streetwise

BY STEPHEN BARLAS, ALFRED KING, KYLE KRAFT, LANCE THOMPSON, KATHY WILLIAMS

[NEWS]

Lawrence W. Smith Named to FASB | KATHY WILLIAMS

Last month Lawrence W. Smith, director of technical application and implementation activities at the Financial Accounting Standards Board (FASB) and chairman of the Emerging Issues Task Force (EITF), was appointed to a five-year term as a member of the FASB beginning July 1, 2007. He will replace Edward W. Trott, who will retire from the FASB on June 30, 2007.

Before joining the FASB in 2002, Smith was a partner at KPMG LLP. During his 25 years with the firm, he served as a partner in KPMG's Department of Professional Practice and as an engagement partner and SEC reviewing partner on a number of international *Fortune* 1,000 clients. He is a former member of the Technical Standards Subcommittee of what is now the Professional Ethics Executive Committee of the AICPA.

Financial Executives Applaud Continuous Monitoring

Financial executives responding to a recent survey by Oversight Systems Inc. say they see big possibilities for the use of continuous monitoring in Sarbanes-Oxley (SOX) compliance and report that they have begun to rein in the costs of year-three compliance, have recognized a bump in shareholder value, and are using a risk-based approach to compliance this year.

Continuous monitoring of transactions is real-time, automated testing of recorded transactions using rules and artificial intelligence. Sixty-four percent of the respondents see merit in using continuous monitoring as a detective tool in SOX compliance, 58% say it can serve as a preventative tool, 50% say it can facilitate management's assessment of risk and help test the effectiveness of other controls, and 42% believe it can be used as a compensating or mitigating control.

Respondents also discussed numerous benefits of real-time transaction monitoring within financial systems: 71% report that real-time transaction monitoring facilitates a stronger control environment, 59% say it reduces errors in

continued on page 22

MORE THAN A NEW JOB

Half of the CFOs who leave their companies do so to take a new job, according to the results of a study by Right Management. But half do so for other reasons, including not fitting into the culture of the organization (23%), the work environment and/or the job was too stressful (22%), and they didn't have enough knowledge about Sarbanes-Oxley regulations (5%).

What is the average tenure of a CFO? According to the 191 companies surveyed, it's:

- Six to 10 years (28%)
- Three to five years (27%)
- Up to three years (25%)
- More than 10 years (20%)

How long does it take to find a replacement CFO?

- Three to five months (34%)
- Six to 12 months (26%)
- One to two months (22%)
- Less than one month (11%)
- More than one year (7%)

For more information, contact Sal Vittolino at sal@buchananpr.com. ■

Letters to the Editor

Missing the Point

Paul Sharman's lament in Top Line (April 2007 issue of *Strategic Finance*) that there may not be enough Ph.D. candidates to meet future accounting education needs totally misses the point. Implicit in his approach is that accounting faculty *must* have a Ph.D. designation. I totally disagree. I only have an MBA and have taught successfully in three different graduate programs [U. of Wisconsin-Parkside, Fordham, and U. of Mary Washington]. Students seem to appreciate the practical approach that others like me bring to the classroom, which is hands-on experience, as contrasted to the purely theoretical knowledge held by most Ph.D.s who teach accounting. There is *nothing* in the graduate curriculum leading to a terminal Ph.D. degree that makes an individual a more knowledgeable working accountant or provides experience in the actual practice of accounting. Up until 50 years ago, accountants totally learned the profession by participating in an apprenticeship progam—and we seemed then to have had no shortage of highly qualified practitioners. In those days there were *no* Ph.D.s in Accounting. It is interesting that medical school students are taught by practicing physicians with only an M.D., not Ph.D.s. Accountants should be taught by MBA and M.Acc. graduates who have actually

continued on page 23

[GOVERNMENT]

Effort Begins in Congress to Change SOX

STEPHEN BARLAS, EDITOR

I mentioned last month that business groups almost uniformly had little good to say about the Securities & Exchange Commission's (SEC) and the Public Company Accounting Oversight Board's (PCAOB) proposed changes to their internal control and auditor assessment regulations, respectively, that stem from the Sarbanes-Oxley Act. Hence the introduction in Congress of the Compete Act, which is being pushed mostly by small to medium-sized companies but would affect corporations of any size. The bill deals mostly with the PCAOB's attestation requirements under Auditing Standard 2 (AS2). It would alter them considerably by shifting what the auditors would have to report on. Now the point of AS2 is to guide the auditor through management's report on internal controls so that the auditor can determine whether those controls are sufficient or not. The Compete Act says the auditor would have to be mute as to whether management's controls are adequate. It specifies: "Such attestation and report shall not include a separate opinion on the outcome of the assessment, that is, the auditor shall not issue a separate (pass/fail) opinion on the effectiveness of management's internal controls over financial reporting. Any such attestation shall not be the subject of a separate engagement." On another hot button issue, the bill requires the SEC to develop a standard of materiality for the conduct of the management assessment and report on internal controls "that shall be based on whether the internal control has a material affect on the company's financial statements and is significant to the issuer's overall financial status."

The bill was referred to the Financial Services and Banking Committees in the House and Senate, respectively. The Democratic chairmen of those two committees, Rep. Barney Frank (D.-Mass.) and Christopher Dodd (D.-Conn.), haven't been anxious to make legislative changes to SOX. House Speaker Rep. Nancy Pelosi (D.-Calif.) did allude to a desire to make changes during the 2006 election campaign last fall. Now in power, she has made no statements in 2007 on whether she plans to follow through on her election year promises.

Corporate Bond Interest Deductibility at Issue

It hasn't been one of the high-visibility provisions in the tax bill passed by the Senate, but the corporate bond interest provision that would raise $800 million over 10 years would complicate life for corporate finance departments. The tax bill contains $8.3 billion in revenue raisers to pay for the $8.3 billion in tax breaks. The provision—which isn't included in the much smaller House tax package—would cut into the tax deductions that corporations take for interest they pay to holders of contingent payment convertible debt instruments. This provision isn't nearly as sexy as some of the other revenue raisers in the Senate bill, such as additional limits on deductibility

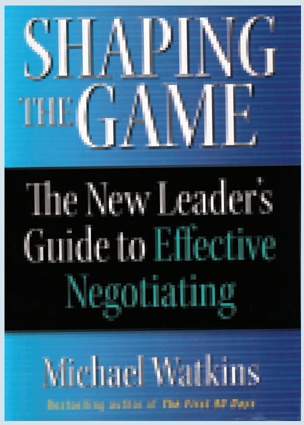
continued on page 22

[BOOKS]

Effective Negotiating

Leadership is ultimately about leverage. Though strategies, structures, and systems are critical, you must first be successful on the relationship front by building credibility with influential players, gaining agreement with them on goals, and securing their commitment to devote their energies to helping you achieve those goals. Leverage through relationships is an essential foundation for effectiveness in a new leadership role. Negotiation among these relationships is the single most important skill that leaders exercise during their transitions into new roles.

Michael Watkins's *Shaping the Game* focuses on negotiations as the most critical skill that leaders must master for success in their new roles. The key drivers of effectiveness for transitioning leaders boil down to negotiating effectively with influential players inside and outside their organizations. Negotiation, in this sense, is creating and capturing value in a network of relationships.



"Shaping the game" means that you should think not only about what the structure of the negotiation *is* and how best to proceed given the associated constraints and opportunities, but also about what the structure *could be* and how you might alter it to better allow you to create and claim value on a sustainable basis. Shaping the game is therefore about influencing the players, the agenda, and the perceptions of interests and alternatives very early in the process and then reshaping them as the process evolves.

Through the author's study of hundreds of leaders in transition, he has developed a "north star" to guide these leaders' negotiations. Keeping your eye on the following objectives, Watkins asserts, will help to ensure you won't lose your way during negotiations:

1. Create value to the greatest extent possible
2. Capture an appropriate share of the value that's created
3. Build and sustain critical relationships
4. Enhance your personal credibility

There are many types of negotiations where a one-size-fits-all approach isn't effective. Each negotiation should be analyzed carefully to identify the essential features, and a strategy should be crafted accordingly. Forget about win-lose vs. win-win negotiations. Instead, the strategy should concentrate on creating value to the maximum degree possible, capturing an appropriate share, and preserving relationships and your reputation.

Watkins describes an effective four-phase negotiation process:

1. Exploratory phase, where the parties assess the extent of potential gains, evaluate alternatives, and decide whether to go to the negotiation table.

2. Architectural phase, where discussions determine who will participate in the face-to-face negotiations, what issues will (and will not) be on the agenda, and what the rules of the game will be, such as location and timing.

3. Framework phase, where the parties scope out the basic formula for agreement in macro terms by describing the issues and trade-offs that are made to create value. Guiding principles may be established for both acceptable and unacceptable agreements.

4. Detail phase, where parties "divide the pie" created in the framework phase. These are the specific offers and counteroffers.

After describing the "north star" objectives and the four phases of the negotiation process, Watkins identifies four strategic imperatives that are used to develop the overarching principles for every negotiation you face:

1. Match strategy to situation
2. Plan to learn and influence
3. Shape the game
4. Organize to improve

These four strategic imperatives are used to develop a negotiation strategy matrix based on identifying what you need to do (1) before you get to the *continued on next page*

[GOV'T] *cont'd from p. 20*

of deferred compensation, disallowal of future losses on foreign tax-exempt use property for SILO arrangements entered into on or before March 12, 2004, and moving back the corporate inversion date one year. Vociferous corporate opposition to those proposals has registered loud and clear with the House, but that isn't the case with corporate debt change. The provision would raise $448 million over 10 years, making it the number four revenue raiser in the Senate bill. For some reason, however, it has floated under the radar. What that means is that when the House and Senate conference their two very different tax cut bills ($1.3 billion vs. $8.3 billion) and the House has to move closer to the $8.3 billion Senate bill, House conferees may feel comfortable accepting the Senate revenue raiser clipping corporate deductions for contingent convertible debt interest.

Executive Compensation Changes

While big business groups such as the Business Roundtable, which mostly represents *Fortune* 100 companies, have been silent on any needed changes to SOX, they have made it crystal clear that they would oppose any changes to the SEC's rules on shareholder involvement in executive compensation. Rep. Barney Frank, the Financial Services Committee chairman, is very anxious to force the SEC's hand here. His bill, which his Committee passed by a vote of 37-29 on March 28, would allow shareholders to take an advisory vote on corporate pay. Even so, Frank had a hard time getting Republicans on his Committee to back his legislation, called the Shareholder Vote on Executive Compensation Act (H.R. 1257). That doesn't bode well should the House and Senate pass the bill—which is far from certain—and President Bush vetoes it. There wouldn't be enough House votes to override a Bush veto. ■

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

magazine advertisement, it's hard to accept the adequacy of the soothing TV voice-over blandly indicating that a product "is not for everyone."

Healthcare is a critically important cost element for American businesses. Forecasts indicate that it could consume 20% of GDP if current cost trends continue. America vastly overpays for the healthcare it receives! Creative solutions need to be considered to address the many causes of this rapidly growing expense.

One solution is to provide consumers a higher level of ethics from companies that deal with our personal mortality! ■

Curtis C. Verschoor is the Ledger & Quill Research Professor, School of Accountancy and MIS, and Wicklander Research Fellow in the Institute for Business and Professional Ethics, both at DePaul University in Chicago. He is also a Research Scholar in the Center for Business Ethics at Bentley College in Waltham, Mass. His e-mail address is curtisverschoor@sbcglobal.net.

[NEWS] *cont'd from p. 19*

financial processes such as order-to-cash and procure-to-pay, and 49% say the benefits lie in automated testing of control effectiveness. Other benefits include reduced cost of maintaining compliance, increased confidence in financial reports, and mitigating segregation-of-duties risks.

What SOX goals do the financial executives have for 2007? They are reduce external costs (59%), reduce internal costs (57%), reduce the number of key controls (49%), implement a risk-based approach to financial controls (46%), automate manual processes with IT solutions (43%), focus on compliance benefits through quality in financial operations (31%), reduce reliance on consultants (29%), and increase the morale of those employees who are responsible for compliance (24%).

To download the complete *2007 Oversight Systems Financial Executive Report on Sarbanes-Oxley*, visit www.oversightsystems.com/knowledge/oversight_research.php. ■

[BOOKS] *cont'd from p. 21*

negotiating table (before discussions begin and between rounds of talks) and (2) once you get there (to enact your strategies through face-to-face dialogue). This matrix distinguishes between efforts to play the game effectively (to learn and to influence your counterparts in the context of an existing negotiation structure) and efforts to shape the game in favorable ways (to influence the structure in terms of who negotiates, what the agenda is, and what linkages are created).

Negotiating is a critical skill in many areas of life, especially for business leaders. This outstanding book is thought provoking and extremely useful for effective negotiation strategies for all business organizations. The author's extensive research, academic teaching, and consulting experience goes beyond the "one size fits all" and "win-win" themes to discuss effective negotiating objectives, developing different strategies for specific situations, and knowing when to do what.—*Lance A. Thompson, Thompson Management Consulting Services, LLC,* lancephx@aol.com

[LETTERS] *cont'd from p. 20*

kept books or audited them or both.

Further, one only has to try and wade through the latest issue of *Accounting Review* to realize that advancement in the teaching (read Ph.D. profession) comes from writing ever more esoteric quantitative and statistical articles that deal with no known real-world problems. The present and prospective shortage of those who teach accounting is totally an artificial construct of the AACSB. If accouting schools could rely on experienced adjunct faculty, the problem would disappear in an instant. Today, schools get penalized for adjunct faculty and must have a high percentage of Ph.D.s to meet the AACSB's own internal "standards." It is those standards that are wrong. The problem Mr. Sharman worries about could be eliminated in one wave of a magic wand if the AACSB recognized that practical experience is *more important* for a faculty position than the theoretical training of a Ph.D.

It is no wonder there is a shortage of Ph.D.s in accounting. The old adage still holds true. "Those who can, do; those who can't, teach." Let teaching be the culmination of a career in the business world, not an escape from the world. Let accounting faculty go in front of students only after they have experienced 10, 20, or 30 years of work in the trenches.

Alfred M. King, CMA, CFM

Language Foul

In the April "Best Practices" column, I was disappointed to see Mr. Gunn and Ms. Gullickson contribute to the erosion of our language by use of the word "disses." I know I am old-fashioned (probably because I am old), but I would like to suggest that they suppress any urges to use rap lyrics or use text abbreviations such as "U" for you, "R" for are, etc.

Kyle Kraft

[IMA] *cont'd from p. 10*

Philadelphia Chapter. He earned the Certified Management Accountant (CMA®) credential the following April (he was one of the first members of the Chapter to do so) and the Certified Financial Manager (CFM®) designation in 1997. He is currently serving as a Regional Vice President representing the Mid-Atlantic Council and as chair of the External/ Member Relations Committee. As Chair-Elect, he will head the Planning and Development Committee and be a member of the Governance Committee.

Fred also has been president of the Mid-Atlantic Council, president of the North Penn Chapter, and a member of the Chapter Operations Committee. For a number of years he served on the CMA Examination Review Committee.

In addition to his IMA experience, Fred is a member of the American and Pennsylvania Institutes of Certified Public Accountants, a member of Financial Executives International, and a member of the Financial Managers Society. He holds an MBA degree and a B.S. degree in finance from Lehigh University.

This Philadelphia native also believes in serving his community. He is a board member of Doylestown Hospital and the Bucks County Physician Hospital Alliance, council vice president of finance for the Bucks County Council of the Boy Scouts of America, trustee chair and former board vice president of the Central Bucks Family YMCA, and an active firefighter and trustee of the Chalfont Chemical Fire Engine Company No. 1. ■