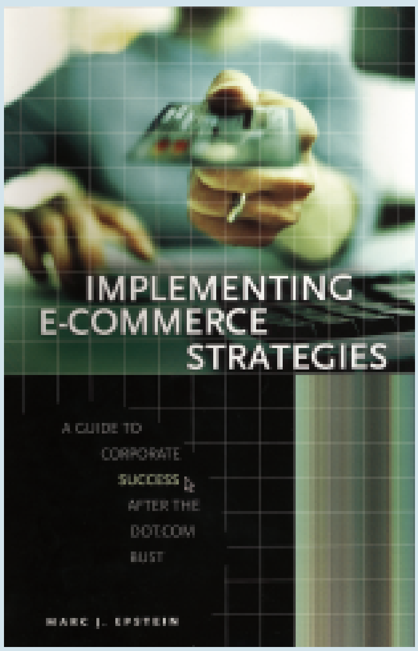
[BOOKS]

Developing E-Commerce

Management accountants are familiar with the old mantra of retail: *location, location, location*. Not too long ago a retailer or service provider who offered goods or services at a reasonable price to the buying public in the most convenient location while controlling its costs was almost assured of profitability. With the growth of the Internet in the 1990s, however, that changed. Instead of competing with a company on the other side of town, a vendor now must compete with a company that offers similar goods at the same or better prices on the other side of the *world*. To remain competitive, e-commerce is no longer optional, it's necessary. For firms already grappling with implementation of e-commerce and those contemplating it, Marc Epstein's *Implementing E-Commerce Strategies* outlines the key considerations of using the new medium in changing a local provider of goods and services into a player in markets nationwide and beyond.



Epstein identifies several areas as crucial to successful development of e-commerce, but the most important one is involvement in the new method of distribution by top management, typically the CEO backed up by the board of directors. Implementation of e-commerce involves a long-term commitment of company resources, including capital and personnel. Without commitment of the firm's top decision makers, the sacrifices and effort needed to successfully realize profitability of e-commerce won't be made. As a leader in any team effort, the CEO must enlist the efforts and enthusiasm of those reporting to him/her, everyone from the COO and CIO to workers on the plant floor. Developing a successful e-commerce presence is a long-term team effort, and any team member can potentially derail success. Virtually all employees in the firm should not only understand their roles in developing the new model but should be able to provide input into its formulation and implementation.

Tried and true practices such as brand loyalty, physical distribution, and adequate level of customer service must be maintained no matter what the mode of commerce. Naturally, this is paramount to e-commerce as well. Other practices, such as website design, outsourcing of customer fulfillment, advertising practices, human resource practices to obtain and retain employees adept at the new way of doing business, and development of new metrics that indicate profitability, will need an entirely new mind-set or formulation. Unless everyone in the firm commits to developing this new mind-set, e-commerce will either fail or be less effective than it could be.

Epstein peppers the book with illustrations drawn from e-commerce success stories, from Amazon.com to UPS, and examples from implementations that weren't as successful, such as K-Mart, Borders, and HomeGrocer. In each case study, Epstein points to traditional practices and factors unique to e-commerce that led to the firm's success or lack thereof. By pointing again and again to successful and unsuccessful implementation strategies of e-commerce, Epstein paints a picture of successful achievement in almost any business.

In the late 1990s, use of the World Wide Web to conduct business and advertise was met by the infamous dot-com boom (and bust), largely propagated by Wall Street and the get-rich-quick view of many entrepreneurs and investors. Their method was to regard e-commerce as "entirely new," so e-commerce was viewed as a new mode of commerce that was somehow immune from rules of business

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according to SEC Chief Accountant Donald Nicolaisen. The PCAOB, which rides herd over the accounting industry, was created by the Sarbanes-Oxley law and began operation in 2003. The PCAOB initially requested a 2005 budget of $152.8 million back in October 2004. Then Nicolaisen and his staff went to work. "During our consultations with the PCAOB staff we noted several areas where we thought the budget estimates could be tightened," he said. "Our discussions resulted in reductions in the personnel costs reflected in the PCAOB budget, including amounts for salaries and relocation and recruitment costs. Other areas reduced included the projected costs for hiring consultants and for travel, training, and technology expenses." Bingo, there goes $15.5 million in allegedly needed expenses.

IRS Getting into Act, Too

Given all the publicity and coverage of the trials of former WorldCom and HealthSouth CEOs Bernie Ebbers and Richard Scrushy, respectively, someone could be excused for thinking that it's only corporate accounting malfeasance that can get a corporate executive into trouble. Not so. Now the Internal Revenue Service wants in on the enforcement act. Its criminal indictment of Walter Anderson in March served notice that it now will be looking much more carefully at how corporate chief executives and others slightly below that level report their income. The IRS said Anderson owes $210 million in back taxes. A few weeks before it indicted Anderson, the IRS made its last offer to nearly 200 executives from 42 corporations who had used an improper tax shelter, at least in the mind of the Service, to avoid paying taxes on $700 million in income. The IRS's decision to look closely at the tax returns of corporate executives came after a pilot program revealed too many inaccurate 1040s. ■

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operations and metrics.

- Analyzing root cause performance so they can make better future decisions.
- Systematically determining and propagating best assumptions, analyses, and decisions.
- Targeting performance management around very specific high-profit and/or strategically significant potential market segments.

The best-in-class companies follow a closed-loop approach that drives business value. It consists of four interrelated phases:

- *Strategies and Objectives*—establishing the strategic targets and assumptions.
- *Derived Targets and Metrics*—determining the holistic and specific set of operational programs and metrics against which to measure performance.
- *Execution*—implementing the plan.
- *Measurement and Analysis*—determining how to go forward in terms of modifying future plans, assumptions, and decision making based on an evaluation of actual results.

These are the major findings from the study. The report also includes several recommendations for action, depending on whether your company is lagging in these areas, is meeting industry norms, or is leading others.

To obtain your free copy of the report, visit http://aberdeen.com/summary/report/benchmark/RA_ClosedLoop_SE.asp.

10 Pitfalls of Performance Management

Has your company instituted any performance management projects? Have they been a success? Despite the number of companies that have entered this arena, most performance management projects are deemed failures, say the experts at Managing Operations. Through their work with various companies, they have found that the problem with most performance management programs lie in communication and project-execution errors that sabotage subsequent educational efforts.

Here are their "10 Deadly Sins of Performance Management":

1. *Assuming that performance will improve simply because management mandated it will.* Even with senior management solidly behind performance management, a program must be clearly defined and measurable. Otherwise, it will get lost in the shuffle of the inevitable business crunches ahead, such as a bad quarter, a new competitor, or a new market trend.

2. *Failing to communicate the details of the process improvement plan (who, what, when, where, why) before taking an action.* You must spell out guidelines on how employees should use the program to achieve the company's objectives. Confusion just leads to indecision, inaction, and upset.

3. *Using threats, intimidation, and scare tactics to push through improvements.* These tactics won't work. You need to provide a logically consistent set of goals and principles that guide day-to-day functions in order to have the real support of the people on the front lines.

4. *Assuming that middle management will automatically buy into the improvement process.* They won't, so senior executives need to find ways to interest them in the initiative.

5. *Putting process over purpose.* Too many organizations become so preoccupied with improvement that they lose sight of the real objectives. Make sure strategic business and operations decisions rule.

6. *Becoming obsessed with numbers and constantly raising operations standards.* Education, discipline, and common sense regarding standards are necessary.

7. *Counting on catchy slogans, buttons, balloons, and free lunches to solve performance problems and maintain staff morale.* These don't work anymore.

8. *Assuming that your people know how to perform at the level of your expectations.* You need to help them build the skills required for peak productivity, not just show them the steps to doing their jobs.

9. *Falling victim to the "We are so powerful we can do anything" syndrome.* Not so.

10. *Providing lukewarm support to performance management.* Companies must allocate the resources required for the effort or nothing will happen.

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management. The introduction of e-commerce set the business world aflame with visions of global marketing, but what some didn't take into account were two things that remained absolutely the same as in transacting business from the country grocery store: goods and services, and customers. Nothing has changed about either factor. What has changed with e-commerce is simply the method of connecting one to the other. If a firm pays attention to this basis of business and adds in new practices enabled by the computer and instantaneous communication, implementation of e-commerce will be successful. Forgetting that crucial element often will lead companies into the red.—*Mike Osheroff*