



LEARNING TO LOVE SOX

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It's almost impossible to find anyone who'll say a few nice words about SOX. No, not the Red Sox or the White Sox, but the nickname for the Sarbanes-Oxley Act. Most operational managers have only experienced the Act's downside – tedious audits, detailed documentation of process, spotlight on old accounting problems, heightened top management concern. But, there are also some little publicized benefits of SOX, and those benefits promise huge financial returns over the next few years for managers who take advantage of the opportunity.

The Cost of SOX

The Sarbanes-Oxley Act (SOX) was passed by Congress after numerous corporate accounting scandals and bankruptcies shook investor confidence in the stock market. Since the Act's passage, all focus has been on the enormous cost of SOX. AMR Research estimates U.S. companies have spent \$20 billion since 2002 to comply with SOX. CRA International completed a survey to quantify the cost of implementing the most difficult aspect of SOX – ensuring effective internal controls relating to financial reporting. For smaller public companies, the average cost increase due to SOX was \$1.2 million in 2005, declining to \$860,000 in 2006. For larger public companies, the increased cost was \$8.5 million in 2005 declining to \$4.8 million in 2006.

Improving the Business Process

For the long-term health of the organization, the most valuable contribution of SOX comes from process improvement. In order to assess whether there's effective internal control, all of the processes that make up and feed into the financials must be reviewed. Here is tremendous opportunity for productivity improvement over the next few years. A recent survey by CFO Magazine found that 65% of financial executives surveyed felt that this was a significant benefit of SOX. This involves cleaning up old problems, automating many manual functions, upgrading old software. How can you help your company? Here are a few suggestions:

- Get training in business process improvement
- Work with your organizational development team to map your business processes

- Focus on two types of business processes – (1) anything that feeds data to the company’s financials and (2) any process that has many backup systems (i.e. redundancy!) and involves significant people costs. Specifically, look at field service support, help-desk, management of warranties and service contracts, to name a few.

The Great Spreadsheet Cleanup

Many companies thought they were using “Best Practices” but after a deeper review of the data feeding into their financial systems found that this was just not so. Instead, critical parts of the financials are often uploaded to the overall company financials using manual or Excel spreadsheets. Or, used to slice and dice data for internal reports, to allocate overhead costs, to accrue (or estimate) hours worked but not yet paid.

All of these “work-around” solutions present enormous potential risk to the organization. They also add to the “distrustful data” syndrome. Spreadsheets are especially vulnerable to errors, so everyone begins to assume that there is a “systems” problem when in fact there’s a spreadsheet problem. How can you help? Spend some time reviewing all of the spreadsheets used in your area of operational responsibility. For service organizations look at how the organization tracks warranties, deferred revenue, reserve and depreciation schedules, to name a few.

Conclusion: Embracing SOX

SOX is a great opportunity to do something that will have long-term benefit for your organization. With commitment from operational management it can generate significant productivity improvement and increased profitability over the next few years. It places focus on the long-term competitive health of your organization to help balance out the constant drive for “instant” profits. And it will reduce the need for layoffs.

What’s a great investment with enormous long-term benefit? On the list is investing in R&D to drive future products and services. Also, investing in marketing to drive next year’s sales. If SOX is viewed only as a compliance requirement, the focus will be on costs, not benefits. But, if we view SOX as an investment in the future, it’s just like building a new service center, investing in a fully automated warehouse, buying another company. Go SOX!

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About the Author

Gudrun Granholm is the CEO and Founder of Box One, Inc., a firm specializing in custom financial training, financial skill assessment and related financial

consulting for “operational” professionals, managers and executives. Gudrun has devoted her career to helping managers quickly understand the financials from a strategic perspective. The training and consulting connects manager’s decisions and actions with their impact on the financials and develops a “total company view”. It allows communication across all levels of the organization through the use of a shared financial language using the Box One Model™ in order to drive optimal financial performance. Prior to founding Box One, Gudrun served in a variety of financial roles, from financial analyst, controller to CFO/CEO over a 25 year period, including The Washington Post Company and The Smithsonian. Her training and consulting includes engagements with Fortune 500 organizations, universities and associations. Gudrun received her BA from Harvard University and her MBA from Stanford University Business School. For more information you can reach Gudrun at:

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