BY STEPHEN BARLAS, BILL CORDES, CHRISTOPHER DOWSETT, LINDA DEVONISH-MILLS, JODI RYAN, KATHY WILLIAMS

[NEWS]

Fraud Remains Pervasive, PWC Study Shows | KATHY WILLIAMS

Despite regulations and increased efforts to implement good internal controls, fraud remains a major threat to companies worldwide, a recent study by PricewaterhouseCoopers found. In fact, nearly half of the 5,400 global companies surveyed reported they were victims of some form of economic crime in the past two years, and their average direct financial loss rose nearly 40% to $2.4 million from $1.7 million in 2005. In addition, the total direct losses exceeded $4.2 billion. The crimes included asset misappropriation, accounting fraud, bribery and corruption, money laundering, intellectual property infringement, and more.

These were just some of the results of the PWC 2007 Global Economic Crime Survey titled "Economic Crime: People, Culture and Controls." The survey also found that economic crime affects companies of all sizes, all types, in all industries, and on all continents. Nevertheless, most companies say they are confident that their control measures will limit their exposure to fraud in the future. Only 11% said they probably would be the victims of fraud during the next two years.

Regarding company size, the larger firms experienced the most fraud. Among those with 5,000 or more employees, 62% reported being victims of fraud. Fifty-two percent of those with 1,001 to 5,000 employees reported being victims, and 32% of small companies with fewer than 200 workers said they experienced a crime. As far as industry, fraud was found to be most prevalent in the insurance and retail sectors (57%), followed by government and the public sector (54%), financial services (46%), and automotive (44%).

The type of fraud varied by industry, but the study found that, overall, theft was reported by 30%, intellectual property infringement by 15%, corruption and bribery by 13%, accounting fraud by 12%, and money laundering by 4%. And who was committing the fraud? The study found that 85% were men, most often between the ages of 31 and 50, and half had college education or advanced degrees. More than half worked for the defrauded company, 26% were in senior management, and 43% were with the company more than five years.

Regarding countries experiencing economic crime, the survey found that it was as prevalent in fast-growing emerging economies such as Brazil, China, India, Indonesia, Mexico, Russia, and Turkey

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BEING A TEAM PLAYER

What's the most important characteristic of a team player these days? It's the ability to meet deadlines, according to 40% of executives polled by Accountemps last month. Other characteristics cited are avoiding politics (25%), being pleasant to work with (20%), and supporting his or her manager (13%).

What can you do to become a truly valuable team player and a leader?

- Set realistic goals and expectations by establishing roles and responsibilities for each team member before a project starts.
- Prioritize projects so you spend the majority of your time on activities that affect the bottom line most directly.
- Don't play "the blame game" if something goes wrong. Instead, focus on correcting the problem and moving forward.
- Give credit where due, and be generous in your praise. Be sure to thank unsung heroes who contribute to a project's success.
- Do your part to minimize office politics by engaging in open communication and fostering an atmosphere of mutual trust and respect. ■

[EDUCATION NEWS]

IMA Signs Cooperative Agreement with NAF

The Institute of Management Accountants (IMA®) recently signed a national cooperative agreement with the National Academy Foundation (NAF) to find ways to promote opportunities for young people to learn about management accounting career opportunities within the business sector. NAF is a nonprofit 501(c)(3) intermediary organization that sustains a national network of high school career academies—small learning communities—in finance, hospitality and tourism, and information technology. NAF Academies, which are targeted to urban centers but also located within suburban and rural school districts, represent business/school partnerships that prepare young people for future careers through a combination of school-based curricula and work-based experiences. The industry component features paid internships that provide students with a real-world context for their classroom learning.

IMA is hoping that chapters and councils will have an interest in working with the local NAF Academies to

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Notice of Termination

On July 20, 2007, the IMA Committee on Ethics voted to terminate the membership of the following individual for an ethics violation, as provided in Section 5 of the IMA Bylaws: Richard J. Antoniotti, member #61933.

[GOVERNMENT]

SEC Moves Closer to Mandating XBRL

STEPHEN BARLAS, EDITOR

SEC Chairman Chris Cox's announcement at the end of September that a private sector group has finally translated U.S. GAAP into the eXtensible Business Reporting Language (XBRL) seems to set the agency on a clear path toward requiring all large companies to use interactive tags when preparing financial reports. According to Cox, the beauty of these taxonomies is that corporate accountants now won't have to customize tags, as the 50 or so companies who have been voluntarily using XBRL have been doing. So far the big benefit of XBRL has been for investors; it enables them to compare results among companies. The investment in software, training, and customization of tags based on a company's financials has been a somewhat expensive process for financial reporters and has impeded large-scale adoption of XBRL. Mike Willis, partner at PricewaterhouseCoopers and founding chairman of XBRL International, says, "The U.S. GAAP XBRL taxonomies provide registrants with lower cost reporting processes, better controls, and more effective investor communication; what's not to like?" Willis adds that it now seems clear that Cox is on a path toward doing what he has resisted…making use of XBRL mandatory, at least for large companies. At the September 28 press conference, Cox said he will be getting recommendations from staff next year on the next step in the SEC's XBRL program. But he also emphasized that XBRL was in the "market acceptance phase" and that he wouldn't impose XBRL until it was further along. Mike Willis expects an SEC rulemaking of some sort in the fall of 2008. That may well be when Cox expects XBRL to be further *enough* along.

Pension Funds Not Worried about Fallout from Upping Taxes on Carried Interest

Private equity companies are getting no help from pension plans in trying to convince Congress not to tax carried interest as ordinary income instead of as capital gains, as is now the case. House Ways & Means Committee Chairman Rep. Charles Rangel (D.-N.Y.) is preparing a major tax package that's sure to include a version of a proposal introduced by a senior member of the Committee, Rep. Sander Levin (D.-Mich.). Levin's bill would tax carried interest at the ordinary, individual rate—generally 35%—on profits in excess of what a firm member invests in a venture. The tax cuts in Rangel's bill are expected to cost the U.S. Treasury $8 billion a year, and raising the tax on carried interest from 15% to 35% would raise somewhere in the neighborhood of $2 billion to $3.2 billion. But the Private Equity Council has been telling senators and representatives that it would amount to a 130% tax increase on their profits and, therefore, might force them to increase fees on the corporate and public pension plans that fork over huge sums to the private equity companies. At hearings in the House Ways & Means and Senate Finance

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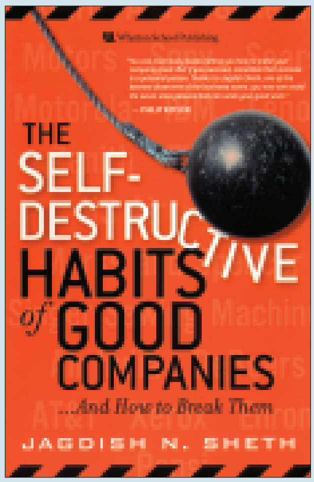
[BOOKS]

How Good Companies Go Bad

There are times when a company that was once at the forefront of its industry will find itself struggling for survival. Once seemingly unable to do wrong, it is now gasping for air. So what happened? Where did it go wrong? That's exactly what Jagdish Sheth wonders in his book, *The Self-Destructive Habits of Good Companies*. After examining the histories of several once-mighty corporations that went on to face significant struggles, Sheth identified seven characteristics that contribute to the downfall of a good company: denial, arrogance, complacency, competency dependence, competitive myopia, volume obsession, and territorial impulse.



Denial, arrogance, and complacency are familiar enough concepts. Denial takes various forms, including the denial that new technologies are emerging, that consumer taste is changing, or that the business environment is changing. Symptoms of denial in companies are very similar to those in people: rationalizing, avoidance, blaming others. Arrogance and complacency are often borne of success. An arrogant company has fought and won enough battles that it starts to believe it is impervious to external forces. The well-known example of arrogance that Sheth discusses is General Motors, who shrugged off the challenges from the Toyotas and Hondas of the world. A complacent company believes that its success in the past will not only lead to success in the future but that it will also act as a buffer to protect against any setbacks.

A competency-dependent company is too focused on its core strength. Many companies become successful by doing one thing very well. But when that one thing becomes so deeply rooted in the company's culture and identity that it becomes difficult to adapt to changing conditions or a new environment, it is competency-dependent. One example Sheth cites is Encyclopaedia Britannica, which continued to bet on its printed version even after the world began converting to digital.

Competitive myopia is when a company becomes so focused on its direct competitors that it misses less obvious challengers, allows niche companies to exist in the marketplace unchallenged, or underestimates new entrants to the field. By focusing too narrowly, a company not only risks being blindsided, but it passes up opportunities for its own growth and expansion.

Volume obsession can also be described as "cost inefficiency." Put simply, this habit occurs when a company is "spending too much money to make money." Volume obsession arises when prices fall but costs remain steady or when a company grows too quickly and fails to adjust to the increased volume and decreased margins.

The final habit is territorial impulse. This is common in companies that work in functional silos, where each department or group is focused on its own goals and turf wars break out. This leads to an increase in dissension, indecision, and confusion. One method to avoid it is creating a culture "in which no one function is treated as 'superior' to another."

The first step in recovering from or avoiding these pitfalls is recognition. For example, Sheth outlines a simple process to break the habit of denial: Look for it, admit it, assess it, and change it. To break arrogance, he stresses, it is important to "change the culture to one of looking, listening, and learning—especially learning from the experiences of those outside the company." And breaking complacency involves developing strong metrics that continually provide a quantitative assessment of the company's performance. All three of these solutions require a level of awareness and recognition of what is truly happening within the company.

But breaking these habits isn't simply a matter of recognizing that what a com-

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[ADVOCACY]

CMA Examination in Arabic

BY LINDA DEVONISH-MILLS, CPA

Most of you are probably familiar with the article "IMA's Strategic Initiatives" that appeared in the August 2007 issue of *Strategic Finance*. It told readers about the strategic initiatives that are part of the organization's Strategic Plan for fiscal years 2008-2011. A companion piece about IMA's 2008-2011 Strategic Plan was featured in an insert in the September issue.

One of IMA's strategic initiatives that was described in these two pieces is to expand international membership in the Middle East region. The Middle East already contains the largest block of IMA international members, and the plan is to retain and grow membership in that market. Most IMA members in the Middle East are active in the Certified Management Accountant (CMA®) program, but many struggle with the complex body of knowledge in a language that isn't their primary language. A quality translation of the CMA exam and more localized services should help improve completion rates, increase retention, and create new growth. In order to grow, IMA must respond to the new member engagement opportunities driven by globalization and changing demographics.

At the end of September, the Planning and Development Committee of IMA's Board of Directors approved a business case that proposes a translation of the CMA examination into Arabic language. At present, there are more than 5,400 IMA members in the Middle East, and they account for more than 30% of all CMA examinations taken. But the overall completion rate for Middle East members is quite low, and the main reasons appear to be the members' difficulty with the English language and the lack of a solid learning environment.

This project will allow IMA to better support the community of management accounting and finance professionals in a part of the world that is experiencing high rates of economic growth and an increasing need for sophisticated internal finance expertise in a manner that will help them to succeed in the CMA program and that will grow IMA's membership base in the region substantially.

IMA will propose to the U.S. Agency for International Development (USAID) that both groups enter into a joint funding model for the Arabic-language CMA translation project. USAID's strategy is focused on fostering economic growth in Iraq and elsewhere in the world where the principles of democracy and a free market economy are deemed important. For USAID, this project would contribute to the revitalization of the accounting profession by providing training programs and skills measurement against an internationally recognized standard—the CMA designation.

The project seeks to implement an Arabic-language CMA training and certification program that would be funded by USAID. The training deployment would be led by USAID funds and personnel, and the certification deployment would be under the control of the Institute of Certified Management Accountants (ICMA). The training deployment would begin in Iraq and expand to other Middle East countries quickly after that. The Arabic-language examinations would be launched globally by ICMA at the same time in every Prometric testing site ICMA uses. If USAID supports the proposed funding arrangement, the project is scheduled to launch during the last quarter of 2008.

For additional information about the process of obtaining the CMA credential, visit IMA's website at www.imanet.org and look under Certifications. Please contact Linda Devonish-Mills, IMA's director of professional advocacy, at lmills@imanet.org with your thoughts about IMA's strategy regarding the expansion of international membership as it relates to translation of the CMA examination. ■

[GOV'T] *cont'd from p. 14*

Committees in early September, however, representatives of public pension plans showed no fears of higher fees. Orin Kramer, chair of the New Jersey State Investment Council, a former hedge fund manager, told Ways & Means on September 6, "If asset managers…incur higher operating costs such as higher taxes, fees do not rise because the after-tax savings of money managers diminishes. Fees rise when the return expectations of limited partners increase, justifiably or not, to levels which warrant higher fees."

At Senate Finance Committee hearings the same day, Alan J. Auerbach, director, Burch Center for Tax Policy and Public Finance at the University of California, Berkeley, stated that if half the tax increase on private equity partners was shifted to pension funds in the form of higher fees, it would translate into "at most around two basis points in the annual return on these pension funds' assets, and quite possibly much less." Auerbach estimated that corporate defined benefit and public pension funds have about 13.5% of their assets with private equity companies worldwide, meaning their holding of U.S. private equity investments is "likely substantially lower."

Mutual Funds Take Middle Ground on Proxy Access

The mutual fund industry is taking the middle ground between investor activists and *Fortune* 500 companies on the SEC shareholder access proposal. Paul Schott Stevens, president and CEO of the Investment Company Institute, told the Ways & Means Committee at the end of September that shareholders should have access to the corporate proxy, thus agreeing with groups such as the Council of Institutional Investors. But Stevens argued that the SEC's proposed floor for gaining access—a minimum of 5% of outstanding shares—is too low. Stevens didn't say how much higher the floor should be. Echoing sentiments voiced by the Business Roundtable, Stevens said, "A higher threshold…would better assure that the company's proxy machinery would be used to advance the common interests of many shareholders in addressing legitimate concerns about the company. And it would help guard against efforts by one or a few shareholders to use a company's proxy to achieve their own narrow ends." The Roundtable is arguing shareholders shouldn't have any access to the proxy at 5%, 10%, or any percent. ■

[BOOKS] *cont'd from p. 15*

pany used to do no longer works. The more important part is recognizing that what is working today may not work tomorrow. Many of these bad habits are byproducts of a company's culture. According to Sheth, the responsibility to fix or break these habits falls on the company's leadership. To bring about change, it requires a strong leader with a vision that involves anticipating future developments and preparing the company to adapt or change as conditions warrant. As the old adage goes, an ounce of prevention is worth a pound of cure.—*Christopher Dowsett*

[NEWS] *cont'd from p. 13*

as it was in the more developed countries. But the cost of fraud was significantly higher in the emerging economies.

In addition to establishing good internal controls, what can companies do to prevent fraud? Steven Dkalak, Global Investigations and Forensics leader at PricewaterhouseCoopers, says it's impossible to eliminate economic crime, and controls aren't enough. "The answer lies in establishing a culture that supports control efforts and whistle-blowing with clear ethical guidelines. Companies need to build loyalty to the organization, give employees the confidence to do the right thing, and identify clear sanctions for those who commit fraud, regardless of their position in the company." And they definitely need to have a transparent corporate culture that enables employees to recognize and expose improper conduct.

For more information and to get a full copy of the report, visit www.pwc.com/crimessurvey. ■

[EDUCATION NEWS] *cont'd from p. 14*

promote IMA and the Certified Management Accountant (CMA®) certification. If students become aware of the benefits of management accounting careers early in their studies, perhaps more will be attracted to the profession and to IMA.

For complete information about the agreement and how you can participate, please contact Jodi Ryan, manager of student and academic relations, at jryan@imanet.org. ■