MOORE STEPHENS
NORTH AMERICA, INC.

The Networker

CHAIR'S CORNER

By Andy Armanino, CPA

With everything we have faced the last couple of years — decrease in revenue; client reluctance to commit to value-added work; increased competition resulting from mergers; and fee pressures, why do I feel optimistic?

Because it appears the pendulum is swinging back in the other direction. Private sector hiring is on the rise along with increased spending on capital assets. This reflects more consumer confidence for goods and services and business expansion. To be sure, the figures for the housing industry, increased energy costs and overall job growth do not project the rosiest of pictures, but for each door that remains closed, another one with opportunities behind it opens up.

The other Moore Stephens regions are also experiencing a turnaround.The theme from the MSIL 2010 International Conference, *Challenges to Opportunities,* reflects this. Whether it is pursuing and building niche practices; effectively using social media for business development; or working collaboratively with firms from other countries, it all comes down to seeing that "there's gold in them thar hills." This means we should embrace the opportunities that lay ahead by leveraging our existing relationships and nurturing new ones within both MSNA and MSIL.

This year's spring conference (May 18-20 in Chicago) will offer guidance about leadership, culture, staff retention, disaster recovery planning, and practice growth. The managing partner sessions will be interactive — we hope you bring ideas with you as they relate to enhancing professionalism in firms; managing professional risk; effectively planning for and implementing a firm merger or acquisition; and probably most important, considering how the unique services our firms provide can be transformed into revenue streams.

Finally, remember that every one of our firms face challenges of all types. It is only to your benefit to take advantage of the strength we have in numbers; diverse skills and knowledge; and a long collective history of experiences from which we can draw to help each other.

I look forward to seeing everyone in Chicago.

INSIDE THIS ISSUE

SPRING 2011

The Networker is the official newsletter of Moore Stephens North America, Inc. • www.msnainc.org

Editor: Steven E. Sacks, CPA • ***Associate Editor:*** Jessica L. Levin, CMP

From Mindshare to Market Share: *The Business Impact of Client Advisory Boards*

By Lisa Nirell

My previous article (See *The Networker*, winter 2011) highlighted nine strategies to initiate an effective client advisory board (CAB) program. If you have embarked on the design and recruitment process, what happens next?

A solid meeting framework and follow-up strategy will help sustain your initial efforts. After interviewing 40 B2B companies that actively manage CABs, I discovered ten strategies to keep your program vibrant:

1. ***Allocate ample meeting preparation time.*** Well-established CAB program leaders indicated that it is not unusual for *each* executive sponsor to invest at least 15-20 hours per quarter in preparatory activity. Provide the agenda at least a week in advance to participants, and don't be shy about requesting they complete homework in advance.
2. ***Select locations conducive to creative thinking and collaboration.*** Choose modestly upscale retreat settings versus overstimulating adult playgrounds. The managing partner of a 45-employee management consulting firm in Seattle had chosen Las Vegas for an upcoming advisory board meeting and began to doubt his choice of location.
3. ***Create a collaborative container at every meeting.*** Effective customer board meetings begin with a clear purpose and ground rules. Transplace, a supply chain technology firm based in Dallas, launches every meeting with the mission of *"Providing a forum where Transplace customers can share ideas, discuss solutions and plan activities that achieve global supply chain excellence."* Marnie Ochs-Raleigh, CEO of Evolve Systems, says: "During the CAB, you should not complain about other clients, employees or competitors. Instead, focus on what is going well and what needs to improve. While introducing each person to the group, I explain why they were chosen to participate and provide a 30-second commercial about their skill set and business. In all things, add value and give credit where it is due."
4. ***Balance structure with white space.*** Deb Bradley, senior vice president of Client Solutions at Verisk Health adds: "In the early meetings, we found that we were mainly the 'talking heads' and provided more of a status update. We found that by asking for topics ahead of time, assigning homework, and then scheduling dedicated time on the agenda for open discussion, we increased the value of the meetings. Also, as the client interaction grew, so did the communication outside of council meetings. Clients began using each other as support groups. Issues addressed between meetings were then shared with the group at the next session."
5. ***Engage seasoned external CAB experts.*** According to Luc Vezina, VP of Product Management at Kinaxis, "It really helps to have an outside facilitator. We feel uncomfortable telling a very loud customer to allow time for other members to contribute." Luis Ramos, CEO of The Network Inc., suggests: "A facilitator is seen as a neutral party. This encourages open participation and allows members to feel less pressure from the company concerning their responses." Consider hiring companies such as The Geehan Group and Advisory Board Architects to minimize costly trial and error.
6. ***Create positive forums for interaction.*** Ian Knox, VP of Worldwide Marketing for Daptiv, a privately held technology company based in Seattle, Washington, suggests smaller lunch breakout groups and discussion topics. Daptiv also invites well-known industry analysts as guest speakers. Some B2B organizations have customers who are very comfortable with virtual meetings. Chris Pick, VP of Marketing for Apptio, designed the CAB to help CIOs run IT more like a business. Their audience feels comfortable using web-based collaboration tools.
7. ***Implement the best ideas.*** You want the CAB members to feel heard and valued; respond quickly to their recommendations; and implement the best ones. Every CAB host also shared meeting minutes immediately following the gatherings.

continued >>>

8. ***Maintain strong follow up systems.*** Betty Otter-Nickerson, president of Sage Healthcare in Tampa, Florida, recommends virtual web-based monthly meetings. "The more you can engage customers to give you advice, the better you can be. Regularly scheduled crowdsourcing has helped our tribes and physician groups provide us with the most input on quality care."
9. ***Aim for transformation, not just conversation.*** The key to CAB longevity is engaging your members in different and deeper ways over time. If you are effective at adding more value to *their* business lives during each meeting, you will notice that they start helping you solve really tough issues. CAB members naturally begin to care as much or more about the individuals as they do the companies.
10. ***Conduct meaningful ROI analysis.*** Colin Gounden, the president and chief marketing officer of Integreon, tracks the growth rate of customer advocate growth and innovation that is spawned by the group. John Fuller, Toro's product manager for the Irrigation Golf Business division, tracks both the number of individual product improvement submissions received and attainment of year-to-date product sales goals. By the end of Toro's latest fiscal year, they exceeded product sales goal by 20 percent. Fuller says, "We would have probably met these goals without the Council, but it would have taken significantly more time. Furthermore, our R&D costs would have been higher." Huang Vuong, CEO of Unisfair, measures customer retention and renewals.

Since they launched the Customer Advisory Board in 2009, this technology startup saw retention and renewals for a tier A accounts grow 20 percent year over year.

Doug Mow, senior vice president of marketing from Virtusa, reminds us that assessing ROI extends far beyond the sponsoring company's strategic objectives. "The real value to the participant is the opportunity to be heard." MSNA

*[**Editor's Note:** The MSNA website has links to various materials developed by the AICPA's PCPS division, including information on human capital, succession planning and client advisory boards. For additional information on client advisory boards, click on Client Advisory Boards.]*

About the Author

Lisa Nirell is the Chief Energy Officer of EnergizeGrowth®, located in Bend, Oregon. She helps companies dramatically improve market share and customer mindshare. Lisa has worked with hundreds of B2B entrepreneurs, as well as Wells Fargo Advisors, Microsoft, Oppenheimer Funds, and IBM. Lisa is the author of *EnergizeGrowth® NOW: The Marketing Guide to a Wealthy Company* and a featured speaker for corporate, association and academic forums across nine countries. She can be reached at **lisa@energizegrowth.com**. Interested readers may visit **www.energizegrowth.com** and **http://blog.energizegrowth.com** today to download five free educational resources, exclusive advisory board audio interviews.

MOORE STUFF

MSNA Website Update…

The next generation of the MSNA website is currently underway. The site will have expanded capabilities that will include a more robust skills database; improved event registration; full search engine optimization; Facebook and Twitter; expanded media center and site map. The underlying objective is to enhance member-to-member communications to encourage greater participation. We expect this to be fully functional in the next quarter.

A LITTLE MOORE HUMOR

A young account fresh out of college applied for his first job at an accounting firm. The managing partner asked him what starting salary he was looking for.

"Oh, around $150,000 a year, depending on the benefits package," the kid replied.

The managing partner didn't bat an eye. "We're offering five weeks vacation, 200 percent matches on your 401(k) vested from your start date, paid expenses to overseas conferences every year, all cell phone and home computer expenses paid, and use of a company-owned Mercedes convertible replaced every 20,000 miles."

The graduate sat straight up and exclaimed, "Wow! Are you kidding?"

"Yeah," said the managing partner. "But you started it."

Effective Leadership in the Public Accounting Profession: Unlocking the Mysteries

By Dominic Cingoranelli

Management development/leadership development within the accounting profession continues to be haphazard due to the all too common mindset of many partners. Often characterized by such statements as: "When I started out, no one held my hand, etc.," this mindset leads to more of the same, which results in less-than-stellar development of many people in far too many firms.

How do we know that effective leadership in accounting firms continues to be a challenge? We see it routinely, day-in and day-out, in our work with CPA firms of all sizes, in all regions of the country. Many, if not most, of these firms have been extremely successful and very profitable, as well. So if they've been very successful and profitable, why should they care about this now? As the investment advisors will tell us, "Past performance is not an indicator of future performance." Doing what they've been doing up to this point clearly has worked for them. However, in our opinion and experience, doing what they've been doing with respect to leadership development is a recipe for long-term disappointment, dysfunction and disaster.

Why is Leadership Such a Challenge?

As with any complex situation involving organizations and people within organizations, there can be various causes for any particular effect. In this case, we've seen some common causes in most firms that are struggling with improving their leadership development:

- Firm cultures don't support doing it any differently
- Firm compensation systems don't support doing it any differently
- Firm leaders don't know how to do it any better

Firm Culture

Culture has significant strategic value. It has a pervasive influence on how an organization functions; how it responds to the business environment; organizes its work; deploys and rewards its senior leadership and lower-level employees; and how it structures its day-to-day activities. Culture essentially is the explicit and implicit assumptions about "the way we do things around here." It certainly plays a large part in what is valued at an organization. For some firms whose partners come from large firms, the culture may look like a mini-version of the culture at the big firm from which they came. By this we mean that it may be very performance-oriented, which in and of itself is not a bad thing; but outside of technical training (if technical training indeed is occurring), little effective management development occurs at the new firm. It's not uncommon to find a culture in this type of situation represented by the statement, "I figured it out on my own, and if they're worth a darn, they will, too. If they can't, then maybe they don't belong here."

Firm Compensation Systems

Behavior that gets measured and rewarded will get repeated. Because of the firm culture, some firms simply don't pay owners to develop their people. Rather, owners are recognized for their technical prowess and accomplishments. This isn't all bad either. However if your focus mostly is on making the owners better, where is the incentive for the owners to make their people any better? Compensation systems focused on the owners' achievements rather than on the rest of the firm members' achievements will reinforce a culture that lets people "figure it out on their own."

Leaders Don't Know How to Do It Any Better

The public accounting profession, in this author's experience, has done a poor job of teaching seniors, supervisors, managers and owners how to delegate to others and how to develop others through the process of delegation. Adults will learn by watching what others do, absent any better source of information and training. This means that good practices—which are few and far between in our profession when it comes to delegation and development—will be mirrored, as will bad or marginal practices, which are far more common than the good practices.

continued >>>

As a result, all too often people with supervisory authority use a one-size-fits-all approach to delegation. Some actually may attempt to provide different styles of leadership for people with different levels of ability, but even in these circumstances, the leadership style used often will be inappropriate for the actual situation. This can and will lead to problems with the development of people at all levels in the firm.

How do you know if your leadership style could be improved? Here are some common indicators of poor leadership styles in action:

- Complaints about the person in charge being a micromanager
- Supervised parties feeling overwhelmed with an assignment
- Frustration over inadequate follow-up and support from the leader
- People becoming disengaged and less committed to the work

Situational Leadership®

Besides looking at culture and compensation systems, there are some very practical steps firms of any size can take to ramp up their people's development. The first step is to recognize that what appears to be working well may not work well in the long run. If you don't develop a cadre of leaders who clearly know how to delegate and develop those below them, at some point, the firm will face a leadership crisis. With that crisis comes some serious risk for owners who expect to retire at some predetermined time.

There are any number of management theories, models and practices a firm can use to ramp up its people development. While there are thousands of titles in the business section in a typical bookstore, we have found one model that really works and which we use with our clients. This model is Dr. Paul Hersey's Situational Leadership® which leverages a leader's knowledge of his or her followers' needs to better delegate to them, and in the process, to better develop and grow their own skill sets as well.

In the words of one CPA firm partner who has been through the program, the model it uses is "extremely robust, but at the same time, elegantly simple," which makes it easy for anyone to learn to apply across a broad spectrum of management, delegation and development scenarios. This approach is at the core of any management or leadership development program. Unless you can effectively delegate to and develop others, how can you even begin to develop bench strength in your organization or find ways that free you up to perform at your highest level?

Take the Steps to Do It Right

CPA firm owners should consider the need to take concrete steps to implement training in effective leadership, delegation and development. This means that the compensation system needs to support people's efforts in developing others. Indeed, the culture of the firm must be modified to support the notion of valuing those who develop others. Training alone will not result in a great deal of uptake and transfer back to the workplace if business continues as it always has.

The tone is set at the top, so regardless of what leadership or delegation model you embrace, the actions exhibited by your leadership demonstrate that tone and create your culture. That tone clearly articulates whether your firm values people who can only make themselves better, faster and stronger, or whether it values those more who can also make others better, faster and stronger. We believe that long-term sustainable success in today's market requires the latter, and those firms that are changing the tone at the top to reflect this are in the process of gaining a significant competitive marketplace advantage.

In the next two installments, I will explain the Situational Leadership® model and how firms can use it to improve their leadership and management capabilities. MSNA

About the Author

Dom Cingoranelli, CPA, CMC is Executive Vice President for Consulting with the Succession Institute, LLC, which works with CPA firms to help them grow better, faster and stronger; evaluate business models; and implement organizational change for the long-term success of the firms and their owners. He is also a recent recipient of the Marvin M. Black Award for Excellence in Partnering for his role in facilitation. Dom can be reached at **dom@successioninstitute.com**.

Civility Works… Trust Me!

By Lew Bayer

A recent survey by British sociologist David Halpern revealed that only 34 percent of Americans believe that other people can be trusted. While you may not be surprised by this finding, you'd be foolish not to be concerned, particularly if you are in the services sector — and especially if you work in the accounting profession where trust is paramount to building and retaining a client base.

Certainly accounting firms can't be held responsible for every market crash or global financial issue. But there's no question that general fearfulness about the economy, combined with high-profile scandals related to financial fraud, have caused many people to scrutinize the reputations and standards of their accountants a little more carefully. Accordingly, many firms are looking to incorporate service practices that build trust. Ideally, these strategies have to be easy to implement, and the impact has to be quick and long-lasting. This is where civility comes in.

Being "civil" can be defined as making respectful, other-oriented decisions; speaking and/or choosing actions that enable people to work and live better together. When civility is included among an organization's core values, it manifests itself as respect for differences, courtesy, kindness, empathy, integrity, responsiveness, and other behaviors sometimes categorized as "social" or "soft" skills. Research suggests that it is these outputs of civility that build trust. This means that if accountants can consistently prove themselves to be value-driven, for example, by exhibiting respect and courtesy toward everyone, in every situation, on every occasion, they will more likely be deemed credible and trustworthy. Sounds easy enough, right? The issue is that simply following social protocols, returning calls on time, extending handshakes, offering a proper greeting, sending a birthday card, or participating in mandatory client appreciation activities isn't enough. Civility must be imbedded in all aspects of service delivery as well.

According to Nick Roberts of Empower Your Business, some examples of behaviors by accountants that foster mistrust and illustrate a lack of service standards and civility include:

- Positively discouraging clients from getting their own systems and accounting software so that they can keep the bookkeeping and GST work themselves to maximize their fees.
- When the clients do have their own accounting software, not ensuring that the data on the software is up to date and accurate (e.g., reflecting the opening balances from the annual financial statements) so it can be used for producing some useful management reports.
- Giving their clients financial reports, which suit the accountant but which are of no use to the client.
- Not providing the clients with any help to produce regular monthly or quarterly management reports, which are so important to business survival and success.
- Leaving their clients high and dry with poor systems, which don't talk to each other, or not helping their clients choose good systems in the first place.
- Providing a very poor, impersonal service with very high, unjustified fee levels.
- Using raw recruits with no experience to learn on the job at the client's expense.

Service providers need to wholeheartedly buy into the idea of choosing civility as a core value and practice exhibiting it daily, so that every nonverbal gesture, every word, every action, and every moment spent actively listening, conveys authenticity and civility. And while civility is often its own reward, potentially recapturing the trust of up to 66 percent of a distrustful customer pool has measurable benefits.

Trust me, civility works! MSNA

About the Author

Lew Bayer is the president of Civility Experts Worldwide and the founder and executive director of The Center for Organizational Competence. She is nationally recognized as Canada's leading expert on civility in the workplace. Lew is also a faculty member at Georgetown University and for the American and Canadian Management Centers in New York and Toronto. Interested readers can reach her at **lew@civilityexperts.com**.

Four Tips to Being More Responsive: QuickTip #4

By Paul Burton

*[**Editor's Note:** Beginning with the summer 2010 issue, the author introduced tips designed to make workdays more efficient, workload more manageable, and communications more effective. This is the last of four installments.]*

Responsiveness is different than responding. Responding is an acknowledgement like, "Okay, I'll get right on that." Responsiveness is a substantive communication, such as, "I've reviewed the materials you sent me and I think we should go forward."

We spend much of our day responding to others, but it's when we're truly responsive that we're being productive. Seek ways to improve our communications to make them as responsive as possible. Moreover, eliminating the unnecessary responses—"Okay, I'll get right on that"—will increase the amount of time you can produce responsive communications.

Communicating with Effect

Try any of these four simple suggestions to make you more responsive, instead of just responding more:

1. ***Leverage All Communication Tools Appropriately.*** Technology has increased the number of ways we communicate with each other. Each has its place and can be fine-tuned to increase productivity. Here are some thoughts. Asynchronous communications—e-mail, texts, and tweets—are terrific tools for providing one-way communications, such as an analysis of a topic or delegating a simple assignment. They are NOT good for discussing delicate issues or developing complex ideas. Phones provide a great way to do these higher-order efforts when distance is an issue. Of course, meetings are the very best way to get things done collaboratively, if done appropriately (a noted caution here). Applying each of these tools appropriately demonstrates responsiveness to all those with whom you work.
2. ***One Subject Per E-mail.*** The rest of these suggestions drill down on e-mail since it's the most used, and often misused, communication tool today. A major mistake many of us make is to group subjects together in a single e-mail. This greatly increases the risk of confusion by the recipient, which leads to more unproductive time clearing up that confusion later. Discuss only one subject—no matter how trivial or complex—in each e-mail. They're free! Moreover, when it comes time to file that e-mail, it will be much easier because it will only belong to one subject.
3. ***Leverage Subject Lines.*** The subject line is like the "Re:" line in a letter. It's one of the first things a recipient sees when the e-mail is received. Leverage that first glance by providing detailed information there. What's the e-mail's subject? To which project or matter does it relate? Is there a (clear) deadline involved? These are the items most recipients really want to know when that e-mail hits their Inbox, so make it easy for them. In addition, it'll be easier to find later if the need to refer back to it arises.
4. ***Minimize the Use of Reply All.*** "Reply All" is the most overused button on the toolbar. Consider whether everyone who originally received the e-mail needs to see your reply. If not, just hit Reply and include only those who need your information. This will reduce the overall e-mail going around by a little. And a little bit now aggregates into a lot later.

Doin' Yer Part

Being more responsive is not just more efficient. It also increases the amount of valuable information being passed between people. Consequently, more people are better informed about whatever the subject of the communication is. This a good thing! MSNA

About the Author

Paul Burton is the founder of Vision Mechanix, LLC, a time management and productivity consultancy, located in Las Vegas, Nevada. He works with clients who believe individual performance drives organizational success. As the creator of the QuietSpacing® productivity method, Paul creates more productive working environments via high-content keynote addresses, interactive training seminars and one-on-one coaching sessions. Interested readers may contact Paul at **paul@quietspacing.com** and can also visit **www.quietspacing.com**.

Poke the Box

Can 70-pages really change your life? Maybe not, but it can certainly change your thinking. *Poke the Box* by Seth Godin is designed to inspire initiative. The premise of the book is very simple: *make things happen.* Sometimes we get caught up in the fear of failure, and therefore, we don't try. When we don't try, we don't come up with new and fresh ideas. This book challenges the reader to forget about failure and to push the envelope.

I read the preview version of the book on Amazon and immediately downloaded the rest of it so that I read it via Kindle. It was so good that I couldn't wait. One of the best features of the book is that it can be read quickly, which is important for those of us who lead busy lives and have little time for reading. I read it in about an hour and a half and loved the fact that it was filled with one simple, yet obvious message: Make things happen — or the concept of "Go." Once I finished reading it I immediately started something — a book club for the MSNA Marketing SIG. I realized how easy it is to make things happen. The book served as a reminder that the world is made better by people who DO things, and that I can improve my world by simply taking action.

Why is this book particularly relevant to accounting firms? Those who may think they are searching for innovation, often feel that they are moving in slow motion and need a little boost in the "creativity" effort. This is not just from a marketing perspective; it also pertains to firms looking to change the way they recruit and retain staff; train their professionals; and develop new approaches for firm governance.

Godin's Poke the Box stimulates ideas about how to make things happen, while offering solid examples of people and companies—such as Google—that "poke the box" as habit. As a result of continually trying new approaches or improving existing ones, those companies have failed more than they have succeeded, but have ultimately succeeded because they weren't afraid of failure. Godin assumes that any organization—even an accounting firm—can be like Google in terms of trying new things and experimenting with out-of-the-box ideas.

And he's right. New ideas can happen anywhere in a firm where the culture is open to trying new things and isn't afraid of a little risk. The concept of doing things that have never been done before can apply to any area of the firm—administration, IT, HR and marketing—and to any individual who works there, no matter his or her level. This book reminds the reader that you cannot succeed if you are afraid to fail, and that in order to succeed you must take action.

When the Marketing SIG discussed the book, Dana Botorff from G.T. Reilly, said the book pushed her to get through some of the projects that had been put on the back burner for too long. While the projects had challenges, the book motivated her to work through them and get to the finish line.

Wade Clark, from Carr, Riggs and Ingram, viewed the book's messages through a personal lens, rather than a professional one. The book has inspired him to finish a book that he had been working on for several years.

For both Dana and Wade, it wasn't about starting something new, but completing something important. It was about the end result. It was about making something happen. It was implementing the concept of "Go."

This book was written and designed to be shared with colleagues and discussed in groups, which makes it a perfect fit for the MSNA Marketing SIG's first book club selection. However, it's not just for marketers; it's for anyone who wants to make a difference and is seeking a little inspiration.

The book is part of The Domino Project, an innovative way to publish books that was founded by Seth Godin and powered by Amazon. The Domino Project itself is a great example of how easy it is to make things happen; to just "Go." MSNA

[This review was done by Jessica Levin, CMP, manager of communications and member services. Any questions can be directed to jlevin@msnainc.org.]

They Said It…

"The final test of a leader is that he leaves behind him in other men, the conviction and the will to carry on."

— Walter Lippmann

DiCicco, Gulman & Company's Transaction Advisory Services: Experience Matters

*[**Editor's Note:** Thank you to Kate Ferenczy, marketing manager with DiCicco, Gulman & Company, for this submission.]*

DiCicco, Gulman & Company (DGC) regularly advises clients who are looking to buy, sell or otherwise combine businesses as part of their corporate strategy. As the partner-in-charge of Transaction Advisory Services at DGC, George D. Shaw, CPA, is a veteran in these matters. He draws from over 25 years of experience and more than 200 transactions with a cumulative value north of $1.5 billion. David M. Sullivan, CPA, is a partner in the Commercial Business group who lends his M&A experience to the architectural and engineering industries. Given the amount of time, energy and money riding on each deal, experience is paramount when it comes to providing top-notch transaction advisory services.

Knowing the technical aspects of a deal structure is one thing; having the ability to think on your feet is another. Experience is what gives professionals like Shaw and Sullivan a critical vantage point from which to view a deal and assess how to handle the players. Their insight becomes even more valuable when situations involve certain "unknown" variables. For example, here are some instances where DGC plays a pivotal advisory role:

Identifying Post-Recession Due Diligence Issues

The recession has created some very real business scenarios that potential buyers need to be aware of. An added level of due diligence is required in order to fully understand the impact the economic downturn has had on a business. As a result, the transaction advisors at DGC are now more deliberate in explaining the ramifications of issues related to:

- ***Seasonal or cyclical numbers.*** Quarterly results can be skewed by seasonal or cyclical numbers. Trailing twelve-month results (TTM) are preferred for determining the true value of a business, because it provides a close, real-time look at the company's financials.
- ***Inconsistent sales, revenues and expenses.*** During 2008 and 2009, business owners found creative ways to appear profitable. As such, due diligence should include a review of finances from earlier years to form a baseline of the cost structure required to sustain projected revenues.
- ***Unsustainable working capital.*** Working capital can be affected by many factors, including accounts receivable, accounts payable and inventory levels. After an economic downturn, it may take longer to return to normal levels of working capital, regardless of how well the company is managed.
- ***Overly aggressive add-backs.*** If add-backs as a whole are increasing EBITDA by 10 to 20 percent, they're probably acceptable. If they are increasing EBITDA by 50 percent, something is wrong. All add-backs need to be investigated and documented, but especially bad debt, owner compensation, personal expenses and layoff-related costs.
- ***Sales and use tax liability.*** State and federal governments are auditing aggressively. Payment of sales and use taxes is becoming a big issue. These are taxes on revenues, so they are payable whether the company is profitable or not. Companies need to get exemption certificates and consider including language in their contract saying that the customer is liable, regardless of whether or not the customer is billed for the tax.

Preparing a Company for Sale

Sellers should be working with transaction advisors well in advance of the target liquidity date to assist in positioning the company for a higher premium. This includes improving customer margins; expanding product lines or services; improving working capital efficiency; and scaling up the enterprise to increase longer term EBITDA. DGC advises clients to start planning two to three years in advance. When every $1 million increase in EBITDA could potentially result in a $6 million increase in the purchase price, clients find it is worth the time and effort in the end.

Navigating Cross-Border Transactions

Few business ventures require a client to put its complete trust in its advisors when doing business in another country. Shaw and Sullivan have both worked with clients

continued >>>

continued from page 9

expanding into the international marketplace, as well as foreign companies making U.S. acquisitions. Aside from the actual transaction, clients often need additional assistance in:

- Selecting the appropriate corporate structure
- Establishing foreign accounts
- Transfer pricing for products and services
- Repatriating earnings
- Exporting tax benefits

Feel free to call on our Transaction Advisory Services team. You can also visit www.dgccpa.com to learn more. MSNA

About the Transaction Advisory Services Team

George D. Shaw, CPA is the partner-in-charge of Transaction Advisory Services. He has over 25 years of experience providing financial due diligence, mergers and acquisitions tax structuring, buy/sell transaction support and post acquisition integration services. George can be reached at 781-937-5125 or **gshaw@dgccpa.com**.

David M. Sullivan, Jr., CPA is a partner in the Commercial Business group. He also heads up the A&E niche. Dave has over 22 years of experience advising on merger and acquisition transactions, due diligence services, internal controls and systems, placement of debt and equity financing, and evaluation of new business opportunities. Dave can be reached at 781-937-5351 or **dsullivan@dgccpa.com**.

MOORE MISCELLANEOUS STUFF

Spur innovative ideas with unorthodox techniques. If you haven't heard any good ideas from your employees lately, it could be that you're not asking for them. There are different ways to solicit innovative ideas. Here are some creative approaches:

- **Look for bad ideas.** Hold a "dump the ideas" meeting or luncheon. The topic: "What should we stop doing so we have more time and energy for innovation?"
- **Designate a "blue sky day."** Ask your team members to build a model or make some kind of graphic representation of their wildest business-related ideas. For one day, display them in hallways or your breakroom. Include sticky notepaper for people to share their thoughts and comments on each other's ideas.
- **Hold a gift exchange of ideas.** Have people write down their trickiest problem and drop them all in a hat. Then have everyone pick a problem from the hat and try to solve it. Like a holiday grab bag, this can encourage people from different areas to get together and learn something about each other's problems — and their hidden skills.
- **Form a dream team.** Select a small group of people to meet once a week. Their job: to generate, share and discuss ideas for innovation. Have them meet on specific subjects to keep them focused.
- **Hold a story hour.** Ask everyone on your team to tell about a time when he or she solved a problem or helped develop an innovative idea. Try to identify the skills and principles every one used so you can work on enhancing them on your own team.
- **Post topics and questions.** In every room, hang a poster-size piece of paper with a problem or question at the top. Provide markers so people can write down their ideas on that particular topic.
- **Take a field trip.** Go to a museum, playground, zoo, theme park, or someplace like that. Ask everyone to come up with three business-related ideas inspired by the outing.

SHARING MOORE SUCCESS

One of the most effective ways to see that Moore Stephens is operating as envisioned—both domestically and internationally—is to hear about firm-to-firm success stories. These would include collaboration on a multi-national client; partially outsourced work; inter-firm training on a specific service; and engagement-winning proposal efforts. The sharing of the stories will enable the Board and MSNA and MSIL headquarters to determine how effectively relationship-building and referral generation is functioning. A brief summary is all that is required: the firms involved; the nature of the service or collaboration; and the results of the process. Sharing this information helps establish a track record that can be leveraged multiple ways.

AIPCA Omnibus Ethics Proposal

By Catherine Allen

On February 28, 2011, the AICPA's PEEC issued an Omnibus Ethics Proposal that addresses the following issues:

Affiliates of Attest Clients. The proposed interpretation provides guidance on when and how members should apply the independence rules to interests and relationships a member or a firm has with entities that are affiliated with a *financial statement attest client.* This proposed new term includes only financial statement audits, reviews, and compilations if the report does not disclose that the firm lacks independence. The proposal would require members to extend the independence rules to affiliates of a financial statement attest client unless one of the following four exceptions was met.

1. Loans to/from an individual associated with an affiliate
2. Nonattest services provided to an affiliate that do not threaten independence with respect to the client
3. A covered member's subsequent employment with an affiliate
4. Employment of a covered member's close or immediate family by an affiliate.

Employment with Client Educational Institution. The proposed interpretation would allow a partner or professional employee of a CPA firm to serve as adjunct faculty of a college or university ("school") that is an attest client if several criteria are met:

(i) position is part-time and non-tenured;
(ii) partner/professional does not assume any management responsibilities or set policies for the school and is not in a "key position" (ET§92.17); and
(iii) partner/professional does not participate on the school's attest engagement team and cannot influence that engagement.

Confidential Client Information. The re-exposed revision defines this term and clarifies a member's obligations when he or she provides confidential client information to another person—without disclosing the name of the client—who uses that information for benchmarking, research, or similar purposes.

Group Audits. The proposed revision to the "Applicability" section of the Code mirrors the PEEC's August 2010 non-enforcement policy, whereby the Committee agreed to not take enforcement action against a member who is:

- Part of a U.S. group engagement team and a foreign component auditor has not complied with the AICPA Code, but has complied with the IFAC's International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). (Members of the U.S. team must comply with the AICPA Code.)
- Part of a U.S. network firm and a foreign firm within that network that is located outside the U.S. and has not complied with the AICPA Code but has complied with the IESBA Code.

Public Interest Entity. The proposal clarifies which entities should be considered Public Interest Entities (PIEs) for purposes of determining the nature and extent of safeguards needed to reduce or eliminate threats to independence when using the Conceptual Framework. Under the proposed definition, a PIE includes: (i) all listed entities (anywhere in the world); and (ii) other entities whose audits are conducted in compliance with the same independence requirements that apply to the audit of listed entities, i.e. companies whose shares, stocks, or debt are quoted or listed on a recognized stock exchange or similar body.

Nonattest Services Performed for Attest Clients. The proposal clarifies the standard with respect to bookkeeping services and the performance of "internal control" type services and provides certain other enhancements. One revision would require members to evaluate the significance of the "management participation" threat that may arise when a member performs separate evaluations of the effectiveness of a client's internal control system. That is, the auditor would determine whether the scope and frequency of the reviews equates to ongoing monitoring of controls (a management responsibility), the performance of which would impair independence, unless the member was able to apply appropriate safeguards in accordance with the Conceptual Framework.

About the Author

Catherine Allen, CPA, is the founder and owner of New York-based Audit Conduct, LLC. She provides compliance support and advisory services to CPA and other professional firms, including training and communications; quality control advice; practice tools; litigation support; and expert witness support. Interested readers may contact Catherine at **callen@auditconduct.com** and can visit **www.auditconduct.com** for additional information about ethics standards-setting.

Modified Independence Rules for Certain Attest Engagements. The proposal broadens the scope of the interpretation by allowing less stringent independence standards in certain instances for engagements performed under the Statements on Standards for Attestation Engagements (SSAEs). Another proposed change is that independence restrictions would apply only to the responsible party. If the entity engaging the member is a different entity, independence requirements would not extend to that entity, although members should consider whether any potential conflicts of interest exist. Further, if a member conforms to the general requirements of Interpretation 101-3 on nonattest services and the member's normally prohibited services do not relate to the subject matter of the SSAE engagement, independence would not be impaired.

Comments on these proposals are due May 31, 2011.