



China Shared Services

Coming of Age



Going Social

How businesses are making the most of social media



Invest In China
Free iPad App

Available on the
App Store

C.O.O. Agenda

CONSULTING

March 2012 / ISSUE 2



KPMG's COO Roundtable

KPMG's COO Roundtables continue to be developed. We now run them across different industries, they function as a forum for likeminded individuals to develop ideas and share concerns.

With the aim of providing a venue for COOs to discuss the critical issues they see day to day, the roundtable also provides a safe environment for potential solutions to be debated.

A venue to discuss and debate critical issues.

This insight document summarises the high level discussions that were debated during the previous month's roundtable. It also serves as a reminder of what we saw at a specific point in time and as an informative update for those COOs who were unable to make a roundtable due to their busy schedules.

Uncertainty is the key word

Late last year, the COO Roundtables revealed that many COOs were still dealing with survival issues of their organisations. We are now in a new calendar year, and many have survived, with some bruises and maybe a loss of a limb or two.

In such turbulent times, developing strategies that are longer than six or twelve months is proving difficult. There is a lot of uncertainty still in the market. Many have described the

issues in Europe as still being a major concern. However there was a feeling of some stability.

Many organisations have embarked on a divestiture programme. Formalised and more stringent cost reduction programs have been put in place and several organisations were getting a lot tougher on all aspects of cost management.

Of interest are the Chinese COOs who, in some cases, had the ability to do strategic investments more than their Western brethren.

One thing is certain in this uncertain environment - people are prioritising projects and investments.

**STRATEGIES
NEED TO
BE MORE
DYNAMIC
IN THE
MIDST OF
UNCERTAINTY.**

Challenges of the COOs

Some of the challenges organisations are facing now:

Economic conditions

Given the uncertainty, there was a mixed feeling of what the economic conditions really meant at this moment. It was interesting to see the different feelings of whether the last couple of months, where there had been some positive indicators, and whether they really were going to be here for the medium or longer term.



This did not mean that Chinese entities did not face difficult conditions but they were able to consider more strategic investments.

Similar to the last Roundtable, people were feeling very uncomfortable about what was happening in Europe. A number had stress tested their vulnerability there. It was difficult for a number of COOs to manage this if they were part of major Western organisations. Many of these entities were expecting significant growth in Asia but had limited capital investment to provide for this growth. A number of COOs were still being tasked with doing more with less.

The uncertainty was creating significant issues in developing strategies for large institutions.

Of interest, is that many organisations were not facing a talent drain. Many financial institutions did not have the expected shortfall in recruitment. Financial Services was still seen as an important place to work and develop a career.

The economic impact did vary if one was a Chinese or Western entity. This did not mean that Chinese entities had an easy ride but they were able to consider more strategic investments.

Consolidation to a leaner business model

The refinement of the Target Operating Model is still a key focus. Many COOs are determining whether the TOM fits within the current feeling of what revenue levels would be. The regulatory environment was also forcing entities to assess where they would be located, specifically which geographies they would be in.

A number of COOs commented on the need to get a better handle on the costs of compliance. Many expected they could potentially pull out of a country if revenue targets were not being

met and the cost of compliance was too high. Yet there was recognition of a major risk here if one did pull out of a country and what the ramifications would be, especially if they wanted to come back.

This dilemma with many others were generating significant reviews by COOs on what their operating model, infrastructure and systems would be. This could lead to many different things being considered including, amongst other things, transfer pricing.

There was still a lot of restructuring going on and this is likely to continue especially if the markets and revenue do not pick up.

Regulation, regulation and more regulation

The biggest topic of discussion was the changing regulatory environment.

For those COOs in Financial Services, they were facing some significant challenges in meeting the changing expectations of the regulators. It was expected by many that this regulatory environment would continue for the next three to five years. Within this period, we may face another crisis which will further dent the confidence of consumers and therefore place more pressure on regulators to do something.

This regulatory change was not just happening for Western entities, many Chinese companies were used to this constant fluidity in rules and regulations.



Strategic projects are being delayed to meet compliance and regulatory needs.

There was a discussion on the need to have a clear strategy with the ongoing regulatory transformation. Financial Services entities had already started building up their compliance and regulatory teams, although there was the view that there is still much to do.

It was not just how a company needed to operate in a country that was critical, but also what this meant from various other perspectives including tax.

Meeting the compliance requirements of the regulations were forcing many COOs and business leaders to divert capital and operating investment to fund this compliance. Less funding was left for more strategic projects. For Financial Services, the funding for compliance would be the biggest expenditure for the next six to twelve months.

Regulatory Transformation

In these uncertain times where active regulators are driving through some challenging regulations, it was envisaged by many COOs that one needs to face and accept this as a reality.

Many had taken a long while to get something organised in their organisation.

The rules and regulations required significant efforts to comply. This was adding to the cost of compliance for an organisation. This was now part of the cost of doing business whether one liked it or not.

Therefore it was critical that COOs looked at their target operating model for all aspects of their business. People, processes and technology needed to be looked at.

Everyone realised that a regulatory programme needed to be designed, developed and implemented.

Babak Nikzad

Consulting
Partner In Charge



babak.nikzad@kpmg.com
+852 2978 8297

Egidio Zarrella

Clients and
Innovation Partner



egidio.zarrella@kpmg.com
+852 2847 5197