streetwise

BY STEPHEN BARLAS, ROBERT RANDALL, CURT VERSCHOOR, CHRIS WALDORF, KATHY WILLIAMS

[NEWS]

Is Offshoring for You?

Kathy Williams, Editor

OFFSHORING, OR MOVING SOME OF YOUR COMPANY'S OPERATIONS TO another country, has gone from "leading edge" to "absolute necessity" in just over five years, according to a recent study by Gunn Partners. In fact, GE, Ford, HP, American Express, Standard Chartered Bank, and other corporate giants are sending thousands of jobs overseas and are experiencing exponential savings, Bob Cecil of Gunn Partners explains. Their favorite destinations are India, China, the Philippines, Eastern Europe, Costa Rica, Malaysia, and Mexico, but India is the leading offshore market for white collar positions, such as customer care, IT development and support, payroll, engineering, and loan/claim processing. In fact, GE Capital does the bulk of its credit evaluations in India for more than 80 branches.

The most typical functions that are sent overseas are finance and accounting, human resources, customer service, information technology, sales and marketing, operations, engineering and development, procurement, real estate and facilities management, and environment, health, and safety operations. But offshoring isn't easy, Cecil says, and companies face some real challenges as they're getting started, particularly in defining what they want to accomplish, choosing the site, figuring out what the transition and setup will cost, and overcoming cultural and communication issues. And they must make sure they have a workable model and are ready internally before they set up shop in several locations. Gunn Partners also notes that multi-shoring works better than offshoring. That's where not all of the processes are moved at once and there are operations in several locations—sort of a global network.

Before a company takes the plunge, it needs to consider several critical success factors, Gunn Partners says. For example:

- Executive management must be wholeheartedly in favor of the idea and must be aware of the technical, managerial, and political considerations beforehand so they can give their support.
- A company must have a compelling vision and a clearly defined strategy, including a blueprint for execution.
- It must have a "bulletproof" operational model that incorporates onshore, nearshore, and offshore components.
- It must have a "change management" program in place. This will be a cultural change for the organization, so it must think and act globally and be ready to deal with a raft of cultural issues from labor to communications

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GLOBALIZATION JOB LOSS?

Claims of massive job loss in America because of globalization of the economy are exaggerated, says workplace authority John A. Challenger, CEO of the international outplacement firm Challenger, Gray & Christmas, Inc.

"The movement toward a global economy and workforce will be filled with disruptions and hardships. The globalization of manufacturing has stranded many people in their 40s and 50s… but there's no reason to think that our talented and skilled people will not utilize their skills in new directions," he noted in testimony last month before the House Small Business Committee.

He added that big companies are able to achieve the global reach to move and outsource major segments of their operations overseas and that skilled workers will follow. ■

READERS' INPUT

DR. MUNDELL IS ON TARGET

Thank you for an excellent interview in the May issue with Dr. Robert Mundell. The questions and answers were very interesting and thought provoking.

One issue that was raised was whether or not there should be corporate taxes. Dr. Mundell made some good points why there should be none at all. I agree completely.

From a simpler point of view, taxes are levied for two main purposes: one, to make people or organizations pay for services they benefit from but do not pay for, like defense, Medicare, and roads; and two, to force transfers of wealth.

Regarding the first purpose, companies pay for just about all services they use. Companies themselves do not use the major government spending categories of medical care, social security, education, or defense. Human beings do. Thus, the primary use of corporate taxes would seem to be for the second purpose.

Yet, in order to generate market rates of return for shareholders in competitive markets, companies have to either charge higher prices, pay employees less, or move to a lower cost location. Higher prices would seem to affect all groups relatively

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[ETHICS]

Should Finance Influence Ethics in Other Functions?

by Curtis C. Verschoor, CMA, Editor

AS CORPORATE CONTROLLER, STEVE SMITH IS REQUIRED TO HAVE RELATIONSHIPS with every function in the company. Steve's assistant controller for budgeting and planning is responsible for guiding the process for CEO approval of the expense budgets of all staff functions. He also manages the annual budgeting and long-range planning process for all of the business units.

In years of dealing with the business unit general managers, Steve has become psychologically attuned to a fair degree of political gamesmanship. Generally this involves ordinary politicking and "keeping in" with the CEO that management, Steve included, expect and practice discreetly. Recently, Steve has noted that Susan Johnson, the general manager of the Plano Division, has appeared to really push the envelope of collegiality that's present in the rest of the company. Susan appears to take every advantage of company policies to meet her personal goals without considering their long-run implications or the effect on others.

Specifics Steve has noted include:

- Always "managing up"—always pleasing the CEO without considering additional burdens placed on employees or long-term customer goodwill.
- Reneging on verbal agreements made with staff departments. Plano is always the last division to report results even when someone follows up with them regularly.
- Running her business on a patronage basis—to secure loyalty to her personally rather than emphasizing long-term performance and the best use of resources. Others have learned to never ask Susan for something unless they are prepared to give something in return.
- Stretching the truth to almost telling barefaced lies to account for difficulties or shortfalls.
- Instructing her staff to disregard established policies when necessary, but never doing so in writing or to more than one individual at a time.

To the rest of the company, Susan maintains, with consummate plausibility, the façade of a cheerful, straight-talking person.

During this year's budgeting process, Steve became upset that Plano seemed to get the easiest goal for next year of any area in the company. In effect, this meant that the other business units and staff functions would have to work extra hard to enable Plano's executives to share in the company-wide bonus pool. In the past two years, Plano has failed to make its targets yet still has been able to share in the bonus pool. Steve tried to put aside any personal feelings, but he was determined to find out why his analysis of the situation had failed to persuade the CEO to upgrade this year's performance targets for Plano. Follow-up with the division controller was unsuccessful in revealing anything that would justify these outcomes.

Steve's major concern was that Susan seemed to openly flaunt the ethical values he thought the company stood for and that were so widely practiced in other business segments. He wondered whether he should abandon

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[GOVERNMENT]

Pushing and Shoving on Tax Bill | Stephen Barlas, Editor

ALTHOUGH PRESIDENT BUSH'S tax cut proposal didn't touch the 35% corporate tax rate, that hasn't stopped various business groups from pushing various proposals on Congress as it prepares its version of the President's plan. At the behest of the technology industry, a number of representatives and senators in both parties have introduced bills that would allow companies to bring back profits made overseas to the U.S. and have those profits taxed at 5.25% for one year. This idea has support from both Republicans and Democrats. The kicker here, though, is whether the companies should

Business groups are pushing proposals on Congress.

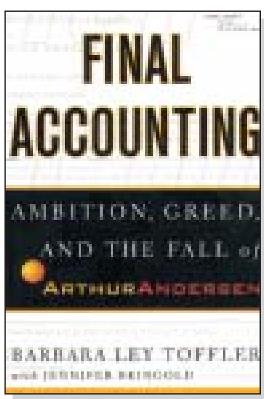
have to agree up front on how to spend those tax savings. Sen. John Ensign (R.-Nev.) requires that the profits be invested in hiring and training of workers, infrastructure, research and development, and other things. But there's no way a "5.25%" bill will pass if members have an inkling that the tax savings will go to salaries and benefits of top executives.

Other Republicans and Democrats have the polar opposite idea. Reps. Don Manzullo (R.-Ill.), Phil Crane (R.-Ill.), and Charles Rangel (D.-N.Y.), the latter two top members of House Ways & Means, have introduced the Job Protection Act of 2003, which cuts the 35% corporate rate to 31.5% if a company's products are produced solely in the U.S. Other companies would receive a sliding-scale effective rate reduction based on *continued on page 6*

BOOKS

The Fall of Arthur Andersen

✷ **ONE FORMER PARTNER OF ARTHUR ANDERSEN** called the 88-year-old prestigious firm "the Marine Corps of the accounting profession." But former partner Barbara Ley Toffler says in its last years it felt more like *The Firm*, a real-life version of John Grisham's novel.



In *Final Accounting*, published by Broadway Books, Barbara Ley Toffler, along with Jennifer Reingold, describes her four years' experience selling ethics programs to Andersen's clients. The firm's founder was the very model of integrity, religiously following his maxim, "Think straight, talk straight." But in the boom '90s, long after the founder's death, the firm managers got so caught up in the mad scramble for power and wealth that they forgot "that the true purpose of their job was to protect the investing public."

The gold standard of excellence in the auditing profession, Andersen operated a global firm that prided itself as a leader in the public accounting arena. When Toffler joined the firm, however, she witnessed cracks in the vaunted Andersen reputation. Her partner in charge automatically doubled the fee that she had proposed for a consulting project with a client. She discovered that was the Andersen way: Because of its sterling reputation it could inflate its fees.

It was all about revenue, she learned. If the client was worth millions to the firm, then you didn't do anything that would lead that client to change its auditor. *continued on next page*

[CMA]

Father and Son CMAs

IT'S PRETTY RARE (WE THINK) THAT A FATHER WHO has earned his CMA gets to present the same certificate to his son, but Bill and Michael Bowers shared that honor recently. Michael earned both the CMA and CFM this spring and was delighted to have dad Bill make the presentation at the Albuquerque Chapter meeting in April where both are members.

Bill had been a CPA working in industry in the design and implementation of automated inventory and cost accounting for 15 years when he moved to Albuquerque and joined the chapter in 1980. "I was impressed with the quality and scope of the CMA exam," he explains. "I came to believe that it was a more appropriate certification than the CPA for professionals in the field of management accounting. I was teaching in the business department at New Mexico Highlands University when I began working on the exam, which I completed in 1991 at the age of 56. Ernie Huband [former IMA President] and I challenged each other to see who would successfully complete the exam first, and I'm happy to say it was a draw! Ernie and I passed our final part at the same time."

Not only is Bill a past president of the Albuquerque Chapter, but he served on the ICMA Board of Regents in 1997-1999.

Michael received his MBA from the R.O. Anderson Graduate School of Business at the University of New Mexico in May 2002 and is working as a consultant to a new Internet-related business start-up in Santa Fe. He had decided to sit for both the CMA and CFM exams as he had handled the accounting for his previous telecommunications business, had studied both accounting and finance in his MBA program, and wants to become a financial analyst, particularly in the field of security analysis. He also credits the CFM exam with helping him be prepared for level one of the CFA exam, which he sat for recently.

Dad Bill Bowers congratulates son Michael.

And did the two compare scores? "Michael's were much higher than his Dad's," Bill laughs. ■

[BOOKS] *cont'd from p. 3*

Clients were routinely overbilled for nonaudit services in what she characterizes as "Billing Our Brains Out." She learned realistic budget targets would be blithely tossed aside in favor of top management's grandiose numbers. She learned to market ethics programs to the firm's clients while pointing out to an unreceptive management that Arthur Andersen itself did not have an integrated ethics structure in its corporate culture.

Yet Arthur Andersen was a pioneer in the public accounting field. Under Harvey Kapnick the firm created a Public Review Board to oversee the firm and was the first accounting firm to publish an annual report, disclosing part of its finances. In 1974, he stated its philosophy: "A public accounting firm has significant responsibility to the private sector of our economy, not only to clients but also to investors, creditors and the public."

It was all about the culture, the author maintains. Some people used the term Android to describe the typical Arthur Andersen employee "plucked out of undergraduate schools not for connections, or even creativity, but for the ability to adapt and to play by rules set long ago." The rules changed as AA partners fought bloody fee-sharing battles between each other and the consulting branch, which eventually was spun off as Andersen Consulting and then divorced itself completely from the Andersen imprimatur by changing its name to Accenture.

Then the dominoes began to fall: Waste Management was followed by failed audits at McKesson-HBOC, Global Crossing,

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to training to leadership.

- It must undergo an objective, fact-based assessment of suppliers, markets, and specific locations. This is a fast-growing but relatively immature marketplace, Bob Cecil says, and a company can't presume the same rules and stability of a U.S. or Western European culture in many of the emerging markets.
- A company must have a formal sourcing event that is fast, focused, and objective to be able to get to market quickly.
- It must negotiate strong, effective contracts with partners/suppliers.
- A company needs strong program management and communications.
- There must be a strong risk management program in place regarding service quality, technology and security, employee impact, and customer impact.

Here are some of the lessons Gunn Partners has learned as they have steered companies through the offshoring process.

- It's hard to get by without a local partner or partners to help with infrastructure, program management, and process management and to act as an advisor.
- Internal and external customer acceptance won't be easy and requires a great deal of mutual understanding and trust. Customers will be concerned about the technical, political, and employee risks, so they need reassurance.
- The most successful programs consider an offshore location as just another node on the network for global service delivery—thus the use of multi-shoring.
- Testing must include hands-on or domestic work shadowing, migration readiness testing, and operational readiness testing.
- Most offshore locations don't have "safe harbor" status, so data protection and security issues require careful attention.
- Processes and current performance data should be captured and documented.
- Implementation activities often take longer in offshore locations. Even things such as the local government changing a form can slow the process for days or weeks.

The one constant, Cecil notes, is assembling the right team of internal and external partners conversant in the challenges, risk, alternative business models, and practical requirements of making multi-shoring work. ■

WorldCom, and, of course, Enron. In this lucid account of the rise and fall of a great firm, ethics consultant Toffler focuses on a crucial paradox: "While we at Arthur Andersen thought it was important that you, the ethically challenged corporate client (who, more often than not, had its books audited by the Firm) get its house in order, we didn't feel the same compulsion to do any navel-gazing of our own. How do you sell as 'essential' programs and services that your own firm refuses to embrace?"—*Robert Randall*

[GOV'T] *cont'd from p. 3*

the value of their U.S. production of eligible products compared to the value of their worldwide production.

Legislation Would Make Changes to Pension Plans

It's no secret that corporate funding of defined benefit plans has dropped like a stone over the past few years. About 7,500 plans fell by the wayside between 1999-2002. A pension bill (H.R. 1776) introduced in April by Reps. Benjamin Cardin (D.-Md.) and Rob Portman (R.-Ohio) would help corporations by, in effect, lowering the discount rate that determines the company contribution to the plan. The rate had been tied to the interest rate on 30-year Treasury bonds. But the Treasury stopped selling those bonds in 2001. The interest rates on those bonds has plunged since then, resulting in an artificial inflation in pension liabilities, often by more than 20%, according to Kenneth Porter, director, corporate insurance & global benefits financial planning, at the DuPont Company. Porter testified to the House Ways & Means subcommittee on select revenue measures at the end of April and pleaded with members to include Portman/Cardin in whatever tax-cut bill Congress passes this year. Porter was representing the American Benefits Council, a group of corporations. The Portman/Cardin proposal permanently replaces the 30-year Treasury bond rate with the rate of interest earned on conservative long-term corporate bonds and directs the Treasury Department to produce this rate based on one or more corporate bond indices. "Action is needed by late spring in order to convince employers currently struggling with the difficult decision of whether to freeze or terminate their plans that help is on the way," Porter had said.

SEC Bars Corporate Badgering of Auditors

In April, the SEC adopted amendments to Regulation 13B2 that implement §303 of the Sarbanes-Oxley Act of 2002. The new rules prohibit officers and directors of an issuer, and persons acting under the direction of an officer or director, from coercing, manipulating, misleading, or fraudulently influencing the auditor of the issuer's financial statements if that person knew or should have known that such action could render the financial statements materially misleading.

Review of IRS Mixed

The IRS Oversight Board presented its 2003 Annual Report to Congress in April, and the report card on the IRS is mixed. First, the IRS is in the unenviable position of trying to audit more returns, many of which are more complicated than in the past, with fewer employees. To improve productivity, the IRS began the Limited Issue Focused Exams program to increase the efficiencies in large business audits. That has been successful. Still, the Oversight Board criticized the IRS compliance report on the corporate side. The exam coverage rate for large businesses over $10 million declined from 25% to 15.5%. In areas of high growth in returns filed, such as partnerships and mid-sized businesses filing 1120S returns, coverage rates have also declined dramatically. ■

[ETHICS] *cont'd from p. 2*

his own ethical precepts of "fairness for all" and "nose around" to see if he could turn up anything that might cast some cloud over Plano. He believed it was part of the controller's job to see that each manager's effort was measured fairly and that there was a "level playing field for all."

QUESTIONS:

1. Is this really an issue of ethics in the workplace?
2. Should Steve discuss this issue with someone? Whom?
3. Should Steve take other actions? What?
4. Is this an issue that is covered by the IMA Standards of Ethical Conduct? How?

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equally, and the same with paying employees lower wages. If a company moves to a lower cost location, then everyone loses.

To me, I would rather have greater job opportunities or earn a higher salary, rather than force companies to fund government social programs. If the federal and state governments eliminate corporate taxes, I believe companies would have more operations in this country, there would be more jobs, and everyone would benefit.

Chris Waldorf, CMA