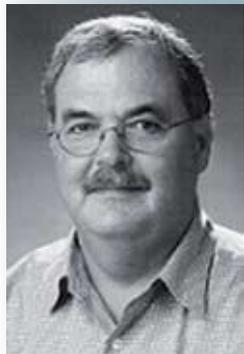


Explore

Life with new SOX

By W. Robert Knechel

On July 30, 2002, the United States Congress passed the most comprehensive reform to U.S. securities laws since the SEC Act of 1934: The Sarbanes-Oxley Act of 2002 (also known as SOX). The new law was in response to perceived systemic failures in corporate governance, financial reporting and auditing as manifested by massive accounting frauds at Enron and WorldCom. The effect on public companies, Boards of Directors, corporate executives and the accounting profession was immediate and far-reaching. Henceforth, executives would be required to certify the accuracy of their financial statements and take responsibility for the quality of their internal systems for generating financial reports, often under the threat of severe legal penalties. Boards were to become more active and independent, especially audit committees. Accountants were to surrender their power to regulate themselves and submit to the authority of a new regulatory organisation, the Public Company Accounting Oversight Board (PCAOB). Probably the most visible of the requirements of SOX was Section 404, which required management to assess and report on the quality of their internal control



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system related to financial reporting, and to have their report certified by the external audit as part of an “integrated audit” of the financial statements.

Many countries have elected not to follow SOX. Canada has specifically rejected the idea of instituting a form of Section 404. Extensive debate by the FEE (Fédération des Experts Comptables Européens) has revealed very little interest in SOX style regulation in the European Union, specifically Section 404. At a conference held in Brussels in 2005, representatives from the SEC made a presentation to about 300 members of the FEE in order to persuade them to consider the advantages of SOX. In general,

while acknowledging that Europe could learn from the American experience—Europe has had its own serious corporate governance failures in the form of Ahold in the Netherlands and Parmalat in Italy—the FEE was not supportive of these proposals.

The absence of specific national legislation notwithstanding, the fact remains that many companies in many countries are pulled into the penumbra of SOX. Obviously, companies that list securities in the U.S. are covered by the Act. In New Zealand, this would include Telecom and Tenon. Also, affiliates of U.S. companies are covered by the law, although size tests have now been adopted to exempt truly insignificant operations or subsidiaries. These affiliations may be direct, as in subsidiaries of U.S. companies, or indirect,

as in affiliations with Australian companies that are, in turn, affiliated with U.S. companies. Even if a N.Z. company is not covered by SOX, odds are that its accounting firm is. All accounting firms that provide audit services to a U.S. company or affiliate are required to have their audit practices inspected by the PCAOB, which releases a public report of its findings. While this has an obvious direct effect on the large international firms (Deloitte, Ernst & Young, KPMG and PwC), a large number of smaller firms may be included due to the nature of their clients or affiliation with U.S. firms, such as Grant Thornton and BDO Spicers.

Given that SOX practices are now often interpreted as *best* practices in the areas of governance, financial reporting and auditing, it is likely that even smaller New Zealand companies will eventually be exposed to some or many of the requirements of the U.S. law through their accountants.

The values of communication

By Roseann Gedye

If you want your staff to provide quality customer service, it pays to take a look at the patterns of communication within your own organisation. The barriers to creating first-class external relationships typically stem from the way your people interact internally—whether it’s in team meetings or simply in the hallways of your office. Communication is the glue for all relationships, and it’s the quality of your internal relationships that gets transferred to the outside

world. Business leaders, in particular, tend to become so absorbed in their own roles that they forget to connect with staff in a meaningful and effective way.

Instinctively, we all understand the keys to a good relationship. However, putting them into practice is challenging, simply because we fall into bad habits. Whenever I teach people about good communication they quickly realize it's not rocket science. There's always an "aha" moment when they say, "I know that stuff, I just don't do it—in fact I do the opposite." So the key in communication is establishing some basic values that guide conversations in your organisation and the expectations of your people.

There are some simple assumptions around communication that are often misled. For example, we assume that people know how to listen. For people to truly feel like they are being listened to, it has to be a reciprocal conversation in which there is respect and trust flowing in both directions. You can imagine how it impacts the motivation of staff when superiors struggle with creating an engaging and respectful environment. Unfortunately, leaders in a hierarchy tend to be more rigid and have less flexibility—and this tends to raise broader issues about how people are valued by the organisation. A lot of businesses pay lip service to the idea that people are their greatest asset. Yet too much focus is placed on material rewards, such as bonuses. In many cases, all people really want is the chance to contribute and be heard.

Most relationships break down because people react to situations rather than respond. Trigger reactions tend to create stress, so it pays to promote a culture that encourages



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reflection. One of the basic ideas in terms of connecting with people is what I call "flexing". Every person is different, and you really have to work to understand what a person needs from a relationship. A non-analytical person, for example, has to work hard to respond effectively to somebody with an analytical mind, and to give them what they need. The notion of flexing allows the individual to think about the learning styles and the communication

preferences of another person.

The person with the most authority in an organisation might not be the best person to drive communication change—yet there has to be a respected person who can champion this kind of initiative. Individuals tend to get on board when they see what's in it for them, and it takes an esteemed figure to model the kinds of communication behaviours you desire.

These ideas will help you in both the work and home situation—try them, you will be surprised with the results.

Where academics go to learn

By Brad Jackson

Recently, 6,700 academics (including 43 Kiwis) converged on Atlanta for the 60th meeting of the Academy of Management, a 70-year old organisation with 16,000 members from 94 different countries. This year's conference featured more than 2,000 papers and 350 symposia. Reporting on the meeting, *The Atlanta Journal-Constitution* noted that "the group's

agenda included some of corporate America's most pressing issues: ethical lapses, the breakdown of traditional relationships between companies and employees, and the effects of layoffs."

I confined my attention to papers focused on leadership, of which there were 200. I thought I'd briefly mention three papers that peaked my interest because they were well-researched, novel and relevant to practitioners.

The best leadership paper award was given to "The Executive's Role in Organisational Change: Lessons from Four U.S. Presidents" written by Thomas Head from Roosevelt University and Peter Sorenson from Benedictine University. The authors examined the different approaches to leading change adopted by four American presidents and assessed their relative effectiveness. From their historic analysis they concluded that "clearly executives should get 'out in front' and 'pull' the organisation through the change, as did George Washington and Theodore Roosevelt, rather than James Polk and Thomas Jefferson's trying to 'push' the bureaucracy into a new direction."

I am intrigued by the fascination that Americans hold for their presidents and the lessons they can divine from them regarding the art of leadership. It's certainly not a fascination that New Zealanders generally share—that being said, two recent books, Jon Johansson's *Twin Titans* and *Political Leadership in New Zealand*, a collection of essays edited by Raymond Millar and Michael Mintrom, might herald a new and healthy interest in political leadership for those who work beyond the political realm.

The second paper, intriguingly entitled "Forbearance in the Face of Culturally Inappropriate Behaviours", was written by Jeffrey Kennedy, a Kiwi formerly based at Lincoln University now at Nanyang Technological University in Singapore. The paper questioned the conventional wisdom which



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suggests that, in order to be effective, expatriate managers should adapt to local norms. It posed the question under what circumstances might host country subordinates show forbearance, that is, toleration for some transgressions? The author argued that forbearance is a function of the severity of the transgression (which, of course, is culturally relative), the attribution made by the subordinate (i.e. why did the manager do this?) and the degree of empathy felt by the subordinate towards the expat manager.



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This idea is worth pondering given the increasingly multicultural nature of the New Zealand workplace. It

raises a poignant question: to what extent should we offer forbearance to members of other cultural groups and, in turn, expect forbearance from them for cultural transgressions that have been made—either consciously or unconsciously?

The final paper, *Public Leadership During Public Health and Safety Crisis: An Empirical Study* was presented by Todd Pittinsky from Harvard's Center for Public Leadership.

Based on a study of fifty leaders nominated by their peers for their proven ability to lead effectively during crises, the study concluded that these leaders

exhibited the following behaviours: a limited emotional response (either through suppression or distraction) at the onset of the crisis; quick adherence to a previously planned or newly created authority structure; reliance on an established network of professionals; and the provision of encouraging empathy and understanding for their subordinates during the crisis.

I was struck by just how many papers at this conference focused on crisis management issues—a direct reflection of the general zeitgeist of contemporary American society which was brought into sharp relief as we arrived during yet another terrorist alert. By contrast, I wondered about how little of our work in New Zealand focuses on developing our abilities to manage during crisis situations and how much this ought to change.



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