

Four Reasons to Love Sarbox

By Geoffrey James

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Conventional wisdom holds that Sarbanes-Oxley compliance is a nightmare for companies and their executives. That attitude was tempered a bit last year when the SEC relaxed some of the guidelines used by external auditing firms. (See our Crash Course “[How to Survive \(and Win\) with Sarbanes-Oxley.](#)”) But for those who are still doubtful, we asked executives, bankers, VCs, and auditors what they like about Sarbox. Many argued that the regulation is a great tool for companies, managers, and investors. Here’s why:

#1: It Bursts the IPO Bubble

The dot-com boom and subsequent bust a decade ago was largely the result of companies going public when they weren’t financially viable; that kind of fraud is far less likely under Sarbox. Thomas Martin, a partner at law firm Dorsey & Whitney, says Sarbox encourages small and growing companies to become profitable and have a strong revenue stream before they make their public debut. #Companies are intelligently attempting to acquire and build enough bulk to justify the expense of Sarbanes-Oxley,# Martin says.

According to Doug Brockway, managing director at investment bank Innovation Advisors, a number of smaller public companies are making the decision to go private. #The burden of Sarbanes Oxley convinces them that they’re not getting enough benefit from being publicly held,# he says.

#2: It Increases Investor Confidence

There has been a noticeable drop in the number of major cases of accounting fraud since 2002. PriceWaterhouseCoopers found that federal class-action suits were down 36 percent in 2006 compared to the year before, and cases overall were at a 10-year low. #The law did exactly what it was intended to do: reestablish investor confidence after a series of large financial scams,# says Sanjay Narain, a partner at Ernst & Young. #Investors want their money to be safe, and Sarbox gives them that sense of safety.#

J.R. Reagan, managing director of the public sector security group at BearingPoint, adds that strong financial controls provide protection from employee theft and other PR disasters that influence investors. #When TJ Maxx had its customers’ credit card data stolen,# he says, #the company learned the hard way that the perception that you have weak financial controls can have a serious adverse effect on your stock price.#

#3: It Holds CEOs Accountable

It's not unreasonable to expect CEOs and CFOs to know whether or not their companies are financially sound, says John Hagerty, vice president and research fellow at AMR Research. #The bottom line is that the quarterly statements must be signed by the CFO and the CEO — the exact people that any sane investor would expect to know what's going on inside the company.# If Kenneth Lay had been forced to sign Enron's financial reports, his #I was in the dark# defense would have seemed laughable.

#4: It Really Does Reduce the Cost of Financial Controls

Rolling financial controls into one report can reveal expensive redundancies. #Once a company has achieved compliance, it typically has sufficient documentation and understanding of internal controls to figure out where money can be saved,# says Daniel Schroeder, an officer at accounting firm Amper, Politziner and Mattia. Ernst & Young partner Narain agrees, citing the example of a client who had delayed implementing automated controls in order to meet a software installation deadline. Instead, the company used paper-based methods to ensure that a manager approved every change to a financial record. While this was easier to implement in the short term, the paperwork took extra manpower and was prone to errors — a red flag for external auditors. A Sarbox audit strongly recommended that the company go back and implement the automated controls, which not only made the controls easier to audit, it significantly reduced manpower costs.