streetwise

BY STEPHEN BARLAS, GENE SMITH, LANCE A. THOMPSON, KATHY WILLIAMS

[NEWS]

Cheryl Linthicum Named Academic Accounting Fellow | KATHY WILLIAMS

Cheryl Linthicum, CMA, a member of IMA's San Antonio Chapter, has been named academic accounting fellow for the Securities & Exchange Commission's (SEC) Division of Corporation Finance. Her one-year term begins this month.

Linthicum is the Clear Channel Worldwide Faculty Fellow and an associate professor of accounting at the University of Texas at San Antonio where she teaches international and financial accounting at the undergraduate, executive MBA, and Ph.D. levels. She has previously worked with the SEC as an academic accounting fellow, that time in the Office of the Chief Accountant-International, where she worked on various international financial-reporting-related projects. In her present term she will serve as a research resource for the staff on current financial reporting and auditing issues. She will also work with the Division staff to address issues involving difficult and unusual accounting, auditing, and financial reporting questions; participate in rulemaking projects; and review public company filings to identify significant accounting and disclosure problems, the SEC says.

Linthicum earned an MBA degree from Pittsburg State University and a Ph.D. degree from Oklahoma State University. Her research interests focus on International Financial Reporting Standards (IFRS), including the value relevance of 20F reconciliations and global accounting standards convergence. Her research has been published in several academic and practitioner journals, including *Strategic Finance*, *The CPA Journal*, *Journal of International Financial Management and Accounting*, and *Advances in Management Accounting*, among others. Also, she has received college-level and university-wide teaching awards and is associate editor of the *Journal of International Accounting Research*.

Parveen P. Gupta, a member of IMA's Lehigh Valley Chapter and the outgoing academic accounting fellow, returns to Lehigh University as a full professor and chair of the Department of Accounting. During his term, he worked closely with the Division's chief accountant and participated actively as a team member on the project that involved issuing the SEC's "Guidance on Management's Report on Internal Control under Sarbanes-Oxley Act Section 404 and Public Company Accounting Oversight Board's Auditing Standard No. 5 on Auditing Internal Control."

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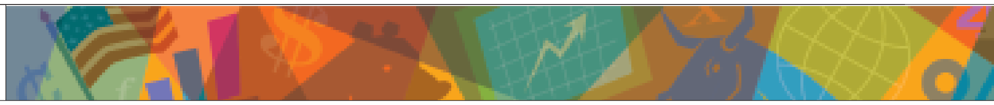
BARRIERS TO CHANGE

There are three major barriers to organizational change that businesses often overlook, says organizational change expert Gayla Hodges of Change Agents, Inc. They are inadequate culture-shift planning, lack of employee involvement, and flawed communication strategies.

Regarding culture shift: "When changes in corporate culture and the feelings of employees are overlooked, the result is often deep resentment because some unrecognized taboo or tradition has not been duly respected."

Regarding employee involvement: "Involving employees as soon as possible in the change effort, letting them create as much of the change as is possible and practical, is key to a successful change effort."

Regarding communication: "Ideal communication strategies attend to the message, the method of delivery, the timing, and the importance of information shared with various parts of the organization. They do not overwhelm people with too much information or leave them guessing about how they will be affected by the change." ■



Letters to the Editor

WAKE UP, AACSB

I agree with Mr. Alfred King's premise that the AACSB accreditation requirements are primarily the cause of the perceived shortage of university accounting instructors. [See Letters to the Editor, May 2007.]

Currently, there are many individuals who possess (1) an interest in teaching accounting, (2) excellent teaching skills, and (3) experience in public accounting or management accounting or government accounting. However, the aforementioned individuals are not "qualified," according to the AACSB, to teach at the collegiate level because they do not possess a terminal degree. Does the possession of a terminal degree make you a good instructor? The answer is "not especially." Who makes a better accounting instructor: (1) an individual with a Ph.D., good teaching skills, good research skills, and no practical accounting experience or (2) an individual with an MBA or Master's of Accountancy degree, good teaching skills, minimal research skills, and 10-plus years of practical work experience as a public accountant or management accountant or governmental accountant?

In my opinion, the majority of practicing accountants reading this Letter to the Editor would prefer having the second individual teaching university accounting courses. Wake up, AACSB. University accounting faculties need better balance between individuals with Ph.D.s and individuals possessing a Master's degree and accounting work experience.

Gene Smith

[GOVERNMENT]

New Financial Reporting Committee Faces Uphill Slog

STEPHEN BARLAS, EDITOR

One can only hope that Securities & Exchange Commission (SEC) Chairman Chris Cox's new SEC Advisory Committee on Improvements to Financial Reporting is a little more successful than his last advisory committee. That would be the one that made recommendations on how to make Section 404 of the Sarbanes-Oxley Act easier for small businesses to comply with. Cox has essentially ignored most of the key recommendations that committee made in 2006. Robert C. Pozen, chairman of MFS Investment Management in Boston and former vice chairman of Fidelity Investments, will chair the new committee. When he appeared with Cox for the announcement of the committee's formation, Pozen presented the typical boilerplate statement: "In addressing the complexity of the current system, our advisory committee will focus not only on offering better guidance to preparers of financial reports, but also on providing more user-friendly disclosures to meet the different needs of various types of investors." Pozen's committee will make its recommendations a few months before the next presidential election. At minimum, this will be just a few months before Cox's retirement. At maximum, it will be at a time when a Democrat may be about to move into the White House. All told, the chances for Pozen's committee to make its weight felt lie somewhere between slim and none.

Democratic Effort on Stock Option Taxation Likely

There is very likely to be a tax bill coming out of Congress this year, and taxes paid by private equity executives are already high on the "hit list" of both Republicans and Democrats. Changes to the alternative minimum tax are also in the offing. But those are individual tax issues. In the corporate area, don't be surprised to see changes to the IRS code relating to corporate stock option deductions. At Senate hearings in June, Sen. Carl Levin (D.-Mich.), chairman of the Homeland Security and Governmental Affairs Committee, said companies may be underpaying taxes by as much as $15 billion a year because, based on IRS data, corporations took deductions on their tax returns for stock option compensation expenses that were $43 billion greater than the stock option expenses shown on their financial statements for the same year. He acknowledged that the lower corporate tax bills were totally legal. In making the argument for remedial legislation, which went nowhere when he introduced it in past, Republican-controlled Congresses, Levin resorted to the same battle cry other Democrats have been issuing, saying, "The book-tax difference is fueling an ever-deepening chasm between executive pay and the pay of average workers."

What's likely to propel the Levin legislation forward in this Democrat-controlled Congress—where the tax gap is an increasingly large issue—is the added dimension of at least one questionable implementation of Statement of Financial Accounting Standards (SFAS) No. 123R,

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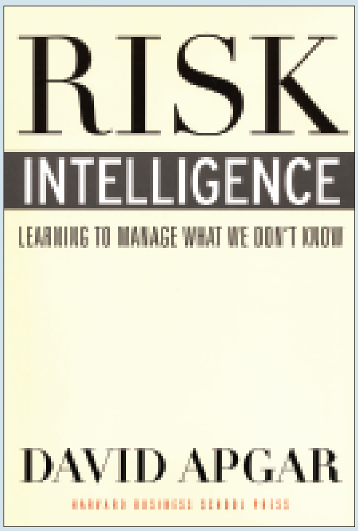
[BOOKS]

Weighing Risks Effectively

Strategists, finance executives, and business leaders constantly wrestle with trade-offs between risk and business performance imperatives such as growth, restructuring, and outsourcing. Many of these companies seem to be better at one than the other. Effective risk intelligence directly affects these trade-offs and the ultimate success of the organization's plans and strategies. David Apgar's *Risk Intelligence* is about the financial risks and the other real risks—operating, technological, business, security, and strategic risks.



Risk is the possibility of a loss or reversal (or gain or advance) that is different from what we expect from a decision or activity. Risk intelligence is the individual's or organization's ability to weigh risk effectively. It involves classifying, characterizing, and calculating threats; perceiving relationships; learning quickly; storing, retrieving, and acting on relevant information; communicating effectively; and adjusting to new circumstances. Risk intelligence is that experience that can help us solve problems requiring an understanding of the risks.

Apgar identifies four rules of risk intelligence and the myths they explode:

Myth 1: All risks are random.
Rule 1: Recognize which risks are learnable.

Myth 2: Since risks average out, they rarely create persistent winners and losers.
Rule 2: Identify risks you can learn about the fastest.

Myth 3: There is no pattern to how risks evolve.
Rule 3: Sequence risky projects in a "learning pipeline."

Myth 4: Business partners get the same results no matter how they allocate risk.
Rule 4: Keep networks of partners to manage all risks.

It's important to draw a distinction between nonrandom risks (which are learnable) and random ones. Learnable risks are the ones we could make more predictable if we had the time and resources to learn more about them. What matters is whether it's possible to learn anything that could systematically reduce the scope of the uncertainty underlying a risk or even transform it into a predictable certainty. With random risks, no one can have a scoping advantage. Otherwise, the risks would be learnable. Learnable risks are the real unknown. Random ones are just unpredictable.

Learning about a risk involves two things. First, it involves the formulation of possible solutions to problems posed by the risk or possible answers to questions about what drives it. Second, it requires experience that can show which solutions may be right, which ones are wrong, or whether more options are needed.

We must know what we are good at learning. We can get smarter by looking at the gaps between how much risk we expect and find in any risk initiative or venture. Apgar recommends a simpler gap in risk assessments: the gap between how well we can learn about an activity's risk and how well others can. Better risk measurement technology could amplify the benefit of being a fast learner and increase the cost of being a slow one.

Another way to improve the management of learnable risks depends on whether you can build a network to help handle it and offset your disadvantage. Differences in our natural networks for absorbing certain risks can create lasting advantages in businesses subject to them. Apgar introduces a "risk-role

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[GOV'T] *cont'd from p. 18*

"Share-Based Payment," which came into play for the first time for 2006 financial statements. Some investor groups are already complaining that some stock option valuation methods—the "Employee Stock Option Appreciation Rights" (ESOARS) used by Zions Bancorporation, for example— result in a downward-biased valuation that underreports to investors the true costs of a company's stock option awards. The Council of Institutional Investors and the CFA Institute Centre for Financial Market Integrity (an organization representing 90,000 investment professionals in 134 countries) recently met with staff of the SEC's Office of the Chief Accountant (OCA) and requested that the OCA prohibit Zions and all other public companies from using Zions' ESOARS to value stock option awards under Statement 123R unless and until the fundamental failings of the product have been remedied.

Notching Allowed Under Final SEC Rule

The SEC reversed itself on a controversial issue when it issued the final rule on the Credit Rating Agency Reform on June 18. Back in February, in its proposed rule, the SEC had banned "notching," the process where a credit rating agency such as Moody's or S&P downgrades a collateralized debt obligation because another company such as Fitch's had rated components of the CDO. Moody's and S&P objected to that proposal. In the final rule, the SEC allows notching as one of four practices by which a credit rating agency may treat unrated assets underlying a structured product when determining a credit rating for the structured product. ■

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

Is Your Software Legal?

Small businesses in the U.S. face the greatest risk for software piracy (or using unlicensed software) because they usually don't have software management policies and practices in place, a study by Yankelovich Partners for the Business Software Alliance (BSA) found. And in 2006, according to the BSA, small businesses paid more than $11.4 million in fines to settle software piracy claims. For this reason, the U.S. Small Business Administration (SBA) and the BSA, an organization dedicated to promoting a safe and legal digital world, have partnered to educate small businesses on proper software management and the risks associated with the use of unlicensed software.

They call their partnership "Software Strategies for Small Businesses," and you can find out more about it by visiting the website they created called www.SmartAboutSoftware.org. They plan to develop best-practices publications that communicate guidelines for small businesses on implementing software asset management programs; produce and disseminate educational materials such as a guide to software management, a fact sheet on "10 Steps for Software Compliance," and a fact sheet on "Software Piracy and the Law"; create software asset management content for SBA e-newsletters; create an interactive Web page to include free software audit tools, fact sheets, topical articles, and the educational materials just mentioned.

To find more information and tools and to ask the organizations any questions, visit www.SmartAboutSoftware.org. For questions on how to manage your software effectively, visit BSA at www.bsa.org, and for other small business questions, visit the SBA at www.sba.gov. ■

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

matrix" tool for thinking about what role within our business and personal networks best handles different kinds of risks. The tool suggests different roles for different kinds of both random and learnable risks.

Apgar identifies a risk intelligence score based on assessing these questions:

1. How often do you have experiences related to the risk?
2. How relevant are these experiences to what might influence the risk?
3. How surprising are these experiences?
4. How diverse are these experiences as sources of information?
5. How methodically do you keep track of what you learn from them?

Apgar has written an excellent book with powerful insights about understanding and managing all types of risks. Many business risks are actually learnable, and a framework is proposed for mitigating these risks. Our risk assessment ability is a critical skill that can determine success, and *Risk Intelligence* is a practical guide for making better decisions about all financial and nonfinancial risks, thereby improving the overall competitiveness of our organizations.—*Lance A. Thompson, Thompson Management Consulting Services, LLC, lancephx@aol.com.*

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Answers to puzzle on p. 64.