monster under the bed

Fear of the unknown is keeping most U.S. controllers awake at night.

By Ramona Dzinkowski

Last year, with Sarbanes-Oxley Act (SOX) compliance well in hand, senior financial executives were looking forward to getting back to the business of managing their companies. Controllers and their finance chiefs were hopeful that 2008 would bring a year in which they could clear their heads and breathe easier. Obviously this wasn't the case—2008 saw the most turbulent economic times in more than 20 years, and, for most controllers, 2009 started with a fairly significant hangover. The promise of increased regulatory scrutiny combined with a new accounting regime and the tremendous financial pressures that began last year are likely to leave a large and lingering headache throughout the entire 2009 fiscal period. At a recent Financial Executives International (FEI) Current Financial Reporting Issues Conference, a panel of expert controllers discussed some of the important issues that will be keeping them up at night for the coming year.

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Dealing with Uncertainty

As expected, complexity in financial reporting and continuously evolving accounting standards and regulation continue to be ongoing concerns, and they are compounded by the scarcity of talented accounting and finance professionals in America. But number one on the list of controllers' worries was the uncertainty of the future and what this means for company financial results. In the words of Tom Tefft, VP and corporate controller of Medtronic Inc., and roundtable moderator, "I don't worry too much about things that I know. I will figure out a way to address the issues that are in front of me. The things that keep me awake at night are the things that I don't know…and I don't know what I don't know. Those are the things that really keep me awake at night—what's not on my radar screen."

For many companies, uncertainty has changed the way they look at risk. As Joseph Durko, VP, corporate controller, and chief accounting officer of Standard Microsystems Corp., explains, "We are February year-end, so that's when we get our numbers out. Obviously we have to keep a timeline in our minds how the world might change since the time of last period's earnings….However, one of the most dramatic impacts of the current circumstances for us is that it totally changed the risk profile…we're now worried about receivable exposures."

Uncertainty, as Nick Cyprus, controller and chief accounting officer of General Motors, notes, also extends to understanding the current balance sheet. "What keeps me awake at night is what I don't know from a different perspective. It's what I don't know that sits on the balance sheet. Whether it's the left side or the right side, especially in today's environment. So, today, especially if you're in the automotive industry where sales are way down and you have a high fixed-cost structure, understanding where you might have hidden impairments that you didn't think about in the past is a trick….Making sure you know what's on those financial statements, and everything about them, is key."

Managing with Foresight

So how will controllers manage in uncertain times? Critical to effectively shielding your company from financial shocks is making sure you're prepared well in advance by getting ahead of the issues. With respect to the balance sheet, "Making sure how long those illiquid assets will be there or not…is a big deal," Cyprus says. "Start now," he adds, "making sure you get on board with your auditors on what those things are that you don't know about. Furthermore, make sure that you get to know them before year-end because the only way you can maintain credibility with the audit committee and your board is to get the heads up on what you may have trouble on and not let the auditors catch it towards the end. Time is of the essence. If you haven't gotten started yet, get started. There's a lot of stuff that's going on on that balance sheet today that if you're not worried about, you should be."

Refocus

As the economic climate has changed, so have the strategies of many companies and, consequently, the focus of the controller's office. In Standard Microsystems, as in other companies, the downturn has forced them to stall growth plans and accompanying initiatives, replacing these objectives with simply maintaining stable financial targets. As Joseph Durko says, Standard had to rethink both their internal financial management focus as well as the business models on which they operated. This has all worked to significantly change the focus of his job.

He explains: "We're a $370 million company at present, and we're hoping to tread water around that level, but we were in a process before with the company to achieve the $1 billion mark. The last couple of months have really changed our targets, at least for the moment. We've had a fundamental retrenchment on resource deployment that has moved us away from planning for the future with systems processes, business processes, and the recruiting process to getting back to basics.

"We've adopted some risk processes where we go back and look at risk on a quarterly basis, where traditionally we didn't look at risk on a quarterly basis. We've taken a lot of talented accountants who have been working on building for the future and put them back to managing the present. That's been one of the biggest issues. At the same time, in our organization we're pushing to expand our business model. We're more like a tier-two supplier at this point, but we want to be a tier-one supplier, so our major customers are challenging us to look at doing business in different ways, interacting as business partners. One of my biggest concerns is keeping up with those initiatives."

A Fine Balance—the Controller's Role

At a time when the fiduciary responsibilities of the controller have never been greater, the importance of acting as a business partner has also increased. As Nick Cyprus explains, knowing the business intimately is the fiduciary responsibility of the controller. "I always think of my fiduciary responsibilities as partnering with the business—actually knowing what goes on in the business. By actually knowing what's going on in the business: One, you can have a tactic, and, two, you can make sure you get your disclosures right." He adds, "By knowing what's going on the business, you know what's going to impact it. And by doing that you can sort of drive the business and influence the business to do the right thing. It's a full-time job, especially in a distressed time."

Meanwhile, the controller is constantly faced with new and evolving accounting standards, and now in America the potential move to International Financial Reporting Standards (IFRS) in 2012 has added a layer of complexity to that task for the coming year. Companies are taking several approaches to meeting this challenge. For some, networking is key; for others, the educational material available from public accounting firms and on the Internet has proven invaluable.

According to Talia Griep, VP and controller of Honeywell International Inc., the opportunity to learn from peers is critical to implementing an effective IFRS conversion strategy. "I think it's very important to be active in organizations [professional bodies] because they afford you the opportunity to meet with your peers, to meet with representatives of the FASB [Financial Accounting Standards Board], the SEC [Securities & Exchange Commission], the IASB [International Accounting Standards Board]. It offers the opportunity to get very close to the standard setters and learn where their priorities are. I think that's a really good place to start….We also utilize our public accounting firms—they certainly have a plethora of information. We use them to help train when we feel it's necessary, so we do a lot of Web training to make sure we're going on the same page. I think there are a lot of resources available for companies."

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Joseph Durko comments on the power of the Web for smaller companies, as a tool for keeping finance teams on track with emerging standards, and for understanding the differences between U.S. Generally Accepted Accounting Principles (GAAP) and IFRS. He says, "In terms of keeping up with the bulk of the volume, I can only say to you thank goodness for the Internet. We're a smaller organization and don't have a depth of technical talent. We try semi-formal approaches to keeping up with current developments in the technical world. Webcasts have been an excellent resource for us, especially those of the major [accounting] firms. Also for us—given we're a smaller organization—we find that peer-to-peer interaction will provide some of our best opportunities to tease out the issues in real time. Alumni events provide a terrific opportunity to do that."

Tackling IFRS in 2009

In the move to IFRS, companies of all sizes are taking a guarded approach. Some perceive that the resource requirements to get started on IFRS in 2009 will be too great in the current economic climate, and others are taking a wait-and-see approach as to how IFRS evolve over the next three years. Says Talia Griep, "Right now we're focused internally on getting our process team together, creating a resource plan." But she cautions, "I don't think this a particularly good time, given the economy, to begin the analysis of moving to IFRS. I think there are other, more pressing issues….The timetable as it's laid out says that we have to be ready to go to IFRS by 1/1/2012, so you have to back up from there because you have to run in parallel for a period of time. You have to have the systems in place, and that can create two sets of GAAP that your auditors want to look at."

For GM, the question was whether or not to be a leader in IFRS adoption. According to Nick Cyprus, the difficulty in that strategy related to the evolving nature of IFRS and the scarcity of accounting talent that understood the international standards. "Originally, I was looking at saying should General Motors be a first mover on IFRS? We're actually thinking about this at the corporate level right now. The more I thought about it, there's no first-mover advantage here. Number one, resources that understand international accounting standards are scarce. Therefore, first movers would have to pay a lot of money to lead with it. Two, I think there needs to be a lot more convergence between U.S. GAAP and IFRS before I move…." This view reflected a general consensus among the panelists that being the first to begin an IFRS conversion program may not be as cost effective or efficient because of what was seen as a general lack of skilled talent in the field in the U.S. at this time, as well as the uncertainty as to when IFRS would be in their final form. Companies are taking a wait-and-see approach, particularly in an environment where cost management has become so critical.

Accounting Talent Wanted

While companies in America continue to lay off workers, accounting talent remains a valued commodity. Companies everywhere are employing a wide range of tactics to ensure that their finance functions are staffed with the right personnel who will stay with the organization. The economic circumstances in 2009 aren't expected to change the ongoing objectives of U.S. companies to attract and retain skilled financial management resources. For Honeywell, the key to this is understanding the growth potential of an individual, with a focus on a guided career path. Says Talia Griep, "The key thing for us is that we try to focus on the career of the individual—not only what they're going to be doing in their current position, but what future opportunities exist for them. We really focus on training and mentorship, and that really links the person more fully to the company."

No Sleep Yet

As the year unfolds and companies revisit their short-term objectives, controllers will have to keep their eyes on the long-term challenges facing the finance function. With the evolution toward IFRS, making sure the finance function can handle the technical complexities and system/process implications with fewer resources will be a major challenge. Meanwhile, making sure they are aware of the implications for financial reporting of increased exposures to risk and asset impairments is high on the list of things keeping controllers up at night in 2009. **SF**

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