streetwise

BY STEPHEN BARLAS, MARK BAUR, LINDA DEVONISH-MILLS, MARK FRIGO, KATHY WILLIAMS

[NEWS]

CFOs, Controllers, and IFRS | KATHY WILLIAMS

Last month the Securities & Exchange Commission (SEC) voted to let foreign private issuers in the U.S. file their financial statements with the SEC without reconciling them to U.S. Generally Accepted Accounting Principles (GAAP) as long as they are prepared using the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Interestingly, in a national survey of CFOs and senior controllers by Grant Thornton LLP the previous month, 56% of the respondents said they disagreed with this proposal, while 42% agreed with it. When asked if they had experience preparing financial statements according to IFRS, 77.38% of the respondents said "no," and 22.17% said "yes."

Here are some other survey results:

- When asked if all U.S. firms should be allowed to user IFRS instead of U.S. GAAP when filing financial statements with the SEC, 41.63% of the respondents said "yes," and 55.66% said "no."
- Answers to the question "Should U.S. firms with extensive overseas operations be permitted to use IFRS in financial statements filed with the SEC?" were closer: 46.61% said "yes," and 49.32% said "no."
- And when asked if it would be appropriate for privately held U.S. firms to use IFRS for small and medium-sized enterprises (SMEs) when preparing financial statements, 43.44% said "yes," and 53.39% said "no."

Then the questions about the complexity of accounting standards came up. When the CFOs and controllers were asked if they thought accounting standards today are too complex, 78.28% said "yes," and 20.36% said "no." Of the public companies answering the question, 90.57% said the standards are too complex, and 9.43% said they aren't. The answers from private companies were 75.16% "yes" and 24.84% "no."

Regarding the types of accounting standards they would prefer, 67.42% of the respondents said they would prefer "principles-based standards that provide for use of professional judgment in the application of accounting standards," and 30.32% said they would prefer "rules-based standards that provide detailed guidance for applying accounting standards." ■

COACHING, MENTORING HELP RETAIN EMPLOYEES

What methods are employers using to retain high-potential and front-line employees?

According to a recent survey by ClearRock, an outplacement and executive coaching firm headquartered in Boston, the top five ways to retain high-potential employees are selecting them more carefully, providing better training, coaching, better compensation and benefits, and improved orientation and assimilation programs. Mentoring and flexible work schedules also rank high.

The top five ways to retain front-line employees are selecting them more carefully, better orientation and assimilation programs, exit interviews, improved training, and better compensation and benefits. Flexible work schedules and coaching are right behind.

Other methods employers use are tuition reimbursement, retention bonuses, casual dress codes, and health insurance.

High-potential employees are those whose employers have identified as future leaders based on their background, testing, and performance, ClearRock says. Front-line employees are those who are usually a customer's first contact with a business, such as salespeople, customer service representatives, and other sales and support staff. ■

Letters to the Editor

HOW ABOUT A DATABASE AS A FINANCIAL TOOL?

It was nice to read the article on using Microsoft Access in the October issue of *Strategic Finance*. Such articles serve as a corrective to what I believe is the overuse of Excel in Finance environments. In fact, it was ironic that the response of one reader to an earlier article on the pitfalls of using spreadsheets was to ask for more articles on Excel—a response that you've heeded.

Ever since the advent of the personal computer, I've been trying to convince my employers and clients of the benefits of converting their hopelessly complex spreadsheet processes into database processes, using general-purpose database software (such as Microsoft Access, to use today's standard). The benefits include greater data integrity as a result of more numerous, uniform, and inviolable integrity rules; increased efficiency as a result of greater data integration; reduced risk of error because of the absence of data duplication and the separation of the data from the logical operations exercised upon the data; and a much clearer audit trail because, with a database, it is so much easier to decompose summary data into the detail from which it is derived than it is when using spreadsheets. With the passage of the Sarbanes-Oxley Act and the increased emphasis on the reliability of internal financial processes in general, these advantages of the database take on even more importance.

Sadly, though, the notion of a database as a general Finance tool remains a hard

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[GOVERNMENT]

Dems Unhappy with "No Reconciliation"

STEPHEN BARLAS, EDITOR

Despite opposition from the Democratic-controlled Congress, the Securities & Exchange Commission went ahead and decided to allow foreign companies with shares traded on a U.S. exchange to report their financials based on International Financial Reporting Standards (IFRS) without having to reconcile those reports with U.S. Generally Accepted Accounting Principles (GAAP), as is currently the case. The question is whether the SEC will now take a second, related step that it has been considering: allowing U.S. companies the option to use either GAAP or IFRS. The SEC explained the move as a way to encourage the development of IFRS as a uniform global standard rather than a divergent set of standards applied differently in every nation. Consistent application of IFRS will help U.S. investors who own foreign securities to have better comparability. Two-thirds of American investors own securities of foreign companies, which is a 30% increase in the past five years.

The SEC decision was applauded by U.S. stock exchanges. Bruce Aust, executive vice president of NASDAQ's Corporate Client Group, said, "It removes unnecessary costs and steps that create barriers to attracting international companies. The SEC's decision clearly communicates that the U.S. markets are dedicated to wringing the cost and inefficiency out of doing business in the U.S."

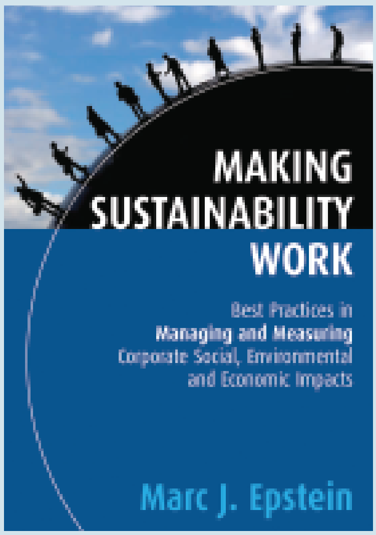
At the same time SEC Chairman Chris Cox announced the Commission's decision regarding foreign companies on November 15, he also announced that the SEC will convene two roundtables, on December 13 and December 17, to collect more feedback from the public on the issue of giving U.S. domestic issuers the same option to use either IFRS or U.S. GAAP. The AICPA supports such a move. In a comment letter to the SEC, AICPA Chairman Randy G. Fletchall and President and CEO Barry C. Melancon wrote, "The AICPA supports the goal of a single set of high-quality, comprehensive accounting standards to be used by public companies in the preparation of transparent and comparable financial reports throughout the world."

Congressional Democrats are unhappy with the SEC's November 15 announcement, however, and would be doubly angry if the Commission goes ahead and gives U.S. companies the option of using GAAP or IFRS. Senators Chris Dodd (D.-Conn.) and Jack Reed (D.-R.I.), chairman of the banking committee and its securities subcommittee, respectively, had written to Cox on November 14 opposing the next day's action on the basis that "the elimination of the reconcilement requirement is premature and being unduly rushed." It isn't clear yet whether Democrats will try to roll back the SEC decision via legislation. ■

[BOOKS]

Corporate Sustainability

The challenges and opportunities facing companies today in the area of sustainability are more complex and have greater potential impact than ever before. *Making Sustainability Work*, written by Marc J. Epstein and published by Berrett-Koehler Publishers, fulfills an unmet need for senior executives, board members, and managers seeking better ways to manage these challenges and opportunities. In this book, Epstein provides direction and guidance to help corporate leaders integrate sustainability into their daily decisions and to better understand and manage corporate social responsibilities and corporate performance.



Based on extensive academic research and best practices of corporations throughout the world, *Making Sustainability Work* contains 10 chapters and describes the practices of 100 leading companies—including Baxter, CEMEX, Dell, General Electric, Johnson & Johnson, Hewlett-Packard, Honda, McDonald's, Nike, Starbucks, Toyota Motor Corporation, Unilever, and others.

The goal of improving both the corporate and societal performance of an organization is, of course, a very noble cause. According to Epstein, to do this:

◆ Sustainability must be an integral component of corporate strategy.

◆ Leadership must be committed to sustainability and build additional organizational capacity.

◆ Sustainability strategies should be supported with management control, performance measurement, and reward systems.

◆ Sustainability strategies should be supported with mission, culture, and people.

◆ Managers must integrate sustainability into all strategic and operational decisions.

◆ Managing sustainability performance should be viewed not only as risk avoidance and compliance but also as an opportunity for innovation and competitive advantage.

The Introduction presents a common definition of sustainability, describing it as an "economic development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs." In Chapter 1, to make the definition more precise and relevant to management decision processes and to present principles that can be quantified and monetized, Epstein focuses on nine principles of sustainability: ethics, governance, transparency, business relationships, financial return, community involvement/economic development, value of products and services, employment practices, and protection of the environment.

Chapter 1 also presents the Corporate Sustainability Model, which is applied throughout the book. The model is a valuable and comprehensive framework for understanding, evaluating, measuring, and managing the drivers of corporate sustainability.

Chapter 2 focuses on leadership and the importance of developing a corporate sustainability strategy. Chapter 3 addresses the organizational aspects of sustainability, including the challenges of global organizations and outsourcing. Chapter 4 focuses on costing, capital investments, and social risks and risk assessment. Chapter 5 describes performance evaluation and reward systems, including shareholder value analysis. Chapter 6 focuses on the measurement of social, environmental, and economic impacts in sustainability, including a discussion of methodologies of measuring social and environmental risks. Chapter 7 discusses the implementation of measurement systems for social, environmental, and economic impact, as well as sustainability performance metrics, measuring risk, measuring reputation, and mapping actions and performance measures. This chapter provides examples of mapping causality

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[ADVOCACY]

The XBRL US GAAP Taxonomy Project Needs Your Input

BY LINDA DEVONISH-MILLS, CPA

Most of you are probably familiar with the article about the XBRL US Market Outreach Working Group that appeared in the Streetwise section of the October 2007 issue of *Strategic Finance*. It was mentioned in the article that IMA received an invitation to appoint a member as a representative to the Group. IMA's Governance Committee approved a vote for IMA Board Member Bob Laux to serve as that representative. Bob is a director of Technical Accounting and Reporting for Microsoft Corporation and is also a member of IMA's Financial Reporting Committee (FRC). Based on his background, Bob will be able to make valuable contributions regarding XBRL on behalf of IMA.

During the fall of 2006, the Securities & Exchange Commission (SEC) awarded a contract to XBRL US, Inc., to build out the dictionary of U.S. GAAP terms that are used when companies create XBRL documents. This dictionary is known as a "taxonomy." XBRL US has established a project team of accounting and technology experts to build the taxonomies and documentation. They have engaged company preparers, software providers, financial analysts, and other important stakeholders in the project to ensure that all audiences have a say in how the taxonomies are developed.

A first draft of the XBRL US GAAP Taxonomy project has recently been completed. It will be available for public review on December 5. Constituents who are part of the business reporting supply chain—preparers, analysts, investors, and auditors—are encouraged to provide feedback. IMA members will definitely have a chance to participate in this review. On February 21, 2008, as part of IMA's webinar series, members of the XBRL US Market Outreach Working Group will conduct a webinar where they will instruct IMA members on how to participate in the review and provide feedback.

This is a great opportunity for IMA members to provide feedback on a project where the benefits for external reporting preparers have been promoted yet XBRL also helps management accountants perform their jobs efficiently as they relate to financial reporting. Therefore, it's critical for XBRL US to receive your feedback to ensure that the components of the project accurately represent your company's financials and analytical models.

Please watch for registration notices for the webinar as we get closer to the February 21, 2008, date. We need you to participate in this review because it's critical to the financial reporting community. Please contact Linda Devonish-Mills, IMA's director of professional advocacy, at lmills@imanet.org with your thoughts about IMA's strategy regarding members participating in the public review of the XBRL US GAAP Taxonomy project. ■

[BOOKS] cont'd from p. 19

of sustainability performance drivers and of performance measures for sustainability success in terms of inputs, processes, outputs, and outcomes. Chapter 8 discusses improving corporate processes, products, and projects for sustainability, including involvement of the supply chain and internal reporting. Chapter 9 examines external sustainability reporting and verification and discusses both internal and external sustainability audits.

Chapter 10 discusses the benefits of sustainability for corporations and society. It includes a discussion of the documented benefits of improved sustainability performance in four categories: financial, customer-related, operational, and organizational. Epstein proposes that to successfully integrate sustainability into day-to-day decision making, companies need to make it a central tenet of their strategy as well as have leadership reinforce sustainability objectives throughout the organization.

Making Sustainability Work is an outstanding contribution to the field. This book will be an invaluable resource for senior executives, boards, and managers looking to integrate sustainability into their decision making.

Epstein's research has focused extensively on sustainability and corporate social responsibility for three decades. He is distinguished research professor of management at Jones Graduate School of Management at Rice University and was Visiting Professor and Wyss Visiting Scholar in Social Enterprise at Harvard Business School. Prior to joining Rice, Epstein was a professor at Stanford Business School, Harvard Business School, and INSEAD.—*Mark L. Frigo, Ph.D., CMA, CPA, director of the Center for Strategy, Execution, and Valuation at DePaul University, mfrigo@depaul.edu.*

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

sell. Even though Access is a general-purpose tool that is as adaptable as Excel and only marginally more difficult for accountants to learn and implement within the Finance department, most accounting managers seem to view it as something that somehow falls within the realm of the IT department and that cannot be deployed independently by accountants. And your cover story on budgeting and forecasting indicated that more than 50% of the companies surveyed were using Excel for budgeting purposes. This can only be because of an ignorance of database software and the unfamiliarity of accountants with its use. To me, it seems highly desirable that management accountants become more familiar with software that has such ready application and utility in the Finance function of almost every organization that is using spreadsheets for off-general-ledger accounting processes and reporting.

I'm not arguing in favor of using Access as an organization's primary accounting or ERP software or as a complete substitute for Excel. For most mission-critical financial and business processes, including sales, inventory management, and general ledger accounting, an organization needs some dedicated software application designed by computer software engineers and maintained and customized by an IT department or outside IT consultants. Likewise, Excel remains a very effective means of conducting data *analysis* and also, at times, for straightforward data processing and presentation, as when the data is coming already from a relational database in so-called normalized form and can easily be converted into something like a pivot table.

But when it comes to integrating, relating, sorting, and summarizing data, the advantages of using a database over spreadsheets seem so overwhelming that I can only hope that more accountants will learn to apply the technology.

Mark Baur, CMA, CFM

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Kathy Williams, Editor-in-Chief