# streetwise

BY STEPHEN BARLAS, HAYDEN T. JOSEPH, KATHY WILLIAMS

[NEWS]

## Is Offshore Outsourcing a Threat?

Kathy Williams, Editor

**YES, BUT MORE FOR THE U.S. ECONOMY THAN FOR THEMSELVES, 66% OF THE** 2,814 U.S. workers polled recently by Hudson professional staffing, outsourcing, and human capital firm said. In fact, 84% of the respondents believe that their jobs won't be moved offshore. And even the 15% who said their jobs could be exported are optimistic about their own prospects. About half said their next job will be better than their current one, and almost 60% think their companies are more likely to outsource jobs to U.S. companies and entrepreneurs rather than overseas to achieve cost savings and reduce payrolls.

Hudson says that there was a stark contrast in attitudes among manufacturing and service workers. Thirty-three percent of manufacturing workers said their jobs could be exported, while only 11% of service workers thought that. Also, half of the respondents advocate government penalties for companies sending jobs offshore.

The company also publishes the *Hudson Employment Index*, a monthly measure of workers' confidence in the employment market.

### Are You Still Using Spreadsheets to Budget?

If you answered, yes, you have a lot of company. When they conducted their latest budgeting and planning study, Ventana Research found that, of the 779 executives who participated in the survey, 64% still do their annual budgeting with spreadsheets, 21% use a dedicated budgeting and planning software application, 11% use an accounting application from their enterprise resource planning (ERP) system, and 4% use a variety of other methods. In a quick poll of participants on a webcast where the findings were released, the results were almost the same. Robert Kugel, VP and research director for Ventana Research, did say, though, that dedicated applications are becoming more prevalent in larger companies, particularly those with 10,000 or more employees.

Regarding how often they budget, annually still is the norm for all companies, regardless of size, with 62% reporting this way. Sixteen percent of the respondents do a rolling quarters budget, 13% budget quarterly,

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### REVISING FINANCIAL PROCEDURES

The Sarbanes-Oxley Act and other accounting reforms are causing many private companies to take a closer look at their finance and accounting practices, and many are implementing changes voluntarily, according to a Robert Half Management Resources survey of 1,359 CFOs.

Of the 48% who said they were making changes, they cited these as the main areas for change: payroll/benefits (44%), expenditures/purchasing (37%), accounts receivable/sales (31%), capital assets (31%), conversion/inventory (31%), credit management/collections (29%), disbursements (25%), and the

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## READERS' INPUT

A STRETCH

The review of the book *Sarbanes-Oxley and the New Internal Auditing Rules* [May 2004] lists three basic changes resulting from SOX.

The second change listed states that the internal audit staff was now "...responsible for installing and guaranteeing the efficiency of a network of internal controls..."

I have reviewed the Act and find no basis for this view. I would agree that IA is part of the monitoring mechanism of internal control, but "installing" would weaken the independence of its review.

"Guaranteeing" seems to lie outside of IA's power unless IA controlled all staff and micromanaged all processes. Even then it could be a stretch.

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We welcome all opinions on articles and departments published in *Strategic Finance*. E-mail correspondence to Kathy Williams at kwilliams@imanet.org.

[GOVERNMENT]

# Congress Begins to Tip Hands on

**IT'S BEGINNING TO LOOK LIKE THE HOUSE AND SENATE MAY TAKE DIFFERENT** sides on the issue of expensing options. The FASB's March 31 proposal on the subject forced House and Senate members to think more seriously about whether they wanted to sidetrack the board's proposal, which will become final this summer and may be altered from its March 31 version, or whether they want to let the FASB be the FASB. Sen. Richard Shelby (R.-Ala.) has taken the latter position. He doesn't think Congress should dictate to the FASB on political grounds, meaning Congress should not heed the complaints of the high-tech community, which is pressing Congress to pass legislation substantially tying the FASB's hands. But Rep. Michael Oxley (R.-Ohio), chairman of the House Financial Services Committee, seems to be moving down a different path. He held two hearings recently, one in late April, the other in early May. At the first hearing, he acknowledged the importance of preserving the independence of the FASB. But, he added, "If it is true that the adoption of FASB's employee stock option expensing rule would cause significant and serious damage to job creation, then it becomes an economic policy issue and one that Congress should certainly review." The FASB issued a proposal in March to require companies to record the cost of stock options on their balance sheets. Current policy allows companies to choose whether to include options in their balance sheets or just as footnotes that don't count against financial bottom lines. After the FASB announced its intentions last year, Rep. Richard Baker (R.-La.) and Sen. Mike Enzi (R.-Wyo.), introduced separate bills to delay the Board's proposal until the Securities & Exchange Commission can determine the true value of options. The companion bills, H.R. 3574 and S. 1809, also would require the Labor and Commerce departments to conduct an economic impact study on the accounting change. Finally, the bills would require companies to expense stock options for their top five executives and retain the current practice for other employees. Small businesses would be exempt from expensing options, and newly public companies could delay expensing. The House Financial Services Subcommitee on Capital Markets, Insurance, and Government Sponsored Enterprises passed H.R. 3574 by a voice vote on May 12. Then on June 15, the full House Financial Services Committee passed it with three amendments.

**The House and Senate are divided about the FASB.**

# Options | Stephen Barlas, Editor

## PBGC Proposes Bigger Penalties for Notification Failures

*Fortune* 500 companies that have ignored federal requirements to notify pension plan participants when assets fall below 90% of liabilities and have swallowed small fines as a cost of doing business may have a harder time digesting the super-sized fines the Pension Benefit Guaranty Corp. (PBGC) now wants to impose. The PBGC currently determines fines based on the number of days a notification is delinquent. It doesn't matter how many people are dependent on the pension plan. That would change under the PBGC proposal, which sets various penalty rates based on the number of plan participants. A pension plan with 2,000 participants, which would now pay a $16,000 penalty for notification delay for one year, would pay $80,000 under the proposed plan. That is $40 per participant. Repeat offenders would pay $100 per participant. "Workers and retirees have a right to know the financial condition of their pension plan and that they might lose some benefits if the plan terminates," PBGC Executive Director Bradley D. Belt says. "This new penalty policy will give companies a stronger incentive to fulfill their obligation to keep plan participants informed."

## Congress Passes Pension Fund Liability Computation Reform

Talking about pension plans whose liabilities have swollen in the laggard economy, Congress finally passed a bill that changes the way companies must compute those liabilities. Companies have complained that the old formula, based on the interest rate paid by a 30-year Treasury bond, made too many pension plans appear underfunded when they weren't. The new formula is based on a mix of high-grade corporate bonds. Badly limping plans in the steel and airline industries were singled out for additional help: They won't have to make special payments to their pension funds, which are required when the plans reach a certain level of underfunding. The new formula is really only a temporary fix, good for two years. Congress is supposed to come up with a more thorough, responsible formula in the meantime. ■

## MORE NEWS

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financial close (22%).

Even though private companies aren't legally required to comply with the new regulations, "many firms are looking at their high-exposure areas with increased scrutiny," explained Paul McDonald, executive director of Robert Half Management Resources. "Companies of all sizes are taking measures to prevent costly errors or potential fraud across all financial functions within an organization." ■

**[ETHICS]** *cont'd from p. 16*

advised readers that Google will be managed for the long term without concern for meeting short-term forecasts.

The letter also described the company's ambitious plans for altruism:

- "We aspire to make Google an institution that makes the world a better place."
- "We are in the process of establishing the Google Foundation."
- "We intend to contribute significant resources to the foundation, including employee time and approximately 1% of Google's equity and profits in some form."
- "We hope someday [the foundation] may eclipse Google itself in terms of overall world impact by ambitiously applying innovation and significant resources to the largest of the world's problems."

The time may be approaching when an integrity-driven performance strategy is widely viewed as the ultimate "best practice." Your ethical stance is important. ■

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The PricewaterhouseCoopers White Paper, "Integrity-Driven Performance: A New Strategy for Success Through Integrated Governance, Risk, and Compliance Management," is available online at www.pwcglobal.com/extweb/service.nsf/docid/C8753369ED2D193E85256E1B001C03D6.

**[STRATEGIC MGMT]** *cont'd from p. 8*

people with these different priorities? No one can do it all.

**Linking Innovation with Strategy.** Decisions about innovation shape a company's future. Like any major investment, innovation needs to be focused on clearly defined objectives. This requires a view on where innovation is possible and to what degree. It means understanding whether the ideas can be developed within a company or whether the company must look outside. It means selecting an appropriate strategic approach, such as fast follower or first to market, because each may be right in different situations, depending on the objective. And it means understanding how different investments in different types of innovation—breakthrough vs. incremental vs. maintenance—match up with the overall strategy.

**Ensuring Accountability.** In many companies, no one "owns" innovation; instead, it is the responsibility of many. Too often, this means that no one is actually accountable for the "cash" part of innovation. ITC must be subjected to the same culture of accountability and measurement that governs other processes. Accountability for results, authority to make things happen, and a clear view of current performance are critical if a company is serious about generating more cash.

It's impossible, however, to manage something that can't be measured. Key innovation inputs, such as time, people, and financial resources, need to be tracked carefully by project and product. In addition, measuring the performance of the process itself (for instance, the time to market relative to certain benchmarks) is essential. Finally, critical output metrics, such as new-service or new-product cash generation, market share in new segments, and true new markets entered, provide essential information as to ultimate success. Companies need to measure the performance of their ITC process if they want anyone to manage it and be accountable for it.

## Ideas Aren't Enough

None of this is to say that ideas and creativity don't matter. They do. But ideas aren't enough. Companies need to decide whether they want to be just innovative or whether they want to be truly innovative enterprises. After all, there is a world of difference: The former produces lots of great ideas but often has little to show for them. In contrast, innovative enterprises use their ideas to produce competitive advantage, superior shareholder returns, and, above all, cash. There are precious few of these companies, and they stand apart from the pack. They manage the innovation-to-cash process aggressively and well. They grow. And, most of all, they make innovation pay. ■

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**[NEWS]** *cont'd from p. 17*

and 9% are on a different schedule. Yet 69% review the financials monthly; 18%, quarterly; 8%, weekly; 3%, annually; and 2%, never. Who sets the budgets? Most (61%) use a collaborative process in which the budgets are handed down from the top, then department managers provide their input, and then an agreement is reached. Regarding other ways, 19% use a top-down method where top management sets the budget, and 18% start from the bottom up.

When asked if they were satisfied with the budgeting process, most respondents answered "no," mainly because they thought the process wasn't accurate, took too much time, didn't let them spot problems fast enough, and didn't let them drill down in real time to resolve issues. As a result, 71% said they plan to change the process in the next year or two, while 29% said they were happy with current procedures. In the webcast poll, 63.6% of the listeners said their company was going to make significant changes to how it plans and budgets.

Obviously, budgeting and planning are crucial to companies and employees: 66% of the respondents said they were the most important or an important factor to company success, 70% said they were most important/important to career success, 77% of CFOs said they were most important/important to their career success, and 75% of other financial people cited them as most important/important to their career success.

What makes a budgeting and planning process effective and successful? Ventana says it's all about accuracy, agility, ability to offer insight, reviews for results, process consistency and quality, and alignment with corporate strategy. Here are a few excerpts from the findings about these issues:

- Companies that spend "about the right amount of time" on B&P are more satisfied with the accuracy of their budgets.
- 50% of the CFO respondents and 45% of finance staffers aren't happy with the accuracy of their company's budgets.
- Only 28% of the respondents can spot deviations from plan in days or hours (which is good enough), 66% can in weeks (maybe okay), and 33% take months to spot them (unacceptable).
- Once they spot deviations, only 30% can implement changes in days or hours, 71% in weeks, and 28% in months (unacceptable).
- 58% of respondents aren't able to drill down in real time to resolve issues, but 42% can. Of those who can't do real time, 40% can drill down in minutes or hours, while 18% require days, weeks, or months.

Would budgeting and planning software help users obtain more accurate results? Perhaps, says Ventana. It has a higher accuracy rate (63% above-average accuracy vs. 50% for spreadsheets), it offers deeper and faster insight into the numbers (53% in real time vs. 39% for spreadsheets and 86% in minutes/hours vs. 61% for spreadsheets), and it provides better consistency year to year and across business units because everyone can be on the same page.

Ventana Research also offers some recommendations as to what you should do to make budgeting and planning more effective for the whole company:

- Broaden and deepen participation in the budget process (it shouldn't just be finance's budget).
- Use the time saved for productive analysis in the budgeting and review process.
- Move to rolling quarter budgets.
- Set objectives with external benchmarks (sales targets, expense ratios, and the like).
- Think and operate contingently.

The survey was undertaken to look at budgeting and planning processes and then to offer companies advice on how to improve performance management through integrated budgeting, planning, and forecasting. ■