streetwise

BY STEPHEN BARLAS, LINDA DEVONISH-MILLS, LANCE THOMPSON, KATHY WILLIAMS

[NEWS]

What Are Your Budget Headaches? | KATHY WILLIAMS

As finance and accounting executives and managers are well aware, the budget has become more than a financial planning and measurement tool. It's now a strategic business planning tool used to help manage cash flow, monitor progress toward key performance indicators (KPIs), gauge progress against the strategic plan, and more. So is budgeting easier and more efficient now?

Absolutely not, say respondents in a survey of CFOs and finance executives conducted by Centage Corp. and the Institute of Management & Administration (IOMA). In fact, two major headaches that have been plaguing the executives regarding budgeting and forecasting are still in the forefront: dealing with other managers in the company during the process and working with spreadsheets. And company size doesn't seem to matter here.

The executives' major complaints about dealing with other managers are that they aren't taking ownership or being accountable, they aren't cooperating or participating, they don't understand the process or what's required, they don't meet deadlines, and they pad their budgets/provide unrealistic numbers.

Regarding technology, the executives say they are frustrated with budgeting in Excel spreadsheets because the process is too manual and prone to errors, reports are hard to generate, the process is time-consuming, it's hard to roll up numbers, you can't drill down, and you can't create what-if scenarios. Yet spreadsheets are still the most common budgeting and forecasting tool, used by 81% of the respondents either alone or in combination with a general ledger (G/L) or enterprise resource planning (ERP) system.

Here are some of the other survey findings:

- Most companies devote four to eight weeks for the annual budgeting cycle.
- Executives at about 85% of companies with annual revenue of $10 million and above view their budgets as important cash flow management tools. For companies with less than $10 million in revenue, the number is 93%.
- While about 42% of the finance executives are very to extremely confident about the accuracy of their budgets in all areas, about 45% are only somewhat confident in their budgets in the areas of bookings, revenue, expenses, cash flow, and collections and disbursement. And about 12% aren't very confident in all budget areas except revenue.
- The most common acceptable tolerance level for

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WHAT ABOUT THE MATURE WORKFORCE?

Last month The Conference Board launched its new Employer-Practices Locator, a Web-based database that enables employers, researchers, and reporters to locate examples of specific actions companies have taken to address challenges presented by the mature workforce, such as retention, employee benefits, workforce planning, retirement, training, and more.

The database is searchable by key word or company name, and it selects, pulls together, and summarizes material from a variety of print and online sources from 1996 to the present. It also includes case studies developed by The Conference Board.

Updated monthly, the Locator currently includes information on more than 250 companies, and users can narrow their search using a list of

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[MATURE WORKFORCE]

keywords, such as phased retirement, multigenerational workplace, or recruitment. Industries covered in the database include healthcare, utilities, transportation, chemicals, manufacturing, and government. The tool is geared mostly for HR executives such as benefits managers, diversity officers, talent managers, and pension/retirement experts, as well as knowledge managers and CFOs.

Output includes the citation for each reference, length, and a summary of the content, including companies mentioned and related key words. The Locator also provides a link, when available, so the user can immediately click through to the source.

For information on how to register and use the Locator, visit www.conference-board.org/knowledge/knowledgeDB/matureWorkforce.cfm.

[GOVERNMENT]

Greenhouse Gas Bill and Corporate Reporting

STEPHEN BARLAS, EDITOR

Look for a major fight to break out in the Senate over the issue of corporate reporting to the SEC on greenhouse gas (GHG) emissions. The Senate Environment & Public Works Committee was expected to clear a bipartisan bill (S. 2191) in December that would go to the floor after Congress returns from the winter recess. Previous GHG emission caps have been considered in prior sessions, but neither the Senate nor House has ever passed a bill. It may be a different story in 2008, however, making the Securities & Exchange Commission's corporate reporting provisions in any bill something to watch. The bill, "America's Climate Security Act," is sponsored by Sens. Joseph Lieberman (I.-Conn.) and John Warner (R.-Va.). It has two separate sections with corporate reporting provisions. The first concerns corporate reports to a new Environmental Protection Agency GHG registry and sets standards to ensure those reports are accurate, including specifying that companies use internal control protocols consistent with federal standards; you can hear a faint echo of Sarbanes-Oxley in that provision. The second section specifically instructs the SEC to issue a regulation within two years under the 1934 Securities Act that requires a public company to report, "based on the current expectations and projections and knowledge of facts," its financial exposure due to its net global warming pollution emissions and the potential economic impacts of global warming on the company's prospects.

ILLUSTRATION: STEPHANIE CARTER/IMAGEZOO

Sen. Robert Menendez (D.-N.J.) has criticized the second provision in S. 2191 for not going far enough, however, and will propose tougher amendments.

The SEC has been silent on the issue of whether corporations need to report risks from GHG emissions, much less how that reporting should be done. In the past, it has addressed reporting for things such as Superfund exposure and Clean Air Act violations, and some companies are voluntarily reporting GHG exposure based on, for example, requirements in Item 103 of Regulation S-K, which dictates reports having to do with legal exposure.

Companies who voluntarily report to the SEC use some of the reporting guidelines produced by groups such as the Global Reporting Initiative, Carbon

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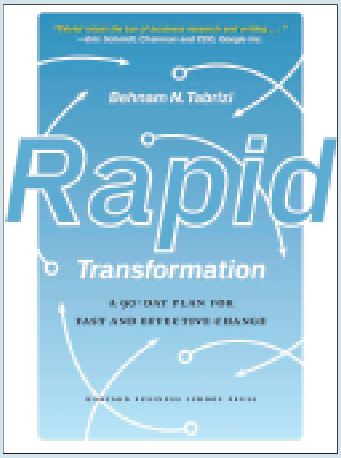
[BOOKS]

Implementing Effective Change

To stay competitive, a company must be dynamic in the marketplace, constantly revising its strategy in response to its competitors and aligning with the changing demands of its customers. The organizations that make it to the top are the ones that can respond quickly to the marketplace—particularly those that adapt faster than their competitors—and are able to transform themselves on the fly. In *Rapid Transformation*, Behnam Tabrizi defines a transformation as a fundamental shift in a company's functioning in order to significantly improve the current performance by better aligning with the changing market conditions and demands. It typically encompasses change at every level of the organization from executive-level management down to the individual employee.



Tabrizi researched more than 500 companies that underwent changes in the past 20 years in order to find the factors that contribute to a successful transformation. Of those, 56 transformation efforts were deemed relevant for further analysis. Tabrizi identified several key factors that are critical for a successful transformation:

1. All-encompassing. Successful companies first and foremost analyze all aspects of the company. It is analogous to using all cylinders of an eight-cylinder engine at the same time.

2. Fast. Successful companies implement their efforts in parallel, looking at everything at once. Every aspect of the business—including strategy, organization structure, process, IT, and culture—is diagnosed and addressed in tandem.

3. Integrative. Successful transformation efforts integrate and synchronize various functions and processes within the organization to take advantage of the cross-boundary synergies in parallel.

4. Full, passionate commitment and buy-in. Complete buy-in at all levels of the organization is critical, especially from the top.

In his book, Tabrizi illustrates the 90-days Transformation Model: By the end of the 90 days, the organization should have diagnosed the root causes of its problems and developed a detailed blueprint for the actual implementation, which typically takes a minimum of six months to a year. The 90-days Transformation Model consists of three main phases, each lasting 30 days:

- **Phase 1: Diagnosis.** Cross-functional rapid-response teams are assigned to analyze and diagnose the problems and causes of each major business function.
- **Phase 2: Envisioning the Future.** By performing a gap analysis between the current situation and the envisioned future, a detailed vision describing the role of each business function is developed to address the problems found in Phase 1.
- **Phase 3: Paving the Road.** A detailed implementation plan is prepared to move the company from the current state to its future state. This phase also includes planning for new organizational structures and a communications campaign.

The cross-functional rapid-response teams are the heart of the 90-days transformation. They obtain buy-in from thought leaders and other key employees of the company and involve them in the transformation effort. This not only reduces the resistance to change, but it also breaks down many impediments within the organization, including functional barriers and the vertical chain of command. During implementation, the new organizational structure is established, and the members of the rapid-response team are integrated back into the organization and placed in positions of power and influence as change agents.

Tabrizi includes many case studies that describe real-world applicability of the model. Companies that have used a change process similar to the 90-days Transforma-

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[ADVOCACY]

SEC's Sarbanes-Oxley (SOX) Section 404 Guide for Small Businesses

BY LINDA DEVONISH-MILLS, CPA

The Securities & Exchange Commission (SEC) recently developed a brochure as a follow-up to guidance it issued in June 2007 to help small businesses assess their internal controls over financial reporting in order to be in compliance with SOX Section 404 implementation.

The 2007 annual report for companies will be the first time that management's assessment of internal controls over financial reporting will need to be included. In addition to management's assessments, Section 404 of SOX also requires an auditor's attestation of a company's internal controls over financial reporting. But the requirement of an auditor's attestation won't apply to most small businesses until the filing of their 2008 annual reports.

An electronic version of the brochure is on IMA's website at www.imanet.org. Click on External Relations/Professional Advocacy/SEC. You can find a link for the brochure on the SEC page under IMA Comment Letters and Related Documents. Additional information about SOX Section 404 implementation can be found on the SEC's website at www.sec.gov/spotlight/soxcomp.htm.

IMA Speaks Out at Standard Setting Subcommittee Briefing

IMA President and CEO Paul Sharman discussed his concerns about financial reporting complexity at a briefing conducted by the Standard Setting Subcommittee of the SEC's Advisory Committee on Improvements to Financial Reporting at the SEC headquarters last month.

Jeff Thomson, IMA's VP of Research and Applications Development, and Allan Cohen, VP and assistant controller of Time Warner Inc., and a member of IMA's Financial Reporting Committee (FRC), were also in attendance. At the briefing, Paul noted that IMA fully supports the Subcommittee's efforts to determine the impacts that complexity in accounting standards and standards-setting processes have on the quality of financial information and ways to deal with this. He told attendees that IMA's big concern is that the U.S. emphasis in its standards and regulations is on inspection and compliance rather than on facilitating practical implementation of principles using a "build quality in" mentality.

During Paul's discussion, references were made to the FRC letter that was submitted as a response to issues addressed in a discussion paper prepared by the SEC's Advisory Committee on Improvements to Financial Reporting. A copy of the FRC's comment letter can be found on IMA's website under Professional Advocacy/Financial Reporting Committee Position Letters. A copy of Paul Sharman's statement that was presented to the Standard Setting Subcommittee can also be found on IMA's website under External Relations/Professional Advocacy/SEC. A link to the letter can be found on the SEC page under IMA Comment Letters and Related Documents. ■

[GOV'T] *cont'd from p. 20*

Disclosure Project, and Ceres, a group representing investors and pension funds. "It is not an exaggeration to say that the climate change disclosure market has largely been privatized," says Jeff Smith, the partner-in-charge of the environmental law practice at Cravath, Swaine & Moore LLP and past chairman of the Committee on Environmental Disclosure of the American Bar Association's Section on Environment, Energy, and Resources. According to Smith, "It would be a mistake, however, to believe that this voluntary activity, no matter how sophisticated and well-intentioned, could become a permanent substitute for mandatory reporting."

In the minds of people like Mindy Lubbers, president of Ceres, the need for mandatory reporting requirements like the ones in the Lieberman/Warner bill is underlined by the low rates of *voluntary* disclosure of climate risk by the largest companies in three affected industries: petrochemicals (28%), insurance (19%), and auto manufacturers (26%). Lubbers points out that even within the electric power industry, where exposure to GHG risks is high and a much higher percentage of industry participants voluntarily report, companies do an inadequate job of assessing the risks and opportunities.

On September 18, 2007, Ceres and other groups submitted a petition to the SEC requesting an interpretive release clarifying that material climate-related information must be included in corporate disclosures under existing law. Lubbers says, "It must be emphasized that petitioners *do not* seek an onerous new disclosure routine." Ceres met with staff in the SEC's division of corporation finance and some of the commissioners during the first week of December.

SEC Speaks on Proxies, Cox Vows to Consider Reversal in 2008

The SEC's decision on November 27 to continue to prevent shareholder groups from having access to corporate proxies for the purpose of electing dissident directors was confusing and possibly temporary. Last spring, the Commission proposed two options: either give shareholders access to the proxy if they met an ownership threshold, or don't give access. Chairman Chris Cox, who voted for both options at the time, was thought to support the "pro-access" position, as did Roel Campos and Annette Nazareth. But Campos left the Commission last summer. Knowing that left only two votes for "pro-access," Cox cast his vote for "anti-access" in late November, joining Commissioners Paul Atkins and Kathleen Casey in a 3-1 vote for "anti-access." But Cox said he voted for the "anti" position because corporations needed some certainty going into the 2008 proxy season. He promised to revisit the issue in 2008, implying his hope for some movement toward greater shareholder access. Nazareth will be gone then, however, and the Bush administration has nominated two replacements for her and Campos. Luis Aguilar, one of the nominees, might side with Atkins and Casey anyway. A corporate lawyer, he has drawn criticism among union representatives and former SEC officials for casting doubt in published interviews on the effectiveness of parts of the 2002 Sarbanes-Oxley law. Unions opposed him. ■

[BOOKS] *cont'd from p. 21*

tion Model include: 3M, VeriSign, Nissan, Bay Networks, Apple, and Asian Company Inc. The insightful stories from corporate change transformations result in a practical and immediately actionable guide that is applicable to both large, enterprise-wide transformations as well as smaller, departmental efforts.

In *Rapid Transformation*, Tabrizi has identified an effective methodology for accelerating transformations. He presents a very detailed and prescriptive guidebook that includes tools such as checklists, questions to ask, best practices, and detailed project activities. His book is highly recommended for those involved with any level of change management.

Change is a way of life. It is only a matter of time before change will be required again. By creating an organization of change leaders who think outside the box, companies will be better prepared for changes in the future, and employees will be less resistant and more experienced. Change promotes growth. And that is the ultimate power of transformation.—*Lance A. Thompson, Thompson Management Consulting Services, LLC, lancephx@aol.com*

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variances from budget to plan is plus or minus 5% to 10% for revenue, expenses, EBIT, and cash flow. Respondents from larger companies say the variances are restricted to plus or minus 5%.

- Consequences for exceeding acceptable tolerances are usually minor but can include impacts on compensation, formal reprimands, or job loss.
- There's an overall trend to link compensation and goal achievement, and this is most prevalent at the largest companies. They also tend to put a larger percentage of compensation into this at-risk category; in fact, 57% tie 20% of total compensation to meeting operational goals.

So what can finance executives do to make the process a little easier? Respondents offer this advice:

- Communicate openly, thoroughly, and regularly with managers and executives across the organization. Explain the timetable, assumptions, responsibilities, and expectations.
- Train other managers in the budget process so they can raise their skill levels.
- Make sure everyone understands that the budget isn't just a finance function but a joint effort that should be completed as a team.
- Get the right technology tools, and train people how to use them.
- Start the budget discussion as early as possible.
- Be realistic about what you are budgeting and what goals need to be met, and don't "spin" the numbers.

For more information and a copy of the survey, visit www.centage.com/SurveyReport. ■