streetwise

BY STEPHEN BARLAS, KEN BECKER, LANCE THOMPSON, KATHY WILLIAMS

[NEWS]

New Guidance for Accountants in Business | KATHY WILLIAMS

The Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC) has issued three new publications designed to help management accounting and finance professionals in their quest to drive business performance and deliver added value to their companies. They are *The Crucial Roles of Professional Accountants in Business in Mid-Sized Enterprises, Preface to IFAC's International Good Practice Guidance*, and *Project Appraisal Using Discounted Cash Flow*. You can download them from the IFAC online bookstore at www.ifac.org/store. Click on Professional Accountants in Business on the left-hand side of the page.

The Crucial Roles booklet features interviews with 10 senior-level professional accountants in business (one of whom is IMA Chair Emeritus John B. Pollara, CMA) about their experiences in mid-sized enterprises around the world. Each interview covers topics such as how the challenges of typical mid-sized enterprises affect their work as CFO, controller, advisor, or other job responsibility and how they apply their skills and expertise to identify and address these challenges. The articles also highlight practices that other management accounting and finance professionals would find helpful, and each interview ends with key lessons the interviewees want to convey.

Two key points to take away about these and other professional accountants in business, IFAC says, is that, first, they are "enablers" of their company's performance. "They provide crucial contributions to streamlining business plans, installing and improving management information systems, implementing process improvements, mitigating risks, strengthening relations with banks and investors, and attracting capital and other activities that enable the current and future success of their companies." Second, they operate as "generalists" in their companies. They specialize in finance and management accounting activities, but they also serve as an integral part of the management team and fulfill a wide range of responsibilities beyond finance.

The *Preface to International Good Practice* presents the scope, purpose, and due process of the PAIB Committee's new International Good Practice Guidance project that covers management accounting, financial management, and broader topics in which financial professionals are likely to engage at their companies. IFAC says its "prime purpose in issuing

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COSO WANTS YOUR COMMENTS

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has released an exposure draft titled *Guidance on Monitoring Internal Control Systems*. It's designed to help organizations of any size or structure develop efficient ways to monitor the effectiveness of their internal control systems related to financial reporting, operational, and compliance control objectives. It also more fully develops the monitoring component of COSO's 2006 *Internal Control—Integrated Framework*.

Now COSO wants feedback on the document, particularly regarding the clarity and applicability of the guidance provided. Input from respondents will be used to develop the final release of the project, which is scheduled for this fall, COSO says.

To read the document and offer your feedback through a Web-based feedback portal, visit www.coso.org/guidance.htm. The comment period ends August 15, 2008. ■

Letters to the Editor

TONE FROM THE TOP

In his June ethics article, Curt Verschoor requests suggestions to raise ethical standards. Human nature does not change, but we need to continue to emphasize the critical nature of ethics. This is best done by example following example following example. Also, IMA can honor people like WorldCom whistleblower Cynthia Cooper and use IMA's 1980s vignette set, "You Be the Judge," to stimulate ethics discussions at IMA meetings.

In any company, the tone must come from the top. If not from the CEO, then the CFO or any supervisor can continually emphasize ethics in their department. Never say you got around a tax law or violated the speed limit; that sets the wrong tone. I once posted a sign saying "Any employee that will lie FOR you will also lie TO you." Each firm must strictly obey the law while advocating to change parts they deem unfair.

Ken Becker, CMA, CPA

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

[GOVERNMENT]

SEC Moves Forward on XBRL

STEPHEN BARLAS, EDITOR

Several prominent business groups, including Financial Executives International (FEI), may be of the opinion that the Securities & Exchange Commission (SEC) essentially stuck it to the corporate reporting community when it published its proposed rule that would force the *Fortune* 500 to start filing certain data with the SEC using data tags in eXtensible Business Reporting Language (XBRL) for fiscal periods ending on or after December 15, 2008. The remaining companies using U.S. GAAP would provide this disclosure over the following two years. In making the proposal, the SEC rolled over groups such as FEI's Committee on Corporate Reporting (CCR), which had written a letter pleading with the SEC to wait until certain conditions were met before moving whole hog into XBRL. In its April 4 letter, the CCR said, for example, that the SEC should more thoroughly test the new XBRL taxonomies—issued by XBRL-US, Inc. on April 28—before implementing any requirement. Moreover, the letter declared, "As preparers we have learned that there are no improvements at this time in our internal processes as a result of creating and providing tagged information and that preparers do in fact experience increased costs and efforts as a result."

Taylor Hawes, controller of Finance Operations at Microsoft and chair of the FEI Committee on Finance and Information Technology, told *Strategic Finance*, "The SEC proposed ruling is an appropriate first step in driving adoption of XBRL as a filing method." He had previously worried about "policy" issues around adoption. He added, "With the recent completion of the XBRL-US GAAP taxonomy, I believe some of the policy issues have been addressed. However, it will remain to be seen once a critical mass of companies begin filing and tagging their filings." The SEC published a proposed rule, so changes in details could be made by the time the rule is made final.

Corporate Reporting on Foreign Resource Extraction

Rep. Barney Frank (D.-Mass.), chairman of the House Financial Services Committee, has introduced the Extractive Industries Transparency Disclosure Act (H.R. 6066). The bill would require U.S. companies to include in their financial reports the details on natural resources they extracted from developing countries. If it were anyone else, some would wonder whether the sponsor really was serious. But Frank, who also rammed the advisory "Say on Pay" bill through the House (though that legislation has stopped short in the Senate), is as serious as can be. "In too many countries, the discovery of valuable natural resources has led to more harm than good. This legislation is an important step towards preventing this situation from either continuing or occurring in the first place," Frank says. "The principle that the people of a country

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[BOOKS]

Insights for Effective Scorecard Use

Scorecard systems have become a popular management tool to communicate changes in strategy, align business units with the changes, and ultimately help align employee behavior with the corporate strategy. In *Scorecard Best Practices: Design, Implementation, and Evaluation*, authors Raef Lawson (IMA's research director and Professor-in-Residence), Toby Hatch, and Denis Desroches present a timely collection of best practice research on performance measurement and scorecards. Their book includes criteria for best practices, real-world case studies, and a best practice checklist that can be used to develop implementation approaches and plans to help companies achieve organizational alignment and reap significant benefits.

Throughout the book, the terms "scorecard" and "balanced scorecard" are used interchangeably, most commonly for operational control and strategy management. As an operational control tool, the scorecard's focus is on key performance indicators (KPIs) for control and measuring progress toward organizational targets or benchmarks. As a strategic management tool, its emphasis is placed on setting desired outcomes and targets and encouraging managers to find ways to achieve organizational strategies.

Scorecard Best Practices is based on over five years of research between 2002-2006 that focused on the North American On-Line Scorecard and the International On-Line Scorecard Studies. Both studies revealed practical insights about scorecards at various phases of implementation as well as global trends and comparative analysis between North American and international companies. More than 530 companies from 50 countries participated in the two studies, which are referred to collectively as the SHAPs (SUNY, Hyperion, and Pepperdine scorecard) study.

The most common reason for implementing a scorecard system is the need to track progress toward achieving organizational goals. The next two most frequent reasons are the need to communicate strategy to everyone and the need to align employee behavior with strategic objectives. The success rate for implementation can be improved by outlining the objectives of the system, a description of the measures, how the measures impact employee performance, and linking compensation to the critical scorecard measurements. Industry differences during implementation can vary widely due to differences in management styles, management practices, organizational structures, and regulatory requirements.

On average, the Best Practices Group of companies from the SHAPs study took about six months to implement their scorecard systems—starting from when the decision to adopt a scorecard system was made to when system reporting began. Most organizations implemented in one year or less, though a small number took more than two years. Neither the number of measures tracked nor the percentage of the measures put on scorecards is directly related to the benefits achieved. In general, the best performance from a scorecard system is obtained by having a good balance of financial and nonfinancial measures along with leading and lagging indicators.

As the techniques and strategies discussed in *Scorecard Best Practices* demonstrate, there isn't a single framework that fits every company. Strategic objectives, goals, initiatives, and measures are defined according to the framework that highlights the fundamentally important aspects of the organization's business model. Common frameworks mentioned in the book include Robert Kaplan and David Norton's balanced scorecard, the Malcolm Baldrige Award criteria, Six Sigma, Stern Stewart's EVA, and Accenture's Value Dynamics.

Included in the book are eight case studies that not only describe the success of a particular organization's scorecard, but also the many traps to avoid. The case studies discuss the scorecard use, implementation, benefits, and best practices, as well as helpful anecdotes. Companies represent manufacturing and service industries and include one government entity (the City of Boston).

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[GOV'T] cont'd from p. 22
ought to know what revenue is being generated by their country's resources shouldn't be a controversial one, and I look forward to speedy passage of this bill."

New Tax Bill "Giveth and Taketh"

The tax bill the House passed on May 21, which is now before the Senate, resurrects the research and development tax credit that expired at the end of last year. It pays for the lost revenue to the Treasury with a couple of whopping tax increases on corporations in one instance and on hedge fund executives and corporate CEOs in another. The House bill (H.R. 6049) extends a number of business tax deductions besides the marquee R&D credit (worth $8.7 billion to companies in 2008), including the "active financing exception," which is of value mostly to manufacturers with overseas operations. It allows them to defer taxes on foreign income until profits are repatriated. The House bill also tosses in about $18.5 billion of new tax credits for good measure, mostly in the alternative energy area.

The tax hit to the Treasury is about $55.5 billion. The bill relies on only two revenue raisers to recoup that tax hit. In the first instance, the bill sets aside an accounting change set to go into effect this year—and delays it until tax years beginning after 2018—that would allow companies to use a liberalized rule for allocating interest expense between U.S. sources and foreign sources for purposes of determining a taxpayer's foreign tax credit limitation. In the second instance, the bill would tax individuals on a current basis if such individuals receive deferred compensation from a tax-indifferent party. Current law—Internal Revenue Code §409A—generally allows executives and other employees to defer paying tax on compensation until the compensation is paid. This provision is based on the Offshore Deferred Compensation Reform Act of 2007 introduced by Sen. John Kerry (D.-Mass.) and Rep. Rahm Emanuel (D.-Ill.) on October 18, 2007. The Bush administration quickly asserted its opposition to both revenue raisers. ■

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Scorecard Best Practices provides a comprehensive overview of best practices developed by both U.S. and international companies. This book is highly recommended for all levels of business and technology managers in both profit and nonprofit firms who are interested in learning the successful scorecard practices of leading organizations and discovering how to make their organization more competitive, profitable, and aligned with its strategic direction.—*Lance A. Thompson, Thompson Management Consulting Services, LLC, lancephx@aol.com*

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guidance in these areas is to foster a common and consistent approach to those aspects of the work of professional accountants in business that aren't already covered by international standards."

The *Project Appraisal* booklet is part of the International Good Practice Guidance on financial and management accounting topics. It explains discounted cash flow and encourages professional accountants in business to promote the use of DCF analysis and net present value (NPV) to evaluate investments. It also gives a general overview of why the topic is important, offers key principles that are widely accepted features of good practice, and contains application guidance. ■