

# [Swot – pepsi and coca cola](https://assignbuster.com/swot-pepsi-and-coca-cola/)

Sarbanes Oxley Act of 2002 The Sarbanes-Oxley Act of 2002 is a United States federal law enacted on 30th July 2002, also known as the Public Company Accounting Reform and Investor Protection Act of 2002 and commonly called SOX or Sarbox. This law was passed in response to a number of major corporate and accounting scandals including those affecting Enron, Tyco International, Adelphia, Peregrine Systems and WorldCom. These scandals, which cost investors billions of dollars when the share prices of the affected companies collapsed, shook public confidence in the nation’s securities markets.

Named after the sponsors Senator Paul Sarbanes of the Democratic party of Maryland and Representative Michael G. Oxley of the Republican party of Ohio. The program is critical to protecting investors and promoting the integrity and efficiency of the U. S. securities markets. Recent exposure of issues relating to research analyst reports, investment companies, investment advisers, and broker-dealer sales practices have highlighted major problems resulting from conflicts of interest inherent in the financial services business.

Further, as illustrated by recent scandals in the areas of corporate accounting and auditing, as well as by the growth of online activity that affects investment decisions and by the expansion of international markets, the need continues for maintaining and enhancing a national program to prevent and suppress fraud. Congress established laws designed to restore and maintain investor confidence in capital markets by providing structure and government oversight. Securities laws and regulations were established to deter fraud and misrepresentation in connection with the offer and sale of securities. This program is directed at detecting and sanctioning fraudulent activity in the securities markets, including fraud by brokers, dealers, investment advisers and investment companies, financial fraud by issuers of securities, fraud in securities offerings, market manipulations, and insider trading. Sarbanes-Oxley Act doesn’t include a set of business practices and does not state how a business should store records instead it classifies which records are to be stored and for how long. The legislation doesn’t only affect the financial side of corporations, but it also affects the IT departments whose job is to store a corporation’s electronic records.

. The sections of Sarbanes-Oxley have the three rules that affect the management of electronic records. The first rule deals with destruction, alteration, or falsification of records. The second rule defines the withholding period for records storage.

The third rule refers to the type of business records that need to be stored, including all business records and communications, including electronic communications. As a result, an expansive amount of literature focuses on analyzing the costs and benefits of the SOX Act to companies. This section will look at the costs of implementation of the SOX Act, largely resulting from Section 404, to large, mid-, and small-sized public companies. Factors affecting all firmsSection 404 mandates creation of an internal control structure, and assessment of its effectiveness. This control structure involves controls on internal financing reporting and auditing.

According to surveys of 224 public companies conducted by Financial Executives International implementing this control structure has proven more expensive than expected, with 2004 SOX costs estimated to have risen 62% in July over January expectations. A March 2005 follow-up to this survey found 217 companies reporting a 39% increase in costs. This was mainly due to increases in external costs for consulting and software, and in part due to increased fees from external auditors. SOX compliances the diversion of these funds from potentially profitable endeavors that may result in improper investments or risk mitigation which could result in a loss of value, productivity, its necessity of allocating manpower for profitable activity of a firm. Small and mid-sized public companies Mid-sized and small public companies have incurred relatively larger costs in implementing SOX. Given that the professional costs and managerial time varies little with company size, small and mid-sized companies must allocate a higher percentage of revenue to SOX compliance (Morgenstern and Nealis, 2004).

Many of these firms have considered such measures as reverse stock splits to shrink the company to a size below that required to meet SOX’s strictest requirements, or have considered delisting the company. According to Wharton School study, most companies de-listed their shares in an attempt to avoid the high costs of complying with the SOX Act, with some smaller companies listing costs of as high as $500, 000 to comply. Some companies, however, de-listed to avoid outside monitoring and scrutiny, leading the study’s authors to suspect that firms were not being managed in the most efficient way or that their compensation was excessive. The study found that some of the firms with “ higher free cash flow and lower-quality accounting” were more likely to “ go dark” – to deregister from the SEC and become private firms (AP, 2004).

Independence of board members may also place hardships on smaller companies. Many publicly listed small companies have few board members, and the chief financial officer may act in the capacity of other positions. Smaller firms may not have the resources necessary to recruit qualified individuals to meet independence requirements. The SEC has made moves to attempt to alleviate some difficulties faced by small and mid-sized firms. A majority of this conversation focuses on the costs of implementing Section 404’s internal control structure, and very little addresses potential benefits to investors. This may be due to the intangibility of investor benefits and the lack of conclusiveness in behavioral finance analyses.

Implementation of the legislation is still in its infancy and creation of a functional and efficient control structure will likely take time to complete. An effectual controls system may simplify accounting decisions by presenting accurate and complete profit and cost statements that otherwise may have been more discretionary and based on broader, less informed accounting assessments. The creation and adherence to a code of ethics may improve efficiency of financial data collection, resulting in lower costs of financial restatements and auditing research. Costs to firms may prove prohibitory, however, and the results of the SEC’s investigations of the effects of securities laws and SOX on small public companies will be interesting in this context. The SOX Act has both positive and negative current and potential effects, mainly over the costs and the benefits.

People who support SOX claim that it was a compulsory law which had to be passed especially after the breakdown of Enron and other such companies as it has played a beneficial role in re-establishing and maintaining public confidence in the nation’s capital markets and also reinforcing corporate accounting controls. While on the other hand, people who are against the legislation state that it has cut down America’s worldwide competition against Foreign Service providers, claiming that the use of SOX has caused the initiation of a very complex and narrow environment into the US financial markets.