



The Chief Freaked out Officer

How Enron, Tyco, and the rest have made the chief financial officer's job less, uh, fun.
 by Jeremy Kahn

ED MONEYPENNY, THE 60-YEAR-OLD chief financial officer of 7-Eleven, shares something important with Enron's Andy Fastow, Tyco's Mark Swartz, and WorldCom's Scott Sullivan—a job title. That, Moneypenny insists, is where the similarities end. Nevertheless, for the past year Moneypenny (could a CFO be any more aptly named?) has had to constantly reassure people—7-Eleven's board, its shareholders,

the friends and neighbors whom he meets at cocktail parties, and even his three grown sons—that most CFOs are honest operators, and that unlike Fastow, Swartz, and Sullivan, he won't be led away in handcuffs. Moneypenny understands why he has had to do this. But he doesn't like it. He worries about the creeping perception that all finance executives are somehow dirty. "I've never had anyone put pressure on me to fudge the numbers," he says. "I'm not approachable for that crap."

If Moneypenny sounds a bit defensive, consider how topsy-turvy his world has become. Not so long ago the superstars of CFO-dom were no mere number crunchers. The '90s had given birth to wheeler-dealer finance officers, instrumental in such

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master-of-the-universe activities as negotiating mergers and acquisitions. Wall Street watched their every move. Think of IBM's Jerome York, who became "the \$1.3 billion man," named for the amount Big Blue's stock fell (and Chrysler's gained) the day York defected to aid Kirk Kerkorian in raiding the carmaker. Or Disney's CFO, Stephen Bollenbach, who commanded an unprecedented \$20 million pay package and helped the entertainment giant capture Capital Cities/ABC. Corporations started looking for financial officers who could do more than cut costs; they wanted someone who could make them money. So CFOs tossed aside their green eyeshades and turned to more creative pursuits. By the late '90s, CFOs were prized for their ability to find new finance and accounting tricks. They became spokesmen, quietly guiding stock analysts to quarterly earnings estimates—and then making sure their companies beat those targets. Still, it's a tough job. The CFO is a convenient scapegoat when a company disappoints Wall Street, and the average one lasts just four years on the job, according to Financial Executives International. But if they succeed, the rewards can be great. Many CFOs have moved up to run their companies.

Now several prominent finance execs have been indicted; some will almost certainly go to jail. The same creative financing techniques that allowed companies to carefully manage their earnings suddenly get a cocked eyebrow and an SEC investigation. New regulations have outlawed some questionable practices, and even legitimate financing tools have been tainted by association with the likes of Enron and WorldCom. Today CFOs are expected to be paragons of transparency and accountability and must personally certify their companies' financial results. But one thing hasn't changed: They still have to make the numbers—or else. Is it any wonder they are freaking out?

"Every single aspect of my job is more difficult today than it was a year ago," says Dan Berce, the CFO of AmeriCredit Corp., a subprime lender in Fort Worth with \$1.1 billion in annual revenues. Last year Berce was presented with a "CFO Excellence Award for Capital Structure Management" in honor of his successful efforts to shore up AmeriCredit's vulnerable finances after the 1998 collapse of the high-yield-bond market. Past recipients of the award included Fastow, Swartz, and Sullivan, a fact that so embarrassed *CFO* magazine, the trade publication that had co-

sponsored the Excellence Awards, that it has discontinued the prize. (It probably didn't help matters any that the awards lost their co-sponsor, Arthur Andersen.)

Needless to say, Berce hasn't spent much time polishing his trophy. Rather, he's been urgently speaking to investors, analysts, and mutual fund managers to make sure they understand AmeriCredit's business and its financial statements. "I spend 25% to 50% of my time on this now, whereas five years ago it was minimal," he says.

Among the difficult things Berce has had to explain this past year is AmeriCredit's decision to abandon "gain on sale" accounting, a controversial technique it used to book profits from selling off loan portfolios. Under Generally Accepted Accounting Principles (GAAP), AmeriCredit was required to record upfront the entire sales price of those portfolios as revenue, even though the portfolios

could later decline in value if customers defaulted or prepaid their balances. Several of AmeriCredit's competitors were forced to take large write-downs when falling interest rates prompted a rash of prepayments, and while that hadn't happened to AmeriCredit, investors were nervous. Making matters worse, gain-on-sale accounting has some similarities to techniques that Enron used to inflate revenue from selling energy and broadband contracts.

To comfort investors, AmeriCredit had for several years issued pro forma statements that reported the company's earnings without the loan portfolio sales. But in this new era of transparency, pro forma numbers are presumed sleazy, and AmeriCredit's auditor, PricewaterhouseCoopers, asked it to stop the practice. Berce and his fellow executives decided that they simply had to find a way to dump gain-on-sale accounting. "Gain on sale is required accounting, but it no longer meets the demands of the marketplace," Berce says. The solution Berce and his colleagues came up with—treating the

receivables they sell as if they were secured loans—is unorthodox, but it satisfies the shareholders.

Many CFOs, like Berce, have found themselves in the awkward position of defending legitimate if complicated financing arrangements that seemed suspect after Enron's collapse. Companies ranging from Cisco to General Electric to Sears have announced changes in their accounting methods or increased their



Giving CFOs a bad name (from top to bottom): Enron's Andrew Fastow, WorldCom's Scott Sullivan, and Tyco's Mark Swartz

financial disclosure amid the public outcry for better information. “CFOs are under a lot of pressure to meet earnings and to convince people that they are doing so honestly,” says accounting professor David Larcker at the University of Pennsylvania’s Wharton School of Business.

In this new era of corporate accountability, chief financial officers are finding that public opinion plays as large a role as GAAP in determining the legitimacy of a transaction. Randy Casstevens, the 37-year-old CFO of Krispy Kreme Doughnuts, made that discovery when press reports questioned the chain’s use of a “synthetic lease” to finance a factory—a practice that takes advantage of the same accounting loopholes as Enron’s off-balance-sheet partnerships. Casstevens was sure the accounting was kosher, and he also knew that Krispy Kreme had fully disclosed the financing arrangement in its SEC filings. He figured that the whole thing would blow over.

But the news stories kept coming, many with headlines like ACCOUNTING PROBLEMS AT KRISPY KREME and KRISPY KREME BITES. “We found ourselves cast as ‘defenders of the synthetic lease,’ and that’s not what we wanted to be,” he says. So he unwound the transaction, moving the factory back onto Krispy Kreme’s balance sheet. “That was an eye-opening experience for me,” Casstevens says.

To avoid potential scandals, CFOs are spending much of their time focusing on the most fundamental—and boring—aspects of their job: accounting methods, internal auditing procedures, and the financial controls within their corporations. “It’s been a blocking and tackling year for us,” says Bert Notini, the CFO at Manufacturers Services Limited (MSL), an electronics equipment maker based in Concord, Mass. “We are focused on our balance sheet and the quality of our earnings.” Notini says MSL bolstered the auditing procedures its internal examiners use when they visit the company’s international factories. And they are conducting more internal audits between quarters than in the past.

Thanks in part to the requirements of the newly passed Sarbanes-Oxley Corporate Responsibility Act, CFOs are also spending more time meeting with their boards and audit committees. AmeriCredit’s Berce says his company’s audit committee meetings have “doubled and tripled” in both frequency and length.

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AmeriCredit CFO Berce spends more time reassuring investors.

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The tension inherent in those meetings has been ratcheted up as well, as committee members—more conscious than ever of their own potential legal liability—ask tougher questions and delve deeper into a company’s financial management systems. Robert Gray, the CFO of Pennsylvania’s Highmark Blue Cross–Blue Shield, says his audit committee has peppered him with detailed inquiries about the health insurer’s internal checks and controls. There is a renewed “realization of what can happen as a result of taking your eye off the ball,” he says.

This back-to-basics movement can be frustrating for finance executives more accustomed to high-powered merger talks or preening before the cameras on CNBC than to discussing the finer points of cash management with their boards. “I think some of our members don’t like having to spend time on the nuts and bolts of the system when they could be working

on higher-value-added kinds of activities,” says Phil Livingston, the CEO of Financial Executives International. In other words, nobody wants to be just a bean counter.

But it is worth remembering that long before anyone had ever heard of Fastow, Swartz, or Sullivan, bean counters were the ones who served as a crucial check in a corporation. “In my time, CFOs were basically tough, smart, and mean,” recalls Don Keough, who retired as Coca-Cola’s chief operating officer in 1993 after decades with the company. CFOs’ responsibility, Keough says, was to track every dollar as it moved through the corporation and to test every number to make sure it was solid. “Bringing good news was not their function,” he says. “They were truth tellers.”

It is certainly possible that the current emphasis on corporate transparency and responsibility may diminish the power of CFOs in America’s corporations. After all, power follows profits, and unless they resort to accounting gimmicks, CFOs can at best save costs—not create profits. “Companies should do two things: make products and make money. CFOs don’t do either of those things,” says Gerald Meyers, a professor of organizational behavior at the University of Michigan Business School. But Meyers, for one, sees a powerful new role for finance chiefs. “The CFO should always have been the conscience of the corporation, but now he is becoming the policeman as well,” he says. At least in that role the CFO is holding the handcuffs, not wearing them. ■

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