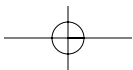
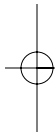
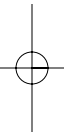


PART
THREE

Better Selling Helps Your Clients

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Opportunity in the New Rules

In crisis there is danger and opportunity.

—Chinese proverb

You’ve heard people call the tax code “the lawyers’ and accountants’ full employment act.” And of course there’s some truth in that cynical analysis. Each time there are new tax, auditing, or reporting requirements, there is more opportunity for us. The Sarbanes-Oxley Act is the latest example of new regulations that create new demands for CPA services. To handle this and other new regulations well, you need to see them in the overall context of your role as a most trusted business advisor.

For those of you working for public companies, the Sarbanes-Oxley Act is the latest example of new regulations that create new demands for internal controls and financial reporting. Many of the early reactions to Sarbanes-Oxley were negative and extreme. I’ll take this Act as an example of the general case of new (and old) laws and regulations and show how it applies to your sales and later ongoing client relationships.

Fear and Loathing of Sarbanes-Oxley

A great example of overreaction to Sarbanes-Oxley is provided by a report written by a lawyer, Jack Myers, in late 2003. He opens with statements about how regulatory issues have replaced management focus on management, sales, innovation, and customer loyalty. For instance, “demands for Sarbanes-Oxley compliance have replaced traditional corporate goals of long-term revenue growth and shareholder value.” Myers goes on to say that “executives are forced to concentrate on daily, *even hourly*, compliance issues” (italics added).

Myers seems to be prone to exaggeration and alarmism. He summarizes the high-tech bubble years before the crash of 2000 as lacking long-term

PORTRAIT OF A SALES LEADER

TONY ZECCA, partner in charge of consulting at J.H. Cohn in New York, has supervised a large amount of audit, audit-related, and consulting work for public companies in the last three years. He is intimately familiar with the opportunities and the pitfalls of the new SEC and Sarbanes-Oxley rules.

Tom Marino, managing partner of J.H. Cohn, says, "Tony has probably attracted more business to our firm, since the new rules have been adopted, than any one else. He has a unique ability to help clients play by the rules while not becoming adversarial with his clients."

Tony learned to keep clients happy and keep them from breaking the rules at a very early age. He worked with his father in the family business when he was young and learned you could do both. Growing up in a large first-generation American family, Tony was one of 13 children. Tony learned firsthand the value of a dedicated work ethic.

J.H. Cohn is the largest regional firm in the northeastern part of the United States. Its clientele is owner-managed companies, but it has a large public practice as well. Zecca believes that the demand for high-level accounting services will continue to grow, as governments, not-for-profit organizations, and large private companies deal with the inherent risks in allowing a CEO or CFO to be responsible for hiring and managing the audit firm.

Tony joined the audit staff of J.H. Cohn right out of Fairleigh Dickinson University. He has a keen interest in computer technology and has found that his computer and audit skills have been a powerful resource for him during his career.

investment, when "a pervasive contempt that marks the relationship between corporations and customers began to destroy the fabric of society," including intellectual property rights.

Applying this alarmism to Sarbanes-Oxley, Myers goes on to say: "It is time for regulators to free companies from those binds and restriction that have been imposed as an overreaction to the corporate malfeasance on Enron, WorldCom, Arthur Anderson . . . [etc.]. Sarbanes-Oxley was intended to cleanse corporate America, not to drag it down. . . . Corporate strategies are being determined by regulatory compliance rather than shareholder and consumer interests."

It's true that regulations add costs to corporations and may sometimes change business strategy to exploit the easiest available economic options. However, Sarbanes-Oxley simply reinforces regulations that were already in place and try to create an informed marketplace for all participants. "It appears that the regulatory agencies and the public are demanding lower scopes and more detailed audit procedures than what was expected in the pre-Enron era," says Jeff Everly, whom we met in Day 4. It's hardly the end of capitalism as we know it!

New Regulations Are an Old Case

Any new reporting and record-keeping requirements can cause fear and loathing because of the uncertainty they engender. Just as the stock market hates uncertainty, so do public companies. When new regulations create new demands in the corporate community, it is your role to bring solutions and a calming influence. Accountants are trained to point out problems and often forget that their real job is to *handle* and *avoid* problems for clients.

The financial nucleus of Sarbanes-Oxley is better records retention for audits, corporate responsibility, auditor independence, clear financial disclosure, and avoidance of conflict of interests in financial analysts. Public corporations should have been dealing with all these issues for many years. But the negative events that stimulated passage of the Sarbanes-Oxley Act caused more negative reactions in the corporate—and even accounting—communities than new regulations usually do.

The financial scandals of WorldCom and Enron led to passage of the Sarbanes-Oxley Act. Either through outright fraud, auditor malfeasance, or lack of clarity, major transactions slipped by investors and destroyed the integrity of balance sheets and stock market values. But again, the intent of the Sarbanes-Oxley standards is nothing new. Public companies have always been required to report in ways that allow investors to make accurate judgments.

Be a Source of Calm Confidence for Clients

Jeff Everly says, "I think more emphasis is placed on firm integrity and differentiation from the large firms in the proposal process. In addition, the proposal process has moved more from management to the audit committee. These individuals seem more focused on the quality of the product and have a lesser interest in obtaining the absolute lowest fees."

When your clients or prospects are inclined to panic about any new regulations that may affect them, the first thing you need to offer is a sense

of surety and control. Too often accountants spend all their time pointing out problems and not enough time assuring clients and prospects that they know how to take care of things. Even though a number of unknowns exist regarding applying Sarbanes-Oxley in the future, you still can help clients *now*.

“Our firm used to focus almost exclusively on privately owned businesses and their owners with some nonprofit work. Since SOX, we have increasingly focused on public companies. We are positioning our firm to be the second firm that a public company works with. Although we registered with the PCAOB [Public Companies Audit Oversight Board], we do not intend to audit public companies; however, all the other services that used to automatically go to the company’s auditor are now potential services that we can provide. We continue to focus on the middle market as well and have seen significant growth since the Big Four must focus most of their energy on their public company clients, causing them to shed nonpublic clients,” says David Morgan, whom we met in Day 1.

The general intent of the act is to avoid earnings surprises and stock manipulation. Although it is impossible to guarantee complete predictability, the overly negative reactions to the act are also unrealistic. In general, the act requires procedures that are beneficial to any company as well as to investors. For instance, real-time access to company data is valuable to managers; many companies have looked at summary statistics daily to see if sales or expenses were in line. And there already exist software programs that meet the Sarbanes-Oxley requirements.

The Sarbanes-Oxley Act will be phased in through 2005 for smaller companies. The long-range implications of the act may be delayed further until court cases are decided about specific provisions and how they apply. For instance, outside of core financial issues, full disclosure is required of off-balance-sheet transactions or other agreements that may have a material effect on financial statements. Conceptually, this is nothing new. Investors have read footnotes in annual reports for years to dig out these “hidden” factors.

Deborah Bailey Browne, whom we met in Day 2, says, “In New York state, the attorney general Elliott Spitzer has proposed regulations that would be similar to Sarbanes Oxley for nonprofit agencies. One possibility is the rotation of the auditor. Another is not allowing auditors to do any kind of consulting or extended services; they couldn’t even draft clients’ financial statements. It’s going to increase the fees of nonprofits. If I’m bidding and know I’m only going to have it for three years . . . I’m going to bid it a different way. In the past, we started making money in the third year. We

lose the first year. If we know we're not going to keep it past three years, we're going to price it differently. I also think we are learning the job the first year. Just when you get to the point when you can really help the client a lot, really getting some deep insights, you have to rotate off."

For example, when a company acquires another company, or even raw land, there may be "hidden" liabilities. Sarbanes-Oxley simply makes more pointed the requirement to fairly report and account for these potential liabilities. Clearly accountants cannot estimate environmental clean-up liabilities themselves. However, there are experts available to do so, and their analyses can be used in accounting for liabilities. Even if there is uncertainty in such estimates, by complying with ISO 14001 or other accepted standards, your use of these estimates will accrue no liability.

In other words, despite accountants' deep training to never be wrong, the CPA is not always liable for mistakes in financial estimates as long as you made good-faith efforts and did the proper due diligence to make those estimates.

The General Case

Due to the complexity of government regulations, miscalculations of the tax code will always be made. News of the mistakes will create new fears in the minds of your clients and prospects. The Sarbanes-Oxley Act is the latest, but is only one case of many. Whether your clients are public companies or not, your job is to help them deal with the constant flood of financial and tax regulations. "A thin line separates the types of services an auditor can provide to those affected companies. A 'due diligence/quality control' attitude as to governmental rules is a part of the marketing strategy as we direct efforts to such companies. You cannot violate these new rules," says Jim Belew, whom we met in Day 3.

You need more than technical competence regarding new laws that impinge on your clients. Many of your clients and prospects don't care about the details of any regulations. What they want is reassurance that you will take care of details the best way for their situations. Establishing yourself as the most trusted business advisor is as important as your proper handling of the details. Unless clients trust you, they won't let you implement solutions. Thus, the communication that is at the heart of the sales process applies far more broadly than merely convincing people to hire you.

Tony Zecca says, "We are targeting companies that need an internal audit department. Most of the companies are totally unprepared for Sarbanes. They don't have poor internal controls. They have a lot of controlled gaps and have

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not paid attention to proper controls. And so we're getting contracts where they outsource their entire Sarbanes-Oxley compliance program. We will actually function as their internal auditors.

"Sarbanes has a recommended framework. So the risk analysis is the first stage. There is really nothing the company gets that is helpful in pointing out and fixing deficiencies. Basically, what it requires is that the company be well controlled and that those controls be documented. Then management, either through outsourcing it to another firm or through an internal audit, will test controls every time they file 10Qs. So we're going in like that three-and-one-half-million-dollar contract I told you about, two and one-half million of it is just the first year getting them ready for Sarbanes-Oxley compliance so that when the external audits come in they can issue their certified report on the controls. And then the other million dollars is the ongoing internal audit outsource that they're going to give us. It's a nice market because it also creates some annuity work for us."

Once they have their clients, too many accountants focus on the delivery of technically correct paperwork. But what clients need as much is ongoing communication that reassures them that you are on top of the details. Clients generally take your technical competence for granted. Once they've hired you, what they judge you by is how you communicate with them. And it is the establishment of a trusting relationship that causes them to hire you in the first place.

Summary

Will Sarbanes-Oxley come and go like Y2K? Tony Zecca doesn't think so. He says, "Most people are saying that, and that's why I think we are just so much better positioned, 'cause I don't believe that at all and we're not operating that way."

"And I think the firms that are thinking this is a blip are missing the boat. Even some on our management committee said, 'We don't think that you can compete with the Big Four."

"I think we read the market right. I think a lot of people—and I'm using it to our advantage—a lot of people are looking at this like a Y2K thing, it's going to come and go. And so it's affecting their pricing. I don't want to say they're gouging. I don't mean it that way, but their pricing is more—it's higher because they think it is a one-shot deal. I'm going in with a little bit lower pricing because I think that they have to have the ongoing internal audit work and if we do the Sarbanes-Oxley work right in the beginning, they will give us the ongoing internal audit work so it'll be annuity work."

“I also think that other people are going to be affected by Sarbanes. I think that not-for-profits are going to have to comply with Sarbanes-Oxley, 'cause the board members are going to require it. I also think larger private companies who offer financing, like banks, are going to start requiring compliance. I think it's going to become a base factor, so I think the people that are looking at this as a Y2K-type thing are just missing the boat completely.”

There will always be new regulations coming down the pike. Sometimes old laws become newly relevant, like 1031 exchanges. Clients don't care about regulations until they have that particular need. It's up to you to be proactive rather than reactive—to do more than keep up on rule changes. You need to build trust and communication both in the sales process and throughout the relationship. Then you are in a unique position of trust where you can both help clients with the regulations that apply to their situation *and* receive premium fees.