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Practice Opportunity: Moving Clients From Compliance to Business Ethics Programs
Joan Elise Dubinsky, a consultant on business ethics and compliance, believes that ethics is a management tool. If managers are trained to think about the ethical dimensions of their jobs, the organization experiences increased employee retention, higher morale, and improved decision making.

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When Corporate Compliance Programs Are Not Enough
Federal Prosecution of Corporations, recently published by the U.S. Department of Justice, discusses the factors federal prosecutors consider in deciding whether to bring charges or negotiate plea bargains with corporations.

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Family, Nonfamily Managers Disagree on Core Values
Family and nonfamily managers in the same family business disagreed in their perceptions of the business’s predominant cultural values 70% of the time, according to a study of 198 key family and nonfamily managers in 22 businesses.

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Differentiation: The Key to Sustaining a Competitive Edge
The competitiveness of CPA and consulting firms are being challenged by a variety of forces. In response to the challenges, many firms have pursued differentiation. Their success so far—and going forward—depends on several variables, according to a recent survey of professional service firms by Concord, Massachusetts-based Expertise Marketing.

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Tackling Valuation Issues in the Context of Divorce
By Nancy Fannon, CPA/ABV, CBA, BVAL

With divorce rates up more than 50% nationally, divorce valuation work is fertile ground for business valuers. A significant number of divorces involve the ownership of a family business. Consider further that often at least two valuations are needed for each divorce (one for the husband, one for the wife—and sometimes even a third for the judge!), so it is easy to predict that divorce valuation surely will sustain the CPA profession for many years to come.

Valuation for the purpose of divorce can be one of the most interesting—but surely also one of the most challenging—areas of valuation practice. For many CPAs, a divorce-related engagement is also their entrée into the litigation and business valuation environment, providing an excellent forum for "getting their feet wet."

Despite divorce valuation’s being, for many CPAs, the point of entry into the business valuation field, it is really quite complex and extremely sensitive to state and case law in the jurisdiction in which the divorce complaint is filed.

Divorce Valuation Differences
Several issues make divorce valuation "different" from other valuation engagements. Some would argue that valuation for divorce should be no different from any other fair market value appraisal. The fact is, however, it is different, simply because of the law or legal precedent set in the state. Although practitioners can argue, or at least have an enlightening discussion, about how divorce valuation should be done, in many states, such a discussion may be pointless because of precedents set in case law.

Still, however, the door is wide open in many states because there is no consistent legal precedent. In such cases, the CPA can set the rules by presenting a point of view more effectively than the opposing expert. In these states, CPAs need to take particular care to be aware of the issues the courts have grappled with not only in their own states, but also in other states. In this way, they can make informed decisions that enable them to state their opinions clearly and convincingly for the court or other trier of fact.

Some of the issues the valuer needs to grapple with include the definition of marital property, the standards of community property and equitable distribution, the valuation date, the standard of value, the effect of buy-sell agreements, adjustments to financial statements, valuation methodologies, practice and personal goodwill, and covenants not to compete.
Differentiation: The Key to Sustaining a Competitive Edge

A variety of forces have dulled the competitive edge many CPA and consulting firms have enjoyed in the past. These firms are being challenged by the commoditization of services and the entry of new players into the arena, along with clients seeking new services to help cope with ever-changing markets. “We are moving from a seller-driven market to a buyer-driven market,” said Joe Forehand, managing partner and CEO of Andersen Consulting, as he introduced his company’s strategic plan on April 19, 2000.

Most firms—large, mid-size, or small—are well aware of these challenges. Many are responding to them, and some have succeeded in regaining a competitive edge. But it hasn’t been easy.

In response to the challenges, many firms have pursued differentiation. Their success so far—and going forward—depends on several variables, according to the findings of a recent survey of professional service firms by Concord, Massachusetts-based Expertise Marketing.

The report, Differentiation: How Are Professional Service Firms Using It to Compete? presents detailed findings related to the four industries with the largest number of survey respondents: architecture/engineering/construction (A/E/C), accounting, consulting, and general contractors. Accounting firms most frequently used the following differentiation approaches last year:

- Hiring specialized individuals (67%).
- Improving or evolving current services (61%).
- Increasing prices (60%).
- Adding new services that blend into the services of another industry (for example, providing litigation services) (58%).
- Reorganizing practices or lines of business (53%).

(See the chart on page 11 for a list of the differentiation approaches used last year and the percentage of respondents selecting each.)

Consulting firms also most frequently chose the approaches of improving or evolving their current services (56%) and reorganizing practices or lines of business (51%). Their other most frequently chosen approaches included:

- Repackaging current services (59%).
- Developing a new positioning (51%).
- Using new techniques and tools to “deliver” services (for example, printed reports delivered via CD-ROM) (43%).

The approaches expected to be used in the future differ somewhat from those used last year.

What Worked

The report does not detail the success of accounting and consulting firms in using these differentiation approaches. Instead, the report presents all survey respondents’ estimates of the success of the differentiation approaches used. Survey respondents rated only one of the approaches most frequently used by accounting firms (adding new services that blend into the services of another industry) as a “high success” approach. For consulting firms, two of their most frequently used approaches were rated as “high success” approaches: repackaging current services and developing a new positioning.

Commenting on differentiation choices made by survey participants, the report concluded: “The actual impact of any differentiation approach depends on the situation. . . . The greatest market impact will be obtained from differentiation approaches that create a sustainable uniqueness that has true value for the client.” The objective most often cited by respondents in choosing differentiation approaches was “to look distinct against competitors.” The approaches most frequently selected suggest they are making “substantial” changes that will effect “real changes,” the report concluded.

Going Forward

The differentiation approaches used by accounting and consulting firms require other approaches to follow up and sustain the effort. Accounting firms indicated most frequently that they would continue to hire specialized individuals (56%), increase their training of professionals to follow their proprietary methodologies (56%), and continue to improve or evolve current services (55%). Slightly more firms plan to enter into joint ventures, alliances, or referral networks with firms that extend their services (up to 51% from 49%). Significantly more will use new techniques and tools to “deliver” services (49%). The latter approach and other “image burnishing” approaches, the report concluded, are logical follow-ups of more effective approaches used in the last year and can be “highly effective” for firms “with a sustainable, advantageous uniqueness.” However, “In the absence of a sustainable uniqueness, their effectiveness may be questionable” because service delivery techniques are easily copied.

Consulting firms also plan to increase joint ventures, alliances, or referral networks with firms that extend their services (up to 53% from 37%). Improving or evolving services will continue to be very important; 56% plan to use this differentiation approach in the future. Somewhat increased will be hiring of specialized individuals (39%) and training professionals in their proprietary methodologies (43%). Fewer firms will reorganize practices or lines of business (31%).

continued on page 12
Use of Differentiation Approaches in the Past Year
(Accounting and Consulting Firms and All Industries)

<table>
<thead>
<tr>
<th>Differentiation Approaches</th>
<th>Accounting</th>
<th>Consulting</th>
<th>All Industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve or evolve current services</td>
<td>61%</td>
<td>56%</td>
<td>68%</td>
</tr>
<tr>
<td>Reorganize practices or lines of business</td>
<td>53%</td>
<td>51%</td>
<td>55%</td>
</tr>
<tr>
<td>Enter into joint ventures, alliances, or referral networks with firms that extend our services</td>
<td>49%</td>
<td>37%</td>
<td>53%</td>
</tr>
<tr>
<td>Hire specialized individuals.</td>
<td>67%</td>
<td>37%</td>
<td>53%</td>
</tr>
<tr>
<td>Add new variables to our prices</td>
<td>44%</td>
<td>41%</td>
<td>46%</td>
</tr>
<tr>
<td>Repackage current services.</td>
<td>39%</td>
<td>59%</td>
<td>43%</td>
</tr>
<tr>
<td>Use new techniques and tools to &quot;deliver&quot; our services.</td>
<td>33%</td>
<td>43%</td>
<td>42%</td>
</tr>
<tr>
<td>Train professionals to follow our proprietary methodologies.</td>
<td>40%</td>
<td>39%</td>
<td>40%</td>
</tr>
<tr>
<td>Develop a new positioning.</td>
<td>42%</td>
<td>51%</td>
<td>40%</td>
</tr>
<tr>
<td>Add new services that are within our industry.</td>
<td>45%</td>
<td>35%</td>
<td>40%</td>
</tr>
<tr>
<td>Create a new visual identity.</td>
<td>42%</td>
<td>37%</td>
<td>36%</td>
</tr>
<tr>
<td>Communicate our firm's positioning through a new motto or tag line.</td>
<td>42%</td>
<td>33%</td>
<td>34%</td>
</tr>
<tr>
<td>Implement a formal relationship management program to strengthen our bonds with current clients.</td>
<td>23%</td>
<td>29%</td>
<td>29%</td>
</tr>
<tr>
<td>Embark on a public relations campaign.</td>
<td>23%</td>
<td>25%</td>
<td>29%</td>
</tr>
<tr>
<td>Increase our prices</td>
<td>60%</td>
<td>29%</td>
<td>29%</td>
</tr>
<tr>
<td>Increase the speed of our service delivery.</td>
<td>23%</td>
<td>16%</td>
<td>27%</td>
</tr>
<tr>
<td>Create new divisions of subsidiary companies.</td>
<td>53%</td>
<td>8%</td>
<td>265</td>
</tr>
<tr>
<td>Embark on an advertising campaign.</td>
<td>28%</td>
<td>20%</td>
<td>22%</td>
</tr>
<tr>
<td>Add new services that blend into the services of another industry.</td>
<td>58%</td>
<td>6%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Source: Expertise Marketing, Concord, Massachusetts (www.expertisemarketing.com)
Solving Problems

Asked what was the single most difficult problem encountered in implementing differentiation plans in the past year, 65% of respondents indicated three problems:

- Required more time and effort to implement than expected (29%).
- Never got fully integrated throughout the organization (21%).
- Was more difficult to communicate to outside publics than thought (15%).

To implement a differentiation approach, it “must be credible and powerful to clients,” the report concluded. Incomplete or incorrect assumptions or information will cause roadblocks. “The very nature of a professional services firm—with people as the ‘product’—requires a rigorous internal consensus-building and communication effort.”

In implementing differentiation, survey respondents advised patience, persistence, and realism. A plan with a timetable is needed and progress must be monitored. All elements of the organization must buy into the plan. Resources must be allocated with the expectation that more money probably will be needed.

Coping With Change


Hubert D. Glover, CPA

Fortunately, we all survived the Y2K and new millennium hysteria and can settle down into the twenty-first century. But settling is just what we, as accounting professionals, cannot afford to do today, when change is at the speed of light.

Phenomenal economic events and changes have occurred in the last few months, not to mention the last decade. Consider, for example, the planned merger of America Online (AOL) and Time Warner. The Wall Street Journal noted that AOL is not old enough to buy beer but has the financial strength to acquire one of the nation’s largest media and entertainment enterprises.

In two years, we have gone from a record-setting merger of $63 billion when NationsBank acquired Bank America to the $164 billion AOL–Time Warner merger. In fewer than eight years, the bull market raised the Dow Jones industrial average (DJIA) from 3,000 to beyond 11,000. Furthermore, during the twentieth century, the DJIA member companies changed completely except for General Electric. Most of the industrials have been replaced by financial, technology, and retail services companies, symbolizing the nation’s shift from an industrial economy to an information economy.

At a recent meeting of The Group of 100, an advisory body established to assist the AICPA with strategic decisions for 2000 and beyond, one speaker observed this phenomenon regarding market value and asset value: The world’s largest automaker, General Motors, has an asset value of more than $260 billion and market capitalization of less than $45 billion while Microsoft has market capitalization of more than $400 billion and less than $20 billion in assets. Clearly, our historical costing model must change to embrace this economic reality of market value. The AOL–Time Warner merger validates the tangible worth of such market value.

The CPA’s Changing World

Within the accounting profession, change has been monumental. In 1996, for the first time consulting revenues exceeded auditing revenues for the then-Big Six and most of the top 100 accounting firms. During the same year, the Top 100 firms included consolidators American Express and H&R Block. Since 1996, the Big Six has become the Big Five, and, more important, they no longer refer to themselves as accounting firms but as consulting or professional services firms. In this century, as we seek to redefine our role as business advisers, the key issues that will continue to prevail are non-CPA ownership, technology, and maintaining value and relevance.

The AICPA has been effective in anticipating change proactively through efforts such as the CPA Vision Project, which produced the strategic focus for the twenty-first century. In addition, the AICPA took the lead in promoting assurance services in response to the demand for nonattestation services. These initiatives among others indicate that the AICPA has already embraced change and is providing guidance for the membership to respond effectively to the changes in the profession and the overall business community.

Like it or not, our world is changing and as CPAs we must embrace change and lead our clients, organizations, students, and the business world successfully through each stage. This is where our value exists, and this is how we will be measured.

The Joy of Change

Adapting to the changes required of us often is difficult. Fortunately, a friendly, humorous, and