

How Standards Bodies Have Benefited Operations & Finance

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**THE
BOARDROOM PROJECT**

Envy of the World

BECAUSE

■ High standards = Investor trust

■ Builds confidence among Clients & Governments

MTG THE FIN'L RPTG, CORP GOVERNANCE, & DISCLOSURE REQ'NTS OF NYSE & NASDAQ

■ Higher valuation (14% cross listed) ↑ 33% than those listed elsewhere

■ Globalization ISO9000, EXCHANGE OF PRODUCTS & SERVICES THAT CAN BE INTEGRATED INTO FINAL PRODUCT/SERV

not just internet

Standards Boards

■ Quality

↳ Proactive to improving operations

■ Accounting

(aggressive professionals)

↳ Reactive to business failures

which one will marketing be?

Quality Background

- 1800's U.K. inspections *quality inspections for Industrial Revolution*

- World War II *quality critical component*

Ex *need ammo made in one place to work with weapons in another*

- 1970's TQM *Deming focused on improving organizational processes*

*US ≠
Japan welcomed*

*TQM
14 PTS
e.g. do it right 1st time
85/15 rule etc*

Evolution of Quality Standards

- 1947 ISO founded in Geneva
INT'L STDS ORGAN
STDS TO USE TO DOC. PRACTICES
- 1968 NATO USED STDS
- 1973 British Defense USED STDS
- 1979 BS5750
90 COUNTRIES IN THE 1980'S USED
TO BE AN OUTSOURCED
SUPPLIER
Basis for
- 1987 ISO 9000 150+ COUNTRIES } globalization
big time

Globalization

- Facilitate international exchange
- Confidence that products & services would integrate

→ LOWER COSTS
↑ OUTSOURCING
(POM)
prod's assmb'd anywhere
go directly to cust

ISO 9001

NOT STATIC

- Continuously looks at organization processes to improve and keep current. → ISO 14000 lowest environ'l impacts

- Certifies consistent business processes are being applied. } across all domains

↳ Started in mfg
now highest # of cert's/yr come
from serv industry (33+%)

Laissez-Faire Accounting

↳ do your own interpretation of acct's

- The Bankruptcy Act of 1831 in the U.K.
↳ had acct's appointed by gov't
- Scandals of the 1920's & corp failures

For Ex

- British Steamship Company

- New Deal Takeover

↳ FDR too busy
only reason acct's escaped lots of gov't control: EST. Sec. Act of 1933/1934

Shook public

world giant went bankrupt
↓
courts: not really profitable as reported

↓
acctg interpr. not real

Everyone Else Does It

SEC

Purpose: To Regain Public Trust

① ■ Regulate financial markets

② ■ Financial Accounting **STDS**

(PW: OSCARS)
limited to
CPA'S DEF/STD'S

■ Created CAP to regain public trust
HAD AICPA (THE AM INST. OF CPA'S) CREATE
COMM ON ACCTG PROC (1936-1959)

■ "GAAP" **1ST TIME USED**
"Generally Accepted Accty Principles" } However

■ APB (1959-1973) ACCTG PRINC. BOD

↳ CREATED BECAUSE CAP NOT KEEPING STDS IN PACE
WITH NEED OF CHG'G ECONOMY

FASB

ACCTS GD AT RE-CREATING THEMSELVES?

Replaced APB because they avoided control issues or gray issues

- 1973 Desperate move to prevent takeover of accounting standards by U.S. Government

(Moss and Metcalf Bills)

- ① ■ Independent of AICPA

- ② ■ Generate rules --

Establish standards of accounting & reporting

TO TRY TO MIN. INTERPRETATION

FASB ITS JOB

I

■ Keeps standards current

WITH CHG'S IN BUS & ECONOMY

II

■ Improve understanding of financials

↳ & educ & guidance

III

■ Issues: how deal w/ them

1. Exposure drafts

- get input from public
stds, dates, impl., transition needs

2. Final FASB Statements

- then issue final

Statements of concepts

as foundation for solving bus probl's

ALSO FIN →

70's 45x 191 140x NOW 500x

IV

■ Independent of business & government

STAY →

70% CEO'S TAKE HOME

1990's STK OPTION - CEO/EXEC - NO P&L, FTNOTE
CONGRESS ≠ REVOKE FASB AUTH.
FASB WITHDREW PROPOSAL

SOX

AS A RESULT: ACCTG & MGMT CREATIVITY & INTERP. OF STANDARDS

- Recent scandals

- Sarbanes-Oxley Act of 2002

- Section 404

- Unconstitutional ?

not compet
hurt sm co's
overseas stk
gone priv.

\$1 Trillion
LOST TO Economy

s/h/b doing → took shortcuts

HAD TO RE-ACT TO AGAIN RESTORE PUBLIC CONFID

GAVE LOTS OF POWER TO PCAOB (Public Co. Acctg Oversight Bod)

exec power MORE THAN ANY OTHER NOT elected officials

FASB 2006

DECEMBER

(looking for ptrns = op's)

LOOKING TO ENSURE QUALITY IN

MASTB?

■ Management & Operational reports

↳ IMA (INST. OF MGMT ACCTS) WK'G w/
ASQ (AM SOCIETY FOR QUALITY) → MALCOLM BALDRIGE 1991

■ Looking at basis for decision making

↳ high \$ AMTS

↳ (ALTS, DOC, ACCOUNTABLE)
↳ HIGHER PRIORITY
↳ BOB/STKHR'S

■ Latest PCAOB

prioritizes risk assessment vs. coverage

■ Requires auditors to understand work of others

→ LOOK AT MGMT RPTS

YOU BETTER BE READY → SOX IS COMING TO YOU!

considered costly not effective

Benefits of SOX compliance

- Investment opportunity
- Competitive advantage

Creates value for CO's who "walk the talk"
ethics = integrity = standards

- Common language across all functions & organizations *due diligence when looking across domains*

Benefits of Standards

- Investor confidence

better transparency,
stability &
competence in co.

higher valuations ↓
↑ goodwill

- Cost of capital ↓ lower cost

- Financing easier ability to obtain

- Mergers & Acquisitions

determines who "leads"

greater flexibility

Summary

■ **Standards = Healthy Company**



■ **All functions are stewards of
creating value to stakeholders**

Thank you

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