

Today's accounting professionals are called upon to provide deeper and more diverse insights and advice to clients than ever before. As corporations grapple with continuously evolving challenges, ranging from expanded regulation to risk evaluation to rapid globalization, their independent accountants and business advisers must keep a step ahead of the curve in developing the strategies, systems, and specialized expertise to meet these changing client needs. Timothy P. Flynn, Chairman of KPMG International, and Chairman and CEO of the U.S. member firm, KPMG LLP; and Mark Goodburn, Vice Chairman and Head of Advisory of KPMG LLP, recently met with the *PQR* team to discuss this challenge and KPMG's strategic response. >>>

KPMG LEADING EXECUTIVES DISCUSS THE CHALLENGE OF
SERVING EVER-BROADENING CLIENT NEEDS

Cutting-Edge Accountants



Timothy P. Flynn, Chairman of KPMG International; Chairman and CEO of the U.S. member firm, KPMG LLP (right)

Mark Goodburn, Vice Chairman and Head of Advisory of KPMG LLP (left)

PQR Conditions are changing dramatically for the senior accounting and financial executives of major corporations. What are some of the global market dynamics that are reshaping the roles and responsibilities of these executives?

Timothy Flynn Numerous factors are making the duties of senior financial executives more complex. Perhaps most challenging is the ever-growing number of interrelationships to be managed. Globalization spreads a business across national boundaries so that companies face new competitors, new regulatory standards, and sourcing issues that include everything from supply chain to human resources. Financial markets and instruments have become more complex. And the speed of this change is only accelerating.

PQR Mark, you head KPMG's U.S. advisory business, which currently accounts for 29% of the U.S. firm's revenues. How would you characterize the changes you have witnessed there?

Mark Goodburn Our advisory business focuses on the goals and responsibilities of the CFO, what I call the "CFO Agenda." I wake up every day and think, "What are my clients facing today?" The answers to that question include the challenges of globalization, cost optimization, the credit crunch, changing information technology, acquisition assessment, and value preservation, as well as governance, risk, and control issues. Some of these challenges are new to CFOs; they all are expanding and evolving.

And the stakes have gotten higher. Over the past decade, the corporate role of chief operating officer has shifted, with many COOs' traditional duties moving to the CFO. The CFO is the new primary confidant and adviser to the CEO, which brings heightened expectations that the CFO may be heir to the CEO. With this kind of pressure, and the expanded job responsibilities, CFOs today are close to Superman or Superwoman, in my book. They need skills well beyond accounting and finance. They must be outstanding leaders, strong communicators, and capable of managing a lot of moving parts.

PQR Timothy, as the Chairman of KPMG International, you have a unique vantage point on the global pace of change that corporate executives today face.

Timothy Flynn I do, and it would be hard to overstate the enormous impact of globalization and emerging markets. The shifts in economic power and market capital have surpassed all predictions. Emerging markets now account for 40% of the world's exports. Twenty years ago, only 27 countries had GDP growth of 4% or more. During 2007, 120 countries enjoyed a GDP growth rate of 4% or higher. Three years ago, all of the world's 20 largest public corporations, as measured by market capitalization, were based in the U.S. or Europe. At the end of 2007, China was home to seven of those 20 largest public companies.

Asia Pacific is the fastest-growing region in the KPMG International network of firms. Our business in the Asia Pacific region increased by more than 20% during 2007, while our business in China alone grew by 35%. The opportunity

for KPMG is to leverage our Big 4 global platform and provide an outstanding end-to-end client experience.

From a personal perspective, I see the change as well. I joined KPMG in 1979 and did not even have a passport until 1988. Now I travel around the globe regularly, and international calls at 4 a.m. and 9 p.m. are a normal part of my day.

PQR Will this globalization soon lead most U.S.-based major corporations to adopt IFRS (International Financial Reporting Standards) as the global accounting standard? That will be quite a task for corporate financial officers.

Timothy Flynn I think a shift to IFRS in the U.S. will occur, though it's a massive undertaking that will take several years. Certainly, no one can argue with the logic of having a common global business-reporting language. Yet changing the accounting standards for much of corporate America from the currently used U.S. GAAP (Generally Accepted Accounting Principles) to IFRS will be a huge endeavor.

This shift to IFRS will require a comprehensive education program that must extend to academia, as well as all current professionals, and prepare the regulators who will monitor the new reporting system. Throughout the process, we must remain focused on investors. Financial reporting is designed primarily for the benefit of the investor, so the most important piece will be to ensure that investors clearly understand any new or revised reporting procedures. KPMG is committed to playing a major role in working with the profession in assuring the smoothest transition possible for our clients, our people, the academic community, regulators, and investors.

Mark Goodburn Few U.S. CFOs have been trained in IFRS, and until a year ago or so, the prevailing sentiment was, "Oh, I will be finished with my career before IFRS is adopted." Now it appears that IFRS will eventually become the global standard, and countless issues and side issues will spring out of that change. The accounting industry will bear heavy responsibility to get U.S. companies from here to there. At KPMG, we have already built our methodology and our training programs and applied them as we assisted many European companies with the conversions, so we are experienced and ready to guide clients through this process.

PQR Risk management must be another important current priority for your clients.

Mark Goodburn It's true that C-Suite executives historically treated risk as an outlier in the decision process, an afterthought. Their decision matrix factored in technology, employee, and process issues, but didn't give due attention to risk factors.

The lack of a risk management process is like riding a roller coaster. As you climb the first incline, you know risk is there, but it's still out of sight. You are getting nervous, but take comfort from the fact that a lot of people are in the cars with you. Then, risk takes hold and pushes you left, right, and upside down, and your goal is simply to keep your business on the rails. You don't have a full understanding of the risk until you are at the top of the incline looking down, and by

that time, things are moving so quickly, it's difficult to maintain control.

With the dot.com craze, the S&L crisis, and the current credit crunch, people focused on the reward side of the equation rather than the risk side. At KPMG, we have risk awareness built into our professional activities and our systems. It takes discipline, and it's no fun to remind people of what they don't want to hear. But it's essential. We help our clients manage risk, not remove it, because eliminating it removes the reward. But we try to be forward-looking, so as to control risk.

Timothy Flynn Managing risk is a multistep process. First, we help our clients understand the risk they face and decide what is an acceptable level of risk for their company to bear. Then we work with our clients to mitigate risk, to keep the risk within the client's tolerance level. Finally, we create a system that will prompt the client to periodically revisit and refresh the risk evaluation so surprises won't arise down the road.

PQR We've touched upon a few of the many challenges confronting your clients. How does KPMG stay in the forefront in identifying and addressing these needs?

Timothy Flynn The strength of our practice is our ability to anticipate change and stay ahead of the curve. Clearly, staying ahead of the change curve provides much more control than running behind the curve to catch up, or simply reacting. We serve clients with teams that join a variety of skills. Our industry professionals possess a deep knowledge of specific industry practices, procedures, and risks. Other team members bring a proficiency in functional skills, such as complex financial instruments or international reporting standards. We bring those areas of knowledge together, along with an ability to manage complex projects.

KPMG has a huge global footprint, with 123,000 employees in 145 countries around the world. Those employees function with a global consistency and common methodology that is invaluable to clients.

Mark Goodburn With globalization, the reality is that most problems faced by corporate executives are not down the hall. They are thousands of miles away. Our clients value our ability to connect a variety of specialists with the goal of solving their problems in a way that can be consistently applied throughout their organization.

To me, there are three key elements to KPMG's success. First, I believe that the most rewarding assignments go to the firms that can assemble the superior global teams of specialists to address client needs, as Tim outlined. Secondly, I believe that staying in the forefront in acquiring and cultivating specialized skills is imperative. And by "specialized skills," I mean next-generation skills, the skills that will address client needs that are still out on the horizon. The specialized skills of a year or two ago are now merely commodities. Finally, I believe we each have a responsibility of stewardship, to work to advance

our clients, and our own careers and those of our colleagues, giving them new knowledge and experience.

PQR How does KPMG help its employees advance their careers? What skills and experiences are most important for success in this rapidly evolving field?

Mark Goodburn What's needed are good analytical, communication, and problem-solving skills to address the changing business challenges that often figure prominently in the news. You may not think of accounting as a cutting-edge profession, but, in fact, it is.

Global job rotation, training programs, and mentoring help our employees develop their skills, advance their careers, and keep current. Of our 23,000 U.S. employees, currently 2,500 are on global rotation assignment. I see mentoring taking place through our formal programs but informally as well. Personally, I believe you need many mentors with varied experience, and you'll want to be in contact with them throughout your career.

Timothy Flynn At the heart of our training efforts is our commitment to embedding professionalism and integrity into everything we do. For the last three years, we have been working to create a model Ethics and Integrity program that will serve as a standard for the accounting profession and industry. This is crucial to the development of our employees, to our clients, and to the capital markets we serve.

PQR In an industry that greatly relies on highly skilled professionals, how does KPMG attract and retain the necessary superior talent?

Mark Goodburn There are few places on the planet that have as much to offer an employee as KPMG. *BusinessWeek* has included KPMG on its list of the best places to launch a career in 2006 and 2007. For more experienced professionals, the opportunity for career advancement is tremendous. There is latitude for geographic relocation, for shifting to different business groups, and for obtaining a new specialty skill.

I never could have painted my path with this firm when I began here as an auditor. It has been a rewarding path that has kept me on the forefront of global business trends. That is what attracts talented professionals to KPMG—the ability to shape their own careers, address timely business issues, and know that they are adding value.

Timothy Flynn I could not agree more. Look at the work environment. You have the opportunity to work with extremely bright colleagues and clients. You are on the forefront of change, helping to solve problems, adding value, working with the most sophisticated companies and investors in the world. It's a challenging, invigorating, sometimes demanding environment, but ultimately, the work is extremely rewarding. That's true for me and everyone else at KPMG. ■

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