Stanford eCorner

The Sarbanes-Oxley Act

Karen Richardson, *E.piphany*

February 09, 2005

Video URL: http://ecorner.stanford.edu/videos/1267/The-Sarbanes-Oxley-Act

Richardson explains the rigorous reporting expectations created by the Sarbanes-Oxley Act, and their effect on a company.

Transcript

Legal exposure. I don't how much you have read about Sarbanes-Oxley. I am sure you know a little bit about it. But there is now a very different set of expectations and requirements on the part of the CEO and the CFO in particular of a public company. You have to certify the results every quarter which means that they are completely true and accurate. If you are wrong about those results, and have to restate them in any material way, you have both legal and personal financial exposure. You are watching what is going on. And leave aside Bernie Ebbers and you know all those sort of that stuff for a minute. If you were just you know, a good old CFO and CEO, just imagine how easy it would be in a company of a thousand employees if in fact the sales person-- I am going to give you a very specific example that happened a lot in enterprise software. Starbucks really has cracked down on this and part of the reason they did it was because of these problems.

There was this big problem in the software business where you would book revenue and then later, customers would return stuff or never pay their bill. And then you would find out after the fact the reason why, was because some sales person, so under the gun to meet their quota, had actually whispered to the customer, may be sent an email, may be written a letter - they are called side letters - saying "Well, if you really decide that after 30 days, you don't want it, you can return it, but give me your-- this quarter I need to make to make my number." This went on rapidly in the software business. That is one of the things that you have to make sure you don't have that in a company like Epiphany's. No side letters. That every order you book is a firm order. The customer knows they are buying the software. They are going to pay you. There is no risk of a return in a material restatement. I can't know every conversation that everyone in my company ever has with anybody. So how am I ever really going to certify.

So, it is tough. It is tough. You got to have a great finance organization. Great controls and procedures in the company. You have to run compliance, training to train every individual about not only compliance but ethics. And how to stay out of trouble, in harm's way. Basically how to keep the CFO and CEO out of harm's way. You got to have a great board, a great audit committee, etc. So those are the kinds of things you have to do. Really, you are responsible for any wrong doing in the company even if it was ill-intentioned.

So that is a scarier thing than it used to be, running a public company. Now obviously, if you defraud investors, if you do, you know, and again, I am not saying Bernie Ebbers is guilty but, boy is that an interesting trial! His CFO is certainly saying that he was behind the falsification of the reports. That is exactly what Starbucks is there for. But what it has had to put as a pressure on any public company is pretty extreme in order to clean up the mess. And I don't know if it will die aback. People wonder will it die aback a little over time as we clean up corporate scandals? Probably. But it costs a lot. Think about that 30 engineers a quarter.