



SECTION - 5

EMERGING ROLE OF FINANCE MANAGERS IN INDIA

This Section include

- **Emerging Role of finance managers in India**
- **Turnaround of MCI Inc, USA**

5.1. EMERGING ROLE OF FINANCE MANAGERS IN INDIA

- 5.1.1 As mentioned in the beginning of this module, a finance professional is expected to have adequate and up-to-date knowledge in a vast array of subjects.
- 5.1.2 While large organizations have a multitude of executives manning different functions within Financial Management, headed by a CFO, in smaller organizations, the CFO is expected to don different roles, including that of a company secretary.
- 5.1.3 The key challenges for a modern finance manager in India has changed from a mere finance function of securing and managing funds to encompass the following, to name a few important areas:
 - 1. Planning investments
 - 2. Mergers, acquisitions, takeovers, and restructuring
 - 3. Performance management
 - 4. Treasury management
 - 5. Portfolio management
 - 6. Risk management
 - 7. Corporate governance etc;
- 5.1.4 Indian finance professionals are respected across the globe and today occupy top positions in several organizations, including MNCs.

5.2. TURNAROUND OF MCI INC, USA

- 5.2.1 The article titled “Extreme Makeover”, given at the end of the chapter, provides a comprehensive view of the competence required and the extreme pressures a CFO faces in a dynamic and exceedingly demanding business environment. The article highlights how Robert Blakely and an army of accountants turned fraud-ridden WorldCom into a clean MCI.



Extreme Makeover

How Robert Blakely and an army of accountants turned fraud-ridden WorldCom into squeaky-clean MCI. (Joseph McCafferty, CFO Magazine, July 01, 2004)

Robert Blakely had yet to accept the job as CFO of WorldCom Inc. when CEO Michael Capellas called on the evening of April 10, 2003. Creditors of the bankrupt telecommunications giant were meeting with Capellas and his team in New York the following day, and he wanted Blakely by his side. On the table: how to settle some \$35 billion in outstanding debt. Blakely, who would already be in town for a meeting of the trustees of Cornell University, agreed to come — after, that is, he and Capellas hammered out an employment contract in the morning.

But the next day, bad weather delayed Capellas's flight from Washington, D.C. "There was no way we could talk," says Blakely. "By the time [Capellas] arrived, all the senior creditors were there." The fact that he wasn't formally on the payroll didn't keep the CFO-in-waiting waiting from rolling up his sleeves and starting negotiations, which quickly grew acrimonious. "Basically, it was hand-to-hand combat all day," recalls Blakely.

At 11:30 a.m., he and Capellas slipped out of the negotiations to work through the remaining points of Blakely's employment contract. At noon, "We shook hands and I said, 'Yep, I'm on board,' " says Blakely.

They returned to the fray. Finally, by 8:30 in the evening, the WorldCom team had convinced 90 percent of the creditor groups to exchange most of their bonds for shares of stock in the reorganized company.

For the new CFO, that first 12-hour day was a harbinger of things to come. Raising WorldCom from the ashes of the biggest fraud — and bankruptcy — in U.S. corporate history, to emerge in April 2004 as the rechristened MCI Inc., boasting a clean set of books and a mere \$5 billion of debt, would require many more 12-hour-plus days. Restating the company's financials, a chore that began before Blakely's arrival, would take more than a year and a half to complete. Internal controls had to be overhauled, new directors named, and a new set of corporate-governance policies adopted. Even though the fraud directly involved fewer than 50 employees, every one of the company's 50,000 workers worldwide had to undergo ethics training. And somehow, while all this was being done, the business had to keep moving forward.

The 62-year-old Blakely brought badly needed turnaround experience to WorldCom. In the late 1990s, the CFO led Houston-based Tenneco Inc., a \$13 billion energy conglomerate, through a massive restructuring. Later, he made major improvements to internal controls and risk management at Lyondell Chemical Co., another Houston company. But nothing could have prepared him adequately for WorldCom, which declared bankruptcy in July 2002, not long after the disclosure of the fraud that drove CFO Scott Sullivan and CEO Bernard Ebbers from the company (see "Fall and Rise," at the end of this article). (Full disclosure: both Blakely and Sullivan were recipients of *CFO Excellence* awards.) "No one has that kind of turnaround experience," says Blakely, "because it has never been done before."

That challenge was enough to lure Blakely out of retirement, where racing high-performance motorcycles apparently didn't provide enough of an adrenaline rush. "What intrigued me



about [WorldCom] was that it was an opportunity to pull everything together that I had learned in my career,” he says. “I don’t like stable situations. Some might say that I’m a crisis junkie.”

The Mother of All Audits

It was easy for Blakely to indulge his habit at WorldCom. Even with the majority of creditors on board, the most difficult tasks required to exit bankruptcy still lay ahead. Hardest of all was restating results for three years — 2000, 2001, and 2002 — and filing audited financial statements. Not only was \$11 billion of fraud cooked into the books, but years of shoddy record-keeping and incompetent accounting clouded nearly every entry.

Blakely and his finance team hoped they could complete the audit by July 2003, three months after he was hired, but it took nearly that long just to size up the task. “It was more complex than anyone imagined,” he says. Eventually, the team realized they had to reconstruct the financial statements from scratch. “I went back to Michael [Capellas] and told him that it looked more like July 2004 than July 2003,” says Blakely. But it would have to be done faster: bankruptcy court judge Arthur Gonzalez had already set February 28, 2004, as the deadline for emerging from bankruptcy.

Reinforcements were needed. WorldCom already had 500 to 600 employees working full-time on the restatement, as well as 200 to 300 staffers from KPMG, the company’s auditor. WorldCom turned to Deloitte & Touche for more help, and the accounting firm responded with some 600 professionals, culled from offices across the country. At the peak of the audit work, in late 2003, WorldCom had about 1,500 people working on the restatement, under the combined management of Blakely and five controllers.

The finance team started with the billing systems and reran all the revenue, deciding on the proper accounting. Then it redid all the cash applications and rebuilt the income statements from there. It also reassessed every acquisition Ebbers had made since 1992 in the course of transforming an obscure long-distance start-up into a global communications powerhouse — 12 major deals and several smaller ones, worth \$70 billion. “In some instances, we had to go back and reconstruct records to decide whether or not pooling of interest was the proper accounting at the time,” says Blakely. In all, they found, WorldCom had overvalued several acquisitions by a total of \$5.8 billion.

The difficulty of the audit work was compounded by the sorry state of WorldCom’s records. In some instances, Post-it notes were attached to journal entries in lieu of proper documentation. The FBI had taken documents that had to be tracked down and retrieved. In the end, Blakely’s team made more than 3 million new or revised entries.

But even with Deloitte’s help, WorldCom couldn’t finish the audit before Judge Gonzalez’s February 2004 deadline. It was forced to request a 60-day extension. “To bring [the audit] to closure was devilishly hard, because it’s so complex. It just kept going on and on,” says Blakely.

Finally, on March 10, Blakely’s team finished a version of the 10-K restatement that would serve as a foundation for future financial statements. MCI executives planned a signing ceremony for March 11, at a previously scheduled meeting of the board. But later on the 10th,



company personnel and KPMG discovered two significant errors in the deferred tax balances, which rippled through about 100 pages of the 192-page document. Dave Schneeman, vice president of general accounting, and Jim Renna, vice president of controls and remediation, led a small team that worked through the night to make the necessary fixes. “I called at midnight, and they said they were making progress,” says Blakely. “I called again at 6:00 a.m. the next day, and they said they had just finished, and I cried,” he admits.

To WorldCom’s investors, the story told by the restated results was a real tearjerker. Sullivan and Ebbers had claimed a pretax profit for 2000 of \$7.6 billion; the reality, according to the restatement, was a loss of \$48.9 billion (including a \$47 billion write-down of impaired assets). For 2001, WorldCom had reported a pretax profit of \$2.4 billion; the restatement showed a pretax loss of \$15.6 billion. For the year 2002, the company was \$9.2 billion in the red, pretax.

Blakely claims WorldCom’s restated 2002 10-K is the most complex document ever filed with the Securities and Exchange Commission. He calls it “my Mount Everest” and keeps a copy, signed by the major participants, in a glass-door cabinet next to his desk. The audit, he says, “is the hardest thing I have done in my career.” Total cost to complete it: a mind-blowing \$365 million.

Hush Money

The audit provided new insights into the nature and the magnitude of the fraud at WorldCom. In fact, the same complexity that made the audit so difficult was one reason the fraud was able to go undetected for so long. As a result of Ebbers’s acquisition spree, WorldCom had also acquired a slew of accounting systems that were integrated loosely, if at all. By Blakely’s reckoning, there were 60 billing platforms and more than 20 accounts-receivable systems. The numbers rolled up from the various operating units to the company’s former headquarters in Clinton, Mississippi. There, it was easy for accounting staffers to simply change the numbers.

“It was a very low-tech fraud in a sense,” says Richard Breeden, a former SEC chairman and MCI’s court-appointed corporate monitor. “If [a WorldCom employee] didn’t like the figure he got, he just changed it.” He says it was not unknown for accountants at headquarters to come to the office and find Post-it notes on their computer monitors telling them to change numbers. Breeden says that in some quarters, imaginary revenue was added to the books using consolidated entries in big, round numbers that “didn’t even *look* real.”

Breeden also describes a command-and-control structure with a lot of power concentrated at the top. In his report of recommended reforms, he noted that Ebbers ruled with “nearly imperial reign.” “The attitude at the company was that orders were to be followed, and it was clear that anybody that didn’t would be fired,” says Breeden. Along with the big stick came a few carrots. A generous stock-option plan was supplemented by a \$238 million “employee-retention program” that was dipped into and doled out at the discretion of Ebbers and Sullivan. “It was basically a slush fund to give out quiet money,” says Breeden. Sullivan wrote personal checks for \$10,000 to some employees, he says, and gave \$10,000 more to



their wives.

Breeden and Blakely say that the fraud involved fewer than 50 people, mostly those who rolled up the financial statements in Clinton. When managers at operating units saw the consolidated financials, they were surprised how well the rest of the company seemed to be doing when the numbers they reported were so poor.

Dennis Beresford, a former chairman of the Financial Accounting Standards Board who now chairs MCI's audit committee, led one of two internal investigations into the fraud. He's convinced that everyone involved has been removed from the company. Beresford says WorldCom asked about 50 executives in the finance department to leave after the investigation showed they either took part in the accounting fraud or should have known about it. "We had too many people who looked the other way," he says.

In March, Sullivan agreed to plead guilty to securities fraud, conspiracy, and giving false statements to regulators. Those crimes could carry a sentence of up to 25 years in prison under federal sentencing guidelines, but Sullivan hopes to get less in exchange for his testimony in the trial against Ebberts that is scheduled to begin in November. Former controller David Myers and accounting executives Betty Vinson and Troy Normand have also pleaded guilty and are cooperating with authorities.

Do the Right Thing

Impressive as it was, cleaning up the fraud wasn't enough to restore the confidence of WorldCom's customers; Blakely had to make sure that nothing remotely like Sullivan's manipulations could ever happen again. In July 2003, WorldCom's largest customer, the federal government, had barred it from bidding on federal contracts while it reviewed whether the company should be placed on an "excluded parties" list. "Getting that [ban] lifted was the highest priority," says Blakely. "If the government doesn't want to do business with you, why should anyone else?"

The two main concerns identified by the General Services Administration, which administers the list, were controls and ethics. Indeed, KPMG, which succeeded Arthur Andersen as WorldCom's auditor, had identified 96 control issues, and a separate assessment by Deloitte zeroed in on several other "high risk" areas. With help from both accounting firms, Blakely's finance team put together a "heat map" that listed high-priority risk areas, and then went about fixing them. The solutions included adding basic checks and balances such as segregation of duties among finance staffers, limited access, and documented policies. The company then implemented a much more stringent, and inclusive, policy for closing the books. "It is impossible to completely eliminate the possibility of fraud," says Blakely. But, he says, the hundreds of added controls will greatly diminish the chances of it reoccurring.

MCI was also forced to implement what is likely the most stringent set of corporate-governance practices ever adopted. As part of WorldCom's \$750 million cash and stock settlement with the SEC, it agreed to accept all the recommendations of the court-appointed monitor. Breeden's 150-page report on corporate governance, "Restoring Trust," lists 78 recommendations, including the separation of the CEO and chairman roles, and the required removal of



one board member each year to make room for a new director. “Some [of the requirements] go beyond what is reasonable,” contends Beresford. “But we have no choice but to accept them.”

As for ethics training, MCI put the entire company of 50,000 employees through a course designed for it by professors at New York University’s Stern School of Business. In addition, 90 executives attended a two-day ethics program at the University of Virginia’s Darden School. Not surprisingly, MCI is trying to keep ethics in the foreground. Large banners proclaiming the company’s “guiding principles” festoon the halls of its Ashburn, Virginia, headquarters. They include such mottos as “Everyone should feel comfortable to speak his or her mind” and “Do the right thing.” The principles are also printed on the back of employee security badges.

All these measures were enough to convince the government that MCI had reformed. Last January, it lifted the debarment just in time for the renewal of a contract worth as much as \$400 million.

There would be more to celebrate. On April 20, the company emerged from bankruptcy, officially taking the name MCI Inc., with its debt slashed from \$41 billion to \$5.8 billion, and with \$6 billion in cash reserves. Its stock was scheduled to begin trading again on Nasdaq this month. “A lot of people didn’t think we could get it done,” says Beresford. “It took a Herculean effort to get to that point.” (Not to mention the \$800 million in fees MCI spent during its sojourn in Chapter 11, for lawyers, accountants, appraisers, tax experts, and other consultants.)

But the work on the controls isn’t finished. Like most companies, MCI is busy documenting its controls in compliance with Section 404c of the Sarbanes-Oxley Act. More than 60 people are working on the project, and PricewaterhouseCoopers is providing outside assistance. “We’ve still got a long summer ahead to get to where we need to be,” says Blakely.

Was It Worth It?

Right now, MCI is trailing the field. “They are third in a race of three,” says Muayyad Al-Chalabi, managing director of San Francisco-based telecom research firm RHK Inc. Compared with archrivals AT&T and Sprint, MCI has lower margins, pays more (as a percentage of total revenues) to other carriers in access fees, and has the fastest-declining revenues (17 percent in the past year alone, year over year). “I don’t know if MCI was worth saving,” says Al-Chalabi.

The company will also have to fend off competition from Baby Bells like Verizon and SBC Communications, which are looking to provide enterprise telecom services to small and mid-size businesses — a key customer base for MCI. And another setback came in June, when a federal court ruled that Baby Bells no longer had to lease access to their local networks to the likes of MCI at deep discounts, increasing MCI’s cost to provide consumer long distance.

In May, MCI announced a \$388 million loss for the first quarter of 2004, compared with a \$52 million profit for Q1 2003. The company said it would cut 7,500 jobs, or 15 percent of its workforce. But Al-Chalabi says reducing head count alone won’t solve MCI’s problems. He



points out that the company has a patchwork of networks left over from the acquisitions — the same problem that plagued the finance department — which impedes its efforts to obtain operating efficiencies. “They have a thousand or more systems that all need to be supported,” says Al-Chalabi. “That increases the number of suppliers they have to deal with, and there is a lot of duplication in the systems.”

All of these factors have fed speculation that MCI will put itself up for sale, likely to one of the Baby Bells. Yet Al-Chalabi notes that these potential buyers can already buy long-haul capacity very cheaply, without buying the MCI cow. Also, he says, “the Baby Bells still have huge amounts of debt. I’m not sure they are in a position to do a big purchase right now.” That could be bad news for MCI. “I don’t think they can stand alone with the current trend,” says Al-Chalabi. “They’ll either be part of another company, or they’ll have to dramatically change their ways.”

MCI isn’t ruling out a sale. But Blakely, who admits that the industry is in rough shape, thinks that the company can stand on its own. He is quick to point out that it generates \$300 million in positive cash flow each quarter. A large portion of Internet traffic flows over MCI’s network, and the company still has more than 20 million customers. Blakely says MCI will be profitable in the second half of this year.

Focusing on the future is a luxury MCI hasn’t had for a long time. At a recent board meeting, Dennis Beresford noticed something he calls “astonishing”: “The conversation was almost entirely about the operations of the business.” That hadn’t happened since he was elected to the board in July 2002, he says. “Just to be able to sit around and talk about strategy is wonderful.”

Fall and Rise

1985: Bernard Ebbers becomes CEO of long-distance provider Long Distance Discount Service (LDDS).

1995: LDDS acquires telecom provider Williams Telecom Group (WilTel) for \$2.5 billion and changes its name to WorldCom.

1998: WorldCom’s \$40 billion acquisition of MCI is the largest merger in corporate history at the time.

1999-2000: WorldCom and Sprint, the nation’s third-largest long-distance company, agree to merge. The deal is later blocked by antitrust regulators and abandoned.

March 2002: WorldCom receives a request for information from the Securities and Exchange Commission on accounting procedures and loans to officers.

April 2002: WorldCom CEO Ebbers resigns as the SEC probe intensifies. Vice chairman John Sidgmore takes over.

June 2002: CFO Scott Sullivan is fired. The SEC formally charges the company with fraud.

July 2002: WorldCom files for Chapter 11 bankruptcy, the largest ever filed in terms of out-



standing debt. Former Salomon Smith Barney analyst Jack Grubman admits to attending WorldCom board meetings.

August 2002: Sullivan and former controller David Myers are arrested and charged with securities fraud.

November 2002: Former Compaq chief Michael Capellas is named CEO of WorldCom.

April 2003: 90% of creditors agree to WorldCom's reorganization plan. Robert Blakely is named CFO.

May 2003: WorldCom settles charges with the SEC and agrees to pay \$750 million in fines and retribution.

October 2003: Bankruptcy court judge Arthur Gonzalez approves WorldCom's reorganization plan.

March 2004: Sullivan pleads guilty to criminal charges. Ebbers is formally charged with fraud. WorldCom files its restated 2002 10-K, which includes a write-down of \$80 billion in goodwill, assets, and property.

April 2004: WorldCom exits bankruptcy and changes its name to MCI.