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MAY 2011

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A MANUFACTURING
REBIRTH IN THE USA?

USING ECONOMIC
DATA TO BEST
ADVANTAGE



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The Age of Transparency

The Internet, social networking and blogging are making the world a radically more transparent place for business. Two authorities on digital strategy urge companies to develop a more systemic approach to corporate transparency, including rethinking what information should be made available.

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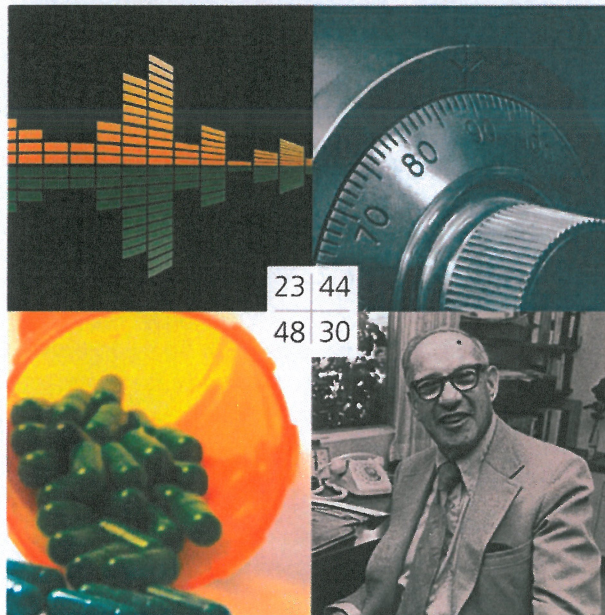
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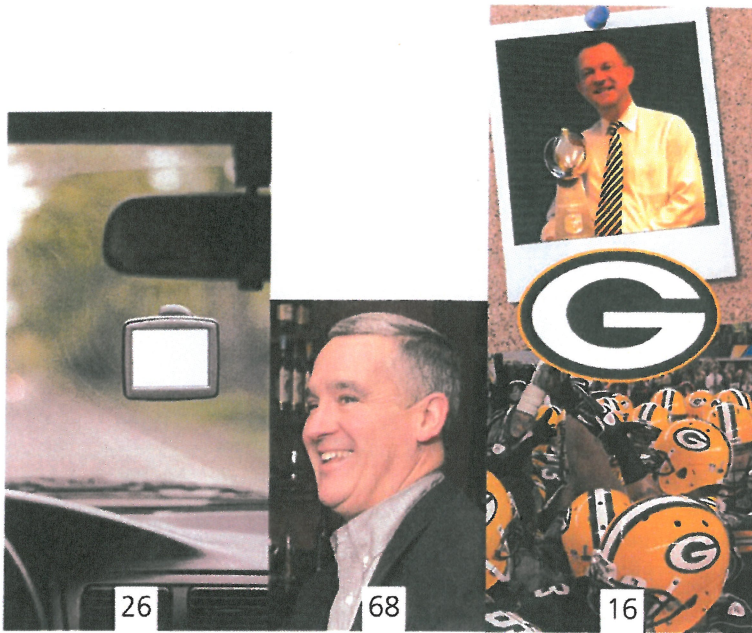
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Though reasons for shared service centers vary, one key consideration absent from the discussion is indirect tax.

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New Technologies Key to Business Continuity Strategy

Traditional crisis management strategies have proven insufficient and now forward-looking companies are utilizing new technologies to ensure the safety of their people and assets as well as the on-going viability and competitive advantage of the company.

By David Sarabacha

To Outsource or Not? Hard Data Simplifies the Decision

A sluggish economy forces businesses to do different things. Some outsource key processes; others take them back in house. Deciding whether to outsource a key business function is complex, but it's easier when a client can monitor the service provider's performance.

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The Consistent Inconsistency

While the accounting profession tends to think of itself as one focused on the long term, its history of regulation and change disputes that notion. The rate, frequency and inconsistency of regulatory and standard changes indicate a reactionary focus to external events. Because of this frequently dramatic changing landscape, the skills needed for today's financial executives bear little resemblance to those needed 15 years ago, and perhaps this is the major reason for such high levels of turnover at the chief financial officer level.

Consider a few of the developments that have occurred over the last few decades and their impact on the profession:

1994 Derivatives. Orange County, Calif., lost \$1.6 billion investing in leveraged derivatives and filed for Chapter 9, causing it to become the largest municipality in United States history to declare bankruptcy. No GAAP derivative transparency requirements existed at the time. FAS 133 *Accounting for Derivative Instruments and Hedging Activities*, issued in 2001, is widely considered one of the most complex standards ever written.

2001-02 Frauds. Enron Corp., the seventh-largest U.S. company in 2000, went bankrupt in 2001. Worldcom Inc. announced in 2002 that it had overstated income by \$3.8 billion. Fraud does exist and auditors have not been successful in detecting it. In response, Congress passed the Sarbanes-Oxley Act of 2002.

2005 SEC Lease Accounting Clarification. Clarification by the U.S. Securities and Exchange Commission regarding FAS 13 resulted in hundreds of restatements. Companies and auditors can no longer take solace in a position they have successfully taken for years as the SEC clarification effectively blindsided current professional practice.

2006 and 2007 Fair Value. The Financial Accounting Standards Board announced its intention to record balance sheets at fair value with the passage of FAS 157 *Fair Value Measurement* and FAS 159 *Fair Value Option*. FAS 157 was the first true principles-based standard published by FASB.

Besides traditional accounting and reporting, today's financial executive needs to understand internal controls, derivatives and FAS 133 hedging requirements, while also preparing for fair value measurements. The only consistent thing about the profession is its inconsistent history and frequency in enacting change.

Because of the frequently changing landscape, the skills needed for today's finance executives bear little resemblance to those needed 15 years ago.

The Finance Executive and the Future

We see the convergence of GAAP and International Financial Reporting Standards as dominating the landscape over the next decade. The ramifications are huge if you imagine that a financial executive's GAAP knowledge can be made obsolete with the change to a principles-based system.

Financial executive roles are also changing with regard to operations, with the realization that the CFO is in a unique position to identify drivers of cost, revenue and efficiency. Top financial executives have visibility into the underpinnings of an organization, a role that will allow for the greatest positive operational impact.

Here are some additional skills needed by financial executives over the next decade: **Operations and Risk Management.** Nobody is in a better position to review operations and identify true risks to an organization. Since much of the operating risk has already been

transferred to CFOs by Sarbanes-Oxley, this is a logical progression based on historic regulation. The focus on operations will involve the CFO abandoning, though still being ultimately responsible for, traditional accounting and reporting as the finance team supports and partners with operations.

Strategy. Business strategy has been driven by chief executives with little input from finance. The increased operational role of the finance executive makes a perfect practical counterweight to a sometimes over-optimistic CEO. Reviewing long-term strategic ramifications with the CEO to discover flaws before initiating could save a company or career.

Delegation. So how does a finance executive maintain historic CFO duties and absorb additional operations, risk management and strategy duties? By learning to delegate to staff, while somehow maintaining control of the output.

Relationship-Building and Collaboration. Finance executives need to be key relationship builders. Relationships are best thought of as partnerships and could be with a CEO, general manager, external auditor, key customer or current staff. Imagine the conversations with an external auditor in support of IFRS changes. Tomorrow's finance executive needs to be focused purely on results, nothing less; building strong relations based on trust and collaboration furthers this need.

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