



[NEWS]

Resolving Your “Back Burner” Business Issues | KATHY WILLIAMS

Most small business owners have a perpetual “to-do” list that they can never seem to get around to working on in the heat of everyday activities. Yet if they take care of some items before the end of the year and at the start of the new one, they may feel less overwhelmed, says Ty Freyvogel, who founded *EntrepreneursLab.com* and started several small businesses in the last 35 years.

Here is his checklist of 15 items to start working on now and some advice:

Review all your systems from top to bottom. After examining what’s working and what isn’t, decide where the problems lurk, and figure out what can be fixed—by you or with outside help.

Review all vendor contracts. How much business are you doing with each vendor? Are you receiving the optimum pricing based on how much you’re working together? Is the relationship mutually beneficial? If not, you may want to make a change. If you’re happy, let your current vendors know.

Determine who your best customers are. Do this through a profitability lens. “I’m always surprised to see who my best customers are,” Freyvogel says. “I often find that my needy customers and my most profitable customers are two different groups...”

Touch base with them. Tell them you appreciate their business, and ask if there’s anything you can improve on or do differently to help them grow their business. Freyvogel suggests an end-of-year letter that asks for constructive input.

Hold annual performance reviews. Discuss with your employees what they can do to help the company run more smoothly, and ask them if there’s another area of the business in which they would like to play a larger role. Also ask what you can do for them.

Engage employees as partners. Hold a forum where employees can share their ideas about how to make customers happier and how to solve problems.

Do an early spring cleaning. Purge your office, deep clean the inside of the building, and spruce up the outside. “It’s depressing to be surrounded by clutter,” Freyvogel notes. “Clean up, and everyone may enjoy a boost in energy and creativity.”

Review your marketing campaign. Don’t hesitate to make changes if a campaign isn’t working.

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IMA PUBLISHES DRAFT SMA

The Institute of Management Accountants (IMA®) has released a draft of a new Statement on Management Accounting (SMA) for public comment. Titled *Implementing Enterprise Risk Management*, it was written by Professors William G. Shenkir, Ph.D., and Paul L. Walker, Ph.D., of the University of Virginia.

Through the SMAs, professionals have access to IMA’s relevant and growing body of knowledge. Part of IMA’s revitalized research pipeline, the SMAs are accessible, comprehensive publications that highlight the issues of the profession and deliver practical knowledge to management accountants. They are available on IMA’s website at www.imanet.org/publications_statements.asp.

This new draft provides an overview of the enterprise risk management (ERM) process and frameworks, which can be adapted to fit the specifics of an organization’s

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Letters to the Editor

EXCELLENT INSIGHT

Dr. Lin's article [October] provided an excellent insight into our competition for the 21st Century. It ought to be required reading for Bill Ford, Ron Gettlefinger, and anyone else who still adheres to yesterday's industrial management-labor model.

Bill Helenberg, CMA

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

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culture and can be implemented in large or small organizations, service or manufacturing businesses, and profit or not-for-profit entities. The information in this SMA serves as a point of departure for an organization considering ERM implementation.

To find the text of the draft SMA and an invitation to comment, visit www.imanet.org/sma_exposure_drafts.asp.

Please send your comment letters by December 15 to IMA Director of Research Raef Lawson at rlawson@imanet.org or via regular mail to the IMA office at 10 Paragon Drive, Montvale, NJ 07645. ■



[GOVERNMENT]

SEC Set to Issue New 404 Guidance

STEPHEN BARLAS, EDITOR

This month the Securities & Exchange Commission (SEC) will give an indication of how it wants to loosen management's requirements under the much-vilified Section 404 of the Sarbanes-Oxley Act, which dictates how much companies report on their internal controls. John Nestor, the SEC's director of public affairs, says the SEC could have issued a policy statement on December 13 since it already put out a concept release last July laying out some broad areas it was thinking about addressing. Lots of public comments were received, including from the IMA®. But rather than issue a final dictate in December, Nestor says that the policy statement on Section 404 will be of "sufficient importance" that it makes sense to get public comment one more time just so the SEC is "hitting it right." It's a little unclear, however, what exactly the SEC will finally issue: a policy statement or something with more legal standing, such as a rule. President Bush said late in the 2006 election campaign that he wants to "fine tune" Section 404. If the SEC wanted to follow through, it might issue a rulemaking. That would presage much more fundamental changes in 404 than would a policy statement, which would deal with interpretations of existing requirements.

Whatever it does, the SEC is expected to act in parallel with the Public Company Accounting Oversight Board (PCAOB), which will revise Auditing Standard No. 2 (AS2) at the same time. Thomas Ray, chief auditor and director of professional standards for the PCAOB, says the PCAOB staff expects to clarify definitions of such phrases as "material weakness" and "significant deficiency." At present, there is confusion about definitions when evaluating the severity of a weakness, Ray notes. For example, he said, the phrase "more than remote likelihood" causes auditors to focus at a low level on minor details. "If we change that to 'reasonable possibility,' it might help people," he explains.

Pascal Desroches, chair of IMA's Financial Reporting Committee, believes that any additional guidance from the SEC on Section 404 should be principles-based and allow for the exercise of judgment by management in performing the assessment. "It would be helpful if the guidance included practical illustrations on the use of higher company level controls other than control activities to reduce the extent of testing at the control activity level," he wrote in a letter to the SEC.

PCAOB on Options Auditing

In October, the PCAOB released *Staff Questions and Answers: Auditing the Fair Value of Share Options Granted to Employees*. No one will confuse the 28-page guidance on stock option auditing with a little light reading. It provides direction for auditing a company's estimation of the fair value of stock options granted to employees pursuant to Statement of Financial Accounting Standards No. 123 (Revised), "Share-Based Payment," which became applicable for financial statements of companies with fiscal years ending

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[BOOKS]

Effective Leadership

In today's competitive business environment, the difference between a company succeeding or failing often comes down to the quality and effectiveness of its leadership. But most of the thousands of books and articles that have been written about the subject describe the qualities that great leaders are supposed to have instead of describing what great leaders do. In doing this, they merely perpetuate many myths about leadership. One example is the idea of the leader as savior or hero. This idea is so ingrained that its ramifications extend to Wall Street, where the appointment of a new CEO can have a profound effect on a company's stock price—before any actual results are seen! In their book, *Flexible Leadership*, Gary Yukl and Richard Lepsinger dismiss many of the pervasive leadership myths and present a practical model that leaders can follow to help their organization achieve its strategic goals.

Yukl and Lepsinger's leadership model emphasizes "the behavioral aspects of leadership that can be learned." Rather than rely on the innate traits of a "born" leader—another common myth—their model explains the organizational processes that influence the success of a company and how leaders can have a positive effect on these processes. The model is composed of four components. The first is organizational effectiveness. The quality of work is an important contributor to an organization's success, and it is important to do "all the things it takes to close the gap between strategy and execution." The second component is made up of three factors that determine organizational performance: "(1) efficiency and reliability of work processes, (2) timely adaptation to changes in the external environment, (3) strong human resources and relations." The third component involves the situational variables that dictate which organizational challenge is most important to the company at any given time. The fourth component is the di-

rect and indirect leadership behaviors that influence performance determinants.

To help employ the model, Yukl and Lepsinger provide examples of formal programs, systems, forms, and the types of behaviors that can lead to success. Examples include performance management systems, work rules and standard

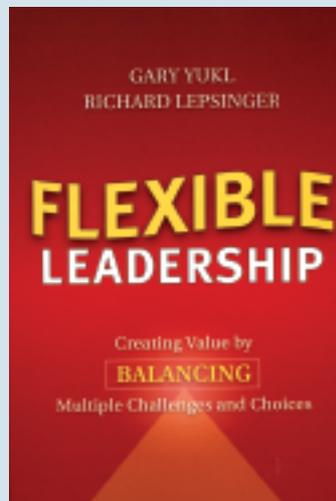
operating procedures, change-oriented leadership behaviors, and methods for strategic planning and monitoring the environment. They also discuss the importance of employee empowerment and the need to understand that leaders aren't only at the top of the organization. By the time all the vital, necessary information needed to make a decision filters all the way to the top—if it makes it at all—it will be too late. The moment—and opportunity—will have passed. "If people depend entirely on top management to identify emerging problems or threats or to recognize promising opportunities, it may not be possible to make a

timely, successful response."

The authors describe how the distinction between "managing" and "leading" is often blurred: The general perception is that managers are supposed to deal with the everyday, gritty details of a company's operations while leaders are expected to be off devising grand schemes or strategies to lead the company into bold new territory or reverse its failing fortunes. Yet this isn't actually the case. For example, the leadership behaviors "that have the greatest impact on efficiency and reliability are operational planning, clarifying roles and objectives, monitoring operations, and solving operational problems." As Yukl and Lepsinger point out, these are functions traditionally attributed to managers.

It's also important to keep in mind that leadership isn't merely about "doing the right thing," but, rather, it's about doing "the right thing at the right time." Using an approach just because it worked in the past isn't going to lead to success. Each new situation

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on or after June 15, 2006. The *Staff Q&A* addresses how an auditor should evaluate the company's process for estimating the fair value of employee share option grants. It is available at www.pcaobus.org/Standards/Staff_Questions_and_Answers/index.aspx.

Treasury Official Assures European Investors on CFIUS Reform

The Dubai Ports World controversy seems a distant memory, but its ramifications still ripple, according to U.S. Treasury Deputy Secretary Robert M. Kimmitt. In October, he assured European business leaders that the Bush administration intends to make sure that Congress doesn't go too far overboard in reforming the Committee on Foreign Investment in the United States (CFIUS) process. That's the process where foreign acquisitions of U.S. companies are submitted to a 12-member panel of U.S. government officials who are supposed to make sure that any foreign purchase doesn't compromise U.S. national security. In a speech to a European group, Kimmitt seemed to be both assuring European leaders that their investments here will be welcome and, at the same time, warning protectionists in Congress that the Dubai flap has already raised red flags in other countries, who seem to be retaliating for Congress's visceral opposition to the Dubai investment even though no CFIUS reform legislation has passed yet. Kimmitt said, "Already, we can see troubling signs of other nations moving toward protectionist intervention in foreign investment." He mentioned China's issuance in August of draft regulations governing M&A of domestic Chinese enterprises, reviewing foreign investments in

terms of their impact on economic security. He also added that last spring Russia justified a proposal to protect 39 industries from foreign control based on what it viewed as U.S. actions in the CFIUS process. ■

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Overhaul your website. Make sure all of your information is updated and accurate. People will keep coming back if you offer fresh material.

Review your business cards. Make sure the information is accurate and up to date and that the colors and logos on your cards and website match.

Consider technology upgrades. The end of the year is a great time to upgrade your PCs, phone system, or other technology to make sure your employees have everything they need to do their jobs.

Review insurance policies. Insurance policies are often set up and then put to the side, forgotten, until something happens, Freyvogel says. Then too many small business owners discover they aren't adequately covered. Reviewing your policies once a year can save you money later.

Update your minute books. Keeping your minute books up to date can save you from problems in the future, Freyvogel says. If you ever face a legal problem, the first thing your attorney will want to do is take a look at these books.

Review professional magazine subscriptions. Make sure you keep the ones that are valuable to you and cancel the ones that aren't. It's a good way to save money and space.

Meet with your accountant(s) for some last-minute tax planning. For more information or to get in touch with Ty Freyvogel, contact Dottie DeHart at dehartdottie@aol.com. ■

[BOOKS] *cont'd from p. 25*

involves a unique set of conditions and characteristics, and it's crucial to "assess each situation on its own merits and act accordingly." That's why flexibility, efficiency, and adaptability are recurring themes within their model.

Organizations face multiple challenges and options, and their leaders must learn to effectively balance and adapt to the situations to create the most value. By focusing on the elements of this model, anyone can learn to be a valuable leader. The authors provide many real-world examples to illustrate aspects of their model in action, and their writing style is clear and easy to follow.—*Christopher Dowsett*

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