

Opportunity Knocks, Thanks To Reform

Opening For Software

Companies seek ways to comply with new law sparked by scandals

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Financial scandals at Enron, WorldCom and other companies sparked Congress to enact tough laws this year.

The biggest of these laws, the Sarbanes-Oxley Corporate Reform Act, requires that the chief executive and chief financial officer of all publicly traded companies affix their signatures to quarterly financial reports called 10-Ks, vouching for the accuracy of their numbers.

But some 63% of CFOs lack the software systems needed to meet the goals of Sarbanes-Oxley, says a new survey by Cap Gemini Ernst & Young. Another survey, by CIO Insight magazine, says some two-thirds of finance departments plan to replace older computer systems to comply with the new law.

All this adds up to an opportunity for some makers of business software. Some big companies, such as PeopleSoft Inc. and SAP AG, sell programs that help firms gather their financial data.

Some smaller software companies make products that help businesses better monitor their costs and sales to help them produce accurate quarterly numbers.

These makers include Hyperion Solutions Corp., Cognos Inc. and Informatica Corp.

The goal of these types of software programs "is to create one version of the truth," said Jeff Rodek, chief executive of Hyperion. He says his company's software will help managers, auditors and investors give and get true and accurate financial readings.

Indeed, there is a need for such software, says Don Schulman. He's a partner in IBM Corp.'s business consulting services unit. His team helps corporate clients comply with the likes of Sarbanes-Oxley.

Law Passed In July

"Certain companies have acted unethically, immorally and in some cases illegally," said Schulman. "Some have done the wrong things in terms of finance and accounting."

Sarbanes-Oxley, passed into law on July 31, already is prodding companies to tighten their financial oversight, says John Hagerty, an analyst with AMR Research Inc.

"With CEOs and CFOs certifying the accuracy of published financial statements, they want to make sure the supporting processes are bullet-proof," he wrote in a recent report.

More companies are using software to automate their financial reports.

"With less human intervention, there's less risk and less opportunity for illegal activity," said Schulman.

Said Hyperion's Rodek, "Technology can't prevent fraud, but it can make committing fraud much more

difficult. There will always be crooks. That's where disclosure processes and clear information come in."

Hyperion's software pulls and crunches numbers from diverse sources such as payroll, manufacturing, sales and service.

Hyperion also sells a financial planning system that breaks down sales by customer, product or region. By comparing these forecasts with past quarters, the system aims to quickly spot errors or changes from the norm.

"Our technology helps you pinpoint where you're making money and losing money," Rodek said.

Likewise, PeopleSoft sells software to link financial data from across a company, says Ram Gupta,



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This has become a complex job as companies have done more business over the Internet and private corporate networks.

"This business environment has created pressure that earlier software just couldn't handle," Gupta said.

Field Attracts Start-Up

PeopleSoft also sells software that companies use to create an investor portal on their Web sites. Stockholders can find key financial data there. "This translates the 10-K (required quarterly financial filings) into better information that investors can look at," Gupta said.

The goal of these software programs is to make the numbers much easier for everyone to see and understand, says Veena Gundavelli, chief executive of Emagia Corp.

Based in Santa Clara, Calif., privately held Emagia makes software to help companies gauge their cash flows up to three quarters in advance.

"What used to take CFOs several days or even weeks to prepare manually by spreadsheet can now be done in minutes using real-time data," she said.

Despite the recent focus on financial software, accurate reporting has always been a top goal for many companies, says IBM's Schulman.

"It's hard to manage revenue and cost estimates," he said.

The latest emphasis on accurate financial reporting, he said, "is just a return to the basics of running business."