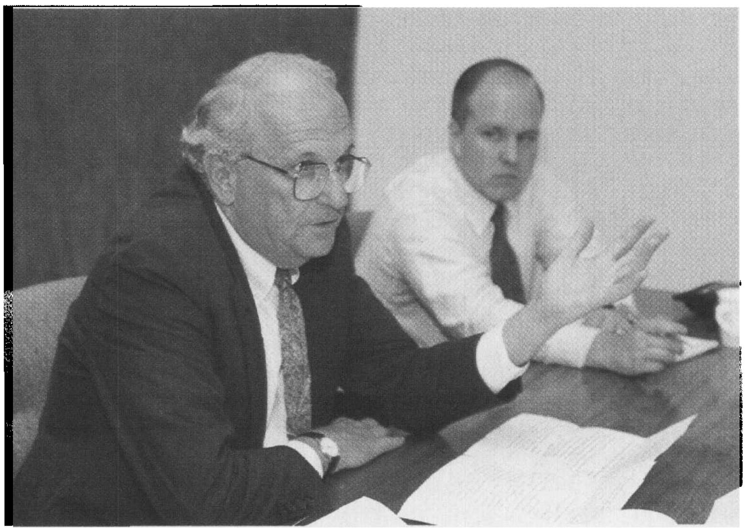
EMERGING ISSUES Affecting CPAs In Industry

Financial executives—what does it all mean?

A Panel Discussion Moderated by Michael Goldstein

During the last two decades, the role of the CPA in industry has been changing and, as we look around the corner to the twenty-first century, the role is expected to evolve into something even more different. Rapidly changing technology, increasing requirements for measurable results, downsizing, restructuring, and recruiting future financial managers, are only some of the issues confronting CPAs pursuing careers in industry.

In an effort to learn more about these issues, feature article editor Michael Goldstein, CPA, led a discussion among six CPAs who either are employed or consulting in industry. The panelists were Sol Blumenstock, CPA; Salvatore Levatino, CPA; Harry Malinowski, CPA; Philip C. Morse, CPA; David A. Rauch, CPA; and Joseph F. Yospe, CPA.



Editors Goldstein and Rosencrantz

The CPA Journal: ***Let's begin our discussion by looking at the role of financial executive, in this case a CPA in industry. Has it changed in recent times?***

Sol Blumenstock: Today, a CPA in industry has to understand needs at every level of the business operation in addition to just knowing what the financial ramifications of past decisions are. It's a daily operational decision-making process vs. an end of the quarter or end of month, create-the-financials process. You're involved from production decisions to advertising decisions, and from expanding operations to downsizing. Sometimes we even end up downsizing ourselves because we're now part of that team making the decision.

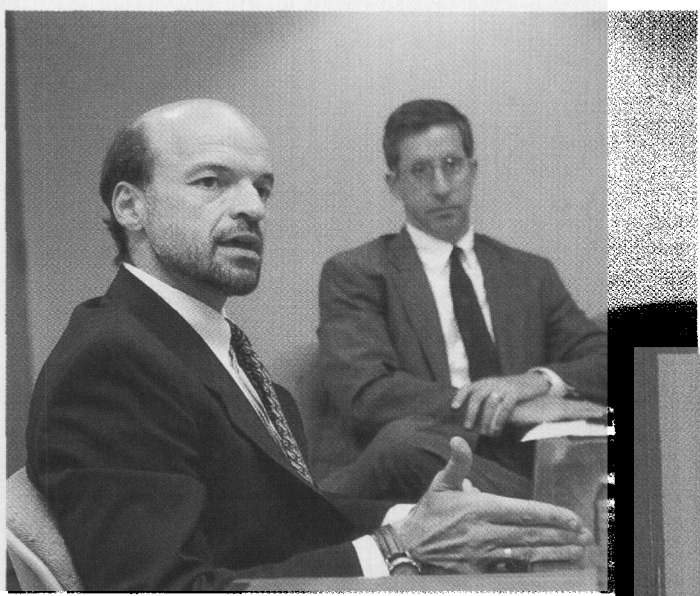
Joseph F. Yospe: The days of being viewed as a number cruncher have long passed. For example, when you're at the table with the rest of the executive group addressing a possible business acquisition, you've got to produce qualitative analyses and interpretations, not just numbers. You need to understand how a proposed transaction is impacted by specific accounting rules and you must be able to propose and evaluate alternative structures. You have to bring to the table the right blend of management expertise and business know-how, along with the accounting rules.

Salvatore Levatino: Twenty years ago, many CFOs were expected to know about finance and be able to report financial results accurately and timely. Now they have to understand the business intimately and be an equal partner with the business manager. In my case, in the insurance industry, you must have more than just a fundamental understanding of insurance and more specifically reinsurance. This wasn't necessarily so, even 10 or 15 years ago.

In Brief

CPAs in Industry Try to Keep Pace

Today, and in the forseeable future, the CPA in industry is facing many new challenges—being a financial executive rather than just a financial reporter, properly utilizing and controlling the computer, adding value to the company bottom line, and being able to handle loyalty issues in a world filled with changing management, downsizing, and restructuring. Also, how should an entry level person prepare for these challenges and a career path in industry? Six industry based CPAs address questions posed by *The CPA Journal* and give some very candid answers based on their experiences and what they see coming up in the near term. The financial executive faces a rough playing field with the rules changing as the game is being played. There will be winners and losers.



The educational environment has not changed to meet current needs.

Philip Morse: Today we must be more forward thinking in addition to looking back at what happened. We are no longer just scorekeepers, we are key players on the management team.

David A. Rauch: I've been with a few companies over the years, from small to *Fortune* 100. It really depends on the top management; how they view the role of financial executive. If they perceive their financial exec to be an accountant, that's what he or she will be—relegated to preparing financial reports. If they view the position as something more, as suggested by some of you, the financial executive will get involved in other management issues. The latter has become especially true when it comes to organizations that are downsizing and outsourcing; many business managers are looking to the financial executive to take over everything possible.

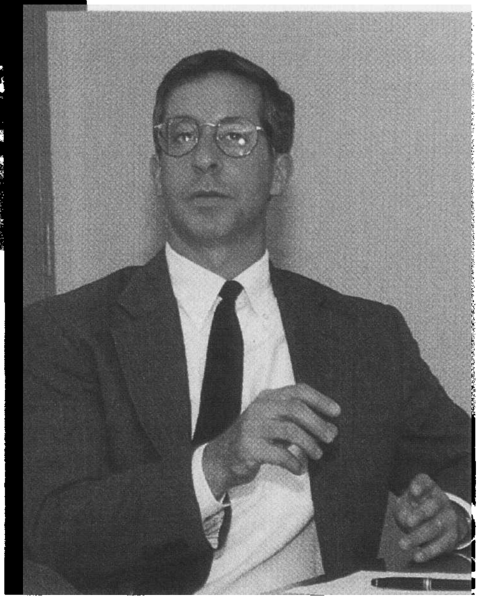
Morse: I believe financial executives have to be preemptive. If you wait for management to decide what falls within your domain, you may find it being outsourced. Between the power of computers and the increasing costs of maintaining employees, in the foreseeable future many of the traditional controller functions will be outsourced, with only one or two key people at the top remaining to call the shots.

Blumenstock: If a financial person has the education and training accompanied by good analytical skills, he or she can get involved in various areas within the organization compared to someone who has only technical credentials.

Harry Malinowski: A financial executive must be an all-around business person. The point was made that we can't just rely on senior management to define our job descriptions and what roles we should play in the organizations. We have to be proactive in adding value to the bottom line. In public accounting, professionals are measured by whether they bring business into the firm and make the pot larger. If they satisfy that firm need, they have a chance at partnership. Industry today also considers what you bring to the bottom line. How do you make the operation more efficient and how do you improve the business? Not, can you count the beans well, because most accountants can do that without any trouble.

CPAJ: Don't you really have the computer counting the beans for you today?

Malinowski: Because computers have taken over a significant portion of the recordkeeping, more of a contribution, i.e., value added to operations, is expected of the financial executive.



The days of being a number cruncher have long passed.

Yospe: Computers have placed a greater demand on financial executives to evaluate and filter through the constantly increasing volume of information that is made available to us every day. The increasing use of computers has also led us closer toward real-time reporting. This has accelerated the timing for when senior management expects to receive certain financial information. Having more information readily available and streamlining the reporting process required to gather that information has provided the financial executive with the ability to concentrate on other initiatives, including ways to eliminate waste and reduce costs.

Morse: Considering the speed of technological change, as well as the resulting volume of available information, the challenge for any financial executive, as well as auditors, public or internal, will be control.

CPAJ: What educational background will a CPA in industry need to be fully productive in this world of proactivity and technology? I recall a study by the FEI a couple of years ago which strongly suggested that financial executives are not getting the type of recruits they want from the schools. Any comments?

Yospe: Accounting school graduates need to better understand the complex financial instruments that exist in the marketplace today. There have been many highly publicized financial irregularities with respect to derivatives in recent years. As a result, future CFOs and controllers have to understand what it is that an investment banker is presenting to them. They need to understand what the risks are, and verify that a derivative contract designated as a hedge actually does what it is supposed to do. CFOs and controllers must ask the tough questions when reviewing and analyzing complex financial instrument proposals.

Simply understanding the accounting rules and how the numbers are prepared for a monthly financial package does not cut it in today's business environment. Accounting graduates must be trained to see what is beyond the numbers.

Blumenstock: The educational environment has not changed to meet current needs at all. The primary difference in an undergraduate program or even graduate program today, from say 15 years ago, may be some computer courses. The educational demands of a future financial executive, even in the first five years of his or her career are lot greater than knowing how to create and post journal entries. And, it's also only the rare breed of financial person who is able to fill all the needs on the job vs. applying what has been learned during formal education. In addition to the required finance, accounting, and taxation courses, accounting students should be exposed to how businesses became successful—business savvy—to say nothing of the need for more training in communications skills and computer literacy.

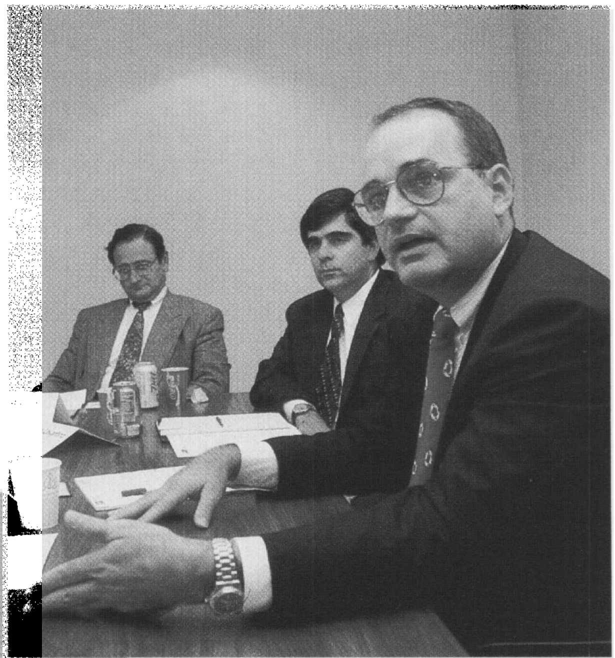
Yospe: Communication skills—oral and written—are definitely lacking among financial people and are becoming more and more critical, especially for those companies with international subsidiaries and operations overseas.

Levatino: There are a lot of technically proficient people in the marketplace, but when it comes to managing people, that's a skill that comes up short in many of the financial executives I've had to deal with—they are really untrained.

Malinowski: While educators do an effective job teaching accounting, we complete our formal education without really understanding what's going on in the world; how we affect one another globally. When I was a college student in the late 70s, the emphasis was on getting a good accounting education, and a basic understanding of economics. A basic understanding of economics is just not good enough any more; we have to know what's happening in the global economy, and that is not emphasized enough in an accountant's formal training.

Morse: Academia should take its cue from industry and look at some of the leading players in the global market today and what they have to do, in most cases, to make up for what is not happening as part of formal education. In addition to in-house education, they send their people overseas for tours of duty to be better able to understand the global marketplace which, of course, is critical to competing in that same marketplace.

Yospe: Today's financial managers have to be better teachers and mentors to allow their staff to grow. It requires skills you don't learn in college; you have to be able to guide your staff to allow them to mature and learn through trial and error. Not educators, but financial executives themselves need to place more attention on training and providing direction, rather than just issuing directives.



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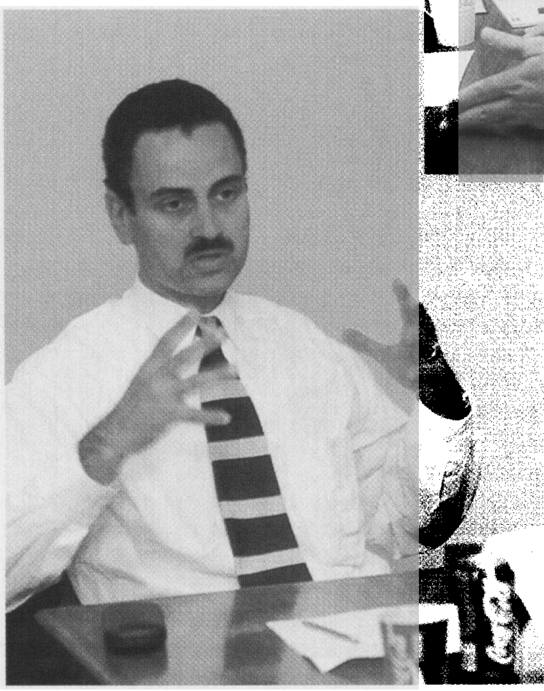


Most executive types have heavy outside community related commitments.

Malinowski: While you are taught how to prepare financial statements in school, they don't emphasize how to analyze those same financial statements. As a financial manager this is a prime requisite; it's more important than balancing books and counting the beans. A good financial manager can analyze what's happened, make suggestions, and, where necessary, have something positive going forward. In terms of education, this means adding courses that teach students about management information needs, what they are and how to address them.

Blumenstock: An internship program should be a required part of an accounting curriculum—where every student spends part of the time in industry and part in public accounting—so they get a sense of what each environment is really all about.

CPAJ: Where are the people you are hiring coming from? Are you competing with public accounting for the same people?

Morse: The larger business organizations do compete with the public accountants, but also look to more general backgrounds than do accounting firms. Smaller companies tend not to hire people straight out of school.

Rauch: Recent accounting graduates do not usually have the necessary skills for a place in the highly automated, scaled down controller function in the small and medium-sized enterprises.

Levatino: Generally, we want people who have some familiarity with our business, in our case the insurance industry and more particularly reinsurance. Generally, we recruit either from public accounting or from another reinsurer.

Malinowski: Accounting graduates going to industry straight out of school, are the exceptions. More often than not, entry level accountants, regardless of their ultimate goals, gear themselves to at least begin their careers in public accounting. Sometimes, because the goal is a position in industry, or for whatever other reason they might have, there are entry level people who don't want to spend time in public accounting and do go directly into industry. As financial managers, however, we are typically looking for people with some experience and that usually comes from candidates with a couple of years in public accounting and who hopefully have some exposure in your industry.

Blumenstock: Public accounting is a good place to start your career for the training, development of good work habits, and building a sense of discipline. It's also a good pathway into the companies you audit.

Morse: I don't think accounting careers in industry or perhaps even public, as we have known them, will continue to exist. Accountants thinking about careers in industry today have to regard themselves as consultants, marketable both in industry and public accounting, ready to take their expertise from project to project.

Blumenstock: Adding to what was just said—you have to know that you're there to add value and are not just a mechanism for recording data. Computers are doing all the recording; you have to do something relating to that data and add some value to it. Each individual employee on a professional level becomes a consultant of some sort.

Yospe: It used to be that company management defined your career path. They knew where they wanted you to go and they set the guidelines for getting there. Today the burden is clearly on the individual. He or she has to be skillful enough to figure out the organization, where it's going, and the necessary skills for advancing to the next step.

Blumenstock: Career paths no longer carry the comfort that your current employer will still be there some reasonable number of years from now. It's a period of consolidation in every industry. Merger and acquisition talks are always going on among company hierarchies. There is no such perception as the assurance of a job 20 years from now within the same organization. You have to be prepared and understand that you have to add value on a constant basis with your current employer and any potential acquirer, as well.

CPAJ: Considering what is being said here, is being a CPA in industry, an occupation that you would recommend to your children.

Yospe: There isn't an occupation today that presumes a safe future, where there's going to be growth and opportunity from employment through retirement. However, no matter what happens to a company, whether there's change through restructuring, mergers and acquisitions, or downsizing, there will always be a need for a core group of competent people who have the right skill sets to do what needs to get done. To answer your specific question, all things considered, I tell my children that being a CPA is a great profession, whether it's in public, industry, or education—it's as good as any other field that I can think of. On the other hand, if one of my boys had the ability to play for the New York Mets...

Blumenstock: If you maintain a solid base in accounting and finance, you can fit into any business environment. The key is developing and utilizing a solid skill set.

Malinowski: The buzz words for any career used to be, still are, and will continue to be—a well-rounded individual. The world is changing rapidly; what works for us today as professionals may not work two years down the road.

CPAJ: Do you have to a workaholic to succeed?

Malinowski: Again, you have to be well rounded. Even being a workaholic today is different than 10 years ago. You used to sit at your desk 12 hours or 13 hours; now we carry cellular phones or beepers. Today, in addition to careers, most executive types have heavy outside community related commitments.

Yospe: I've been active in the New Jersey CPA Society and have heard a number of industry representatives suggest that it is extremely difficult to properly balance one's work and personal life. While job requirements are a lot more demanding than they used to be and there will always be peak crunch times, financial leaders must live the value statements that they create with their staffs. It gets back to what we first talked about—the management skills of financial executives—those skills must include leadership traits that permeate the work environment to ensure that a proper balance between work and personal time does exist during noncrunch periods.

CPAJ: Loyalty, to and from employer organizations, does not appear to be what it used to be. What is happening?

Rauch: Company loyalty to the employee has eroded because instead of ownership or management changing every 20 or more years it's now every 3 years.

Morse: Loyalty is an economic luxury. More and more companies cannot afford that luxury. Nor can individuals; their skills must be maintained to stay competitive for the marketplace instead of just concentrating on the job at hand.

Malinowski: While there are more acquisitions, mergers, and compressions in industry than ever before—and that sends a powerful, sometimes very negative message to employees—what has made many of us successful with our employers, even if they change while we're not looking, is we've treated our organizations as if their assets are ours. When you go to work each day, you have to be excited about what you're going to accomplish, vis-a-vis, adding value. As financial managers, there is a need for us to contribute to the bottom line as if it's going into our pockets.

Rauch: The role of the financial executive has always been to treat the company's money as if it's his or her own. As to the loyalty issue, every company has some, hopefully only a few, executives loyal only to themselves in an attempt to secure their own survival.

Morse: When it's in their best interest to succeed as a group, the group succeeds, and when it is no longer in their best interest to function as a group, that group will disintegrate. I've gone through numerous downsizings and reorganizations. It taught me that perhaps I had a false understanding of loyalty to a business in the first place. Remember, it is a business with an economic motive for being there, not a social fraternity.

Levatino: Twenty or thirty years ago, many American companies had the financial resources to appear loyal, i.e., protect employees to a greater extent than they do now. The present global competition does not permit this any longer.

Blumenstock: In order to be a successful manager you have to be interested in and loyal to your organization. You have to be focused on what benefits the organization. Otherwise, you cannot do your job; your only concern will be the addition of a line to your resume in order move on.

Morse: You must maintain a balance in attitude. Most important, however, is developing and maintaining a solid set of skills and experience; then you can roll with the punches.

Yospe: In my opinion, that's why it's important for someone coming out of college to pursue his or her CPA certificate. Becoming a CPA indirectly forces you to gain solid accounting experience, which gives you the discipline and ability to do practically anything.

CPAJ: Earlier we touched briefly on the computer—how do you see it affecting you in the near term. Does it or will it make your job easier, more difficult, or just different?

Blumenstock: Information on a real time basis is here, for anyone willing to invest. Even now, operating at a pace less than real time, each day I know what we sold yesterday, what our margins were in a given division or product line. Today, detailed financials can be available soon after closing. Everything is oriented toward all information being entered directly into the system, where the computer program establishes the parameters and decides what to do with that information. Of course, each change in technology also makes certain skills and positions obsolete. As we speak, people are being trained for jobs that will soon be obsolete.

Levatino: I think the term is "data warehousing"—one gigantic data base where you can develop reports on anything financial or nonfinancial related to that data base when needed. It is accessible by an end user like a CFO or CEO, who does not have to wait for the accounting department or treasurer's office to deliver the information. He or she need only know how to ask for the required information on a terminal. This will certainly change the way CEOs view their accounting and treasury departments.

Malinowski: With software continually becoming more user friendly, even senior executives—who in the past may not have been comfortable utilizing a PC can have the information they need at their desks on a virtually real-time basis.

Yospe: More and more, technology does away with what used to be routine and allows financial executives to better utilize their working days. Now, every morning we come into our office, listen to our voice mail, review the overnight faxes, turn on our computer, get on to the Internet, pick up our e-mail, and search for information that is out there in Cyberspace. Some of the technology already available is unbelievable in terms of time-saving. Who knows what will be next?

Blumenstock: You used to be able to add a day or two to a regular mail response, maybe for nothing more than time to think. Now, with e-mail and faxes we are in an era of instant response. Everybody expects an answer by the close of business.

Morse: There is an analogy to the advent of the Xerox machine. Suddenly, we couldn't live without 15 or 20 copies of something. But, we got over that phase and that's been my experience with e-mail as well. Everybody is putting everything on e-mail and we're being overwhelmed. There will be a balancing over time.

CPAJ: I used to think of a CFO as an accountant who reached the top rung in his or her field. Now, more than before I hear the CFO being referred to as a financial manager with a nonaccounting MBA and few if any accounting courses to his or her credit. Is accounting the right path for a career as a financial executive or are the nonaccounting MBAs on the right path? Or is there something in between?

Morse: CFOs have never always been just accountants; that's a misconception. In some organizations they are and in other organizations they clearly are not occupied with accounting issues; they are taken up with strategy issues and financing issues. When there's an accounting pronouncement that is going to have a major impact on their financials, regardless of their background they will learn more about its consequences than most CPAs. They operate more on a macro level.

CPAJ: Shouldn't being a CPA be an advantage?

Blumenstock: CPAs in industry certainly view their certification as an indication of their ability and professionalism.

Morse: The *Fortune* 1000 may feel the focus of accountants is too narrow or too precise, while the perceived need is for well rounded individuals. The accounting profession has often been criticized for analyzing history and not being proactive.

Yospe: It comes back to what was said earlier about adding value. Financial executives, CPAs or otherwise, can't just crunch numbers or, when faced with the accounting ramifications of a transaction, simply say that the transaction can't be done. You've got to be able to provide assistance in solving problems that arise. By doing that, over time, others in management concerned with moving the business forward will bring you to the table; you'll be part of the decision-making process on an ongoing basis.

Levatino: Financial managers have to understand what their customers, upper management, consider value added. What a financial manager may think is value added may not be what the customer thinks is value added.

Malinowski: What the profession used to be, gatherers and presenters of historical information, isn't where it's at today. You just can't survive as the messenger bearing the news, especially bad news. If there is bad news, you want to be able to present a solution, as well. While you can't stop issuing historical information, and you can't ignore bad news, you have to be at the forefront with analyses and solutions.

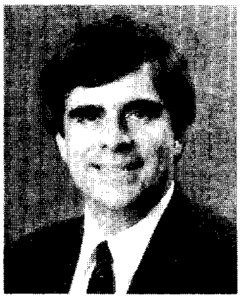
Levatino: In order to belong, management accountants must evolve into financial managers.

Malinowski: In order to make the transition, you have to change the basic educational process.

Blumenstock: We have to make ourselves part of every business process vs. just relating history or what has transpired. To announce that your company had a good year or a bad year doesn't say anything for the future, and

PANELISTS

Sol Blumenstock, CPA, is a vice president and chief financial officer of Blumberg Excelsior, Inc., a 109 year old, privately held company, marketing services and products to the legal, accounting, and financial community. He has been with the company for 17 years and prior to that was with a public accounting firm for five years. He is also an adjunct professor at Monroe College and New York University and has served as an instructor for the Foundation for Accounting Education. Mr Blumenstock has a BBA degree from Lehman College, an MS degree from Long Island University, and an MBA degree/APC from New York University.



Salvatore Levatino, Jr., CPA, is an assistant vice president, Internal Audit Department of Munich American Reinsurance Company. Prior to joining MARC in 1989 he spent four years within the insurance and reinsurance industries as an internal auditor, and three years in public accounting. Mr. Levatino has a BS in accounting from St. Francis College and an MBA in financial management from Pace University. He is also a Certified Internal Auditor and recently received the Associate in Reinsurance designation (ARe) from the Insurance Institute of America. He is currently the chairman of the Internal Auditors Committee of the New York State Society of CPAs.

Harry Malinowski, CPA, has been director of accounting for Paramount Group, Inc., an owner and manager of commercial office buildings and regional shopping malls since 1995. Prior to that he was a financial officer with a major real estate developer for seven years and spent seven years with a Big Six accounting firm. Mr. Malinowski has a BS degree from Brooklyn College and is currently the chairman of the Financial Executives in Closely Held Companies committee of the New York State Society of CPAs.

David A. Rauch, CPA, is a consultant specializing in providing part-time and interim Chief Financial Officer/Controller support services to small- and medium-sized companies. Before becoming a consultant, Mr. Rauch was a CFO and controller in medium-sized companies and for 12 years a financial manager with a Fortune 50 Company. He also spent four years with a Big Six accounting firm. Mr. Rauch has a BBA degree from Baruch College and an MBA degree from Pace University.

Philip C. Morse, CPA, was a financial executive with a Fortune 50 company for 16 years, and with a privately held international company for four years. Prior to that he was with a Big Six accounting firm for four years. Mr. Morse has a BBA in accounting from Niagara University and an MBA in accounting from St. John's University, and is currently the chairman of the General Committee on Members in Industry, Government, and Education of the New York State Society of CPAs.

Joseph F. Yospe, CPA, is accounting policy director for Lucent Technologies Inc., a designer, developer, and manufacturer of telecommunications systems, software, and products. Prior to that, he was with AT&T Capital, Bell Communications Research, and a Big Six accounting firm. He recently completed a fellowship as Research Manager with the International Accounting Standards Committee (IASC) and has had several articles published in *The Journal of Accountancy* and other periodicals. Mr. Yospe has a BA in economics/accounting from Rutgers College and is presently a trustee at the New Jersey Society of CPAs.

organizations today are looking into their future for added value. We have to be part of that value added and contribute to the future of the organizations we're involved with.

Malinowski: Like everyone else, we have to change with the times. How many business failures have we seen where the owners trapped themselves with being complacent—we've just had a great year or we had our best year ever or we've had our best three years of earnings—with no real thought of tomorrow? Is their product still good? Is their technology going to be obsolete a year down the road? Are they stockpiling too much inventory? As professionals, we can't stand still; we must change to meet the need.

CPAJ: Thank you all for participating. ❐