



Emerging capital markets

and the implications on CFOs and corporate finance professionals

Global finance professionals grow more connected every day,
as CFOs, accountants and other financial executives are
increasingly affected by what occurs outside their country's borders.

In the U.S., multinationals employ over 30 million Americans — one-fifth of the entire private sector workforce. This number has been steadily rising at a rate of around 2 percent annually in recent years (U.S. Department of Commerce), providing more evidence of an increasingly global economy.

The financial world no longer centers solely on Wall Street in Lower Manhattan or 10 Paternoster Square, the London FTSE's home. The playing field has become international and the most successful players win by truly thinking and acting with a global mindset that's inclusive of both traditional and non-traditional marketplaces. While emerging markets continue to evolve and grow in importance and consequence in the worlds of business and commerce, finance professionals need to step back and think about what kind of affect these markets are or will have on them and their organizations. And, most importantly, they must find ways to prepare and embrace the opportunities arising from these foreign — but no longer distant — places.

Where finance and emerging markets meet.

Increasing linkages in global financial markets coupled with the development of thriving regional economies, especially the BRIC (Brazil, Russia, India, and China) markets have heightened the need for financial professionals who understand both global and local markets. There is growing demand for accounting and audit professionals to enhance their knowledge and skill sets toward a global span of comfort

(particularly those in the U.S. given the high number of domestic multinational organizations). Currently these U.S. professionals and their colleagues overseas at the International Federation of Accountants are developing a set of universally accepted international accounting standards (IFRS) in tune with the globalization of the 21st century.

CFOs accustomed to U.S. GAAP accounting and reporting standards — long regarded as the most rigorous and transparent — must now leverage their knowledge and expertise to build strong organizations in new markets. By identifying and analyzing rapid shifts in markets, technologies, customer needs, and products, financial professionals are helping their companies develop strategies to improve financial performance.

The BRIC markets have been champions of the emerging markets. Solid economic fundamentals, rising domestic consumption and high commodity prices leave the BRIC markets less vulnerable to external shocks than more developed markets, although they are not as decoupled from Western economies as they'd like to be.

Finance professionals will continue to bring their experience in multinational companies and global consultancies to emerging markets as more and more U.S. companies look to expand into these high growth business development areas. Major brands like Wal-Mart, Verizon and Viacomm continue to pursue opportunities to



bring their products and services into these less exploited markets. Those finance professionals with the right credentials and experience can help their companies capitalize on globalization by introducing harmonized standards while lowering governance costs through outsourcing and technology standardization. By striving to reduce complexity through simplifying compliance standards, improving supply chain management, skillful talent management, and strategic planning input, finance professionals are vital members of their companies' executive teams.

Challenges and opportunities.

Perhaps the greatest contribution financial professionals can make in emerging markets is to improve operations by taking a strategic rather than a strictly operational view. Ultimately, the CFO should develop a strategy for finance/accounting to become the rock solid source of information and analysis for the entire company — at headquarters, in established and emerging markets. It's a tall order.

CFOs and their staffs should set the standard for financial reporting. They should examine all the reporting units in their organization, identifying and then repairing disjointed and inefficient practices. By bringing strong business

and financial sense to an organization, they can make an impact not only on their companies, but also on their industries. There is a long list of tasks and charges that finance professionals with global mindsets can bring to bear.

For starters, consider:

- Establishing a unified chart of accounts for all reporting units
- Using shared services whenever possible to shore up standards
- Developing meaningful benchmarks to measure and improve performance
- Overseeing enterprise-wide IT accounting systems
- Using finance tools to measure risk and align it with business objectives

The rewards of successful implementation are huge. Finance becomes top management's strategic partner, helping the company make better decisions, set performance metrics, and provide a framework for M&A activities. Applying these principles and skills sets in emerging markets should also incorporate the host country's unique needs and circumstances.

“Overseas experience is widely regarded as an unalloyed positive for would-be CFOs. And, as even small companies increase their global presence, time abroad may become more important for aspiring finance chiefs.”

The BRIC countries.



Brazil, which was recently crowned the world's largest emerging market, represents South America's strongest economy. Industries like agriculture, manufacturing and mining keep the economy afloat. Of particular note is state-run oil behemoth Petrobras which holds the title as the largest emerging market company based on its market capitalization. In addition to these goods producing portions of the economy, financial services and the service sector are also growing at a rapid pace, increasing the demand for more highly skilled and educated workers to balance out the labor picture in this country.



Despite recent economic turmoil which has had an impact on **Russia's** markets, in 2007 the Russian economy experienced its ninth consecutive year of financial growth thanks to dynamics like rising oil prices, increases in foreign investment, and a less volatile government situation. Exports like oil, natural gas, metals and timber are all vital to the economy, but the country also boasts the highest number of college graduates in Europe. The level of education in the Russian workforce continues to create opportunity in the financial markets, while the health, science and technology industries also experience high levels of growth.



India currently needs high-performing financial executives with specific expertise. Cross-border takeovers involving Indian companies, notably Tata Steel's \$11 billion acquisition of Anglo-Dutch steelmaker Corus and Vodafone's \$11 billion purchase of controlling interest in Hutchison Essar, require advanced M&A expertise and the ability to work across organizations.

India's poor infrastructure and daunting bureaucracy also make it complicated to recruit competent financial personnel for Indian assignments. India's successful push to get outsourced jobs from U.S. financial firms, the shortage of skilled middle managers, and a talent hunt that may make hiring an expatriate manager cheaper than a local hire require masterful recruiting skills.



China presents different challenges. Its manic growth has been followed by a swoon in 2007 persisting into 2008. Yet China represents extraordinary opportunities for its developing financial markets. Rapidly transforming from a centrally planned economy to an emerging capital market economy, China needs savvy financial professionals to manage its growth. China is becoming more competitive as it opens its markets to Qualified Foreign Institutional Investors, allowing more foreign participation in the financial service sector and promoting reform of its domestic financial institutions.

What it all means for your career.

New career prospects in finance stem from embracing accelerating changes in the world's financial markets, both established and emerging. Today's global finance executive operates in a turbulent world economy. The past year's roller coaster ride in the capital markets shows no signs of abating, heightening senior finance people's stake in bringing stability and mitigating risk in their firms. Companies need a financial leader's steady guidance to analyze risk for the corporation. Added value is placed on those finance executives who can function and even thrive in a tough, rapidly changing global business environment.





Finance executives operating internationally face complex challenges such as the globalization of ramped up multi-national corporations; the need for uniform cross-border accounting systems; developing a workforce that balances local talent with expatriates; and outsourcing labor. Today's CFO should be as comfortable in Shanghai and Mumbai, Sao Paulo and Moscow as he or she is in the OECD nations.

Downsizing and layoffs in the U.S., a hankering for a scene change, or a deliberate career move may make an emerging market assignment attractive. It's also an excellent opportunity for a financial professional to overcome the "number-crunching" persona so often attached to them. Developing a career plan for CFOs, accountants on track to be CFOs, and those with eyes on the "C" suite, a global perspective, flexibility, diplomacy, and good timing can be gained overseas. In an emerging market assignment, the executive has the chance to hone critical people skills based on mastering speed to competence in recruiting and developing employees, learning how to influence people beyond their span of control, and making immediate connections to local/global business projects. Networking at business lunches and cocktail parties, addressing small groups of stakeholders and business leaders, and adjusting to local customs are just a few examples of the invaluable skills that can be learned overseas.

Becoming a bi-cultural finance executive.

Knowing how best to fill critical talent gaps can spell the difference between success and failure in an emerging market assignment. Homegrown financial people in emerging markets are products of educational and cultural systems struggling to adapt to a 21st century economy. U.S.-based executives may also consider outsourcing, trying to balance costs, quality and performance. Dealing with finance professionals with different cultures, work styles, and performance expectations challenges the CFO to strike the right position regarding outsourcing. One popular solution is hiring the best local talent available, and then training them either at the global or regional headquarters to ensure competency in enterprise-wide standards and processes.

The ideal candidate for an emerging market posting may be a bi-lingual, bi-cultural executive. There is intense competition among recruiters for these candidates because they speak the host country's language, understand cultural nuances, and know their local markets. Bi-cultural financial executives are scarce because obtaining the necessary post-graduate education usually means access to funds for education in an OECD environment. Not all aspiring bi-cultural managers have the opportunity to pursue such education and the jobs such credentials promise.

Savvy recruiters and financial executives specializing in emerging markets know where to look for bright young talent who can be nurtured into top professionals. They are found at prestigious local business schools, Chamber of Commerce and industry meetings, and other social venues.

Scarce talent.

A 2003 McKinsey & Co survey of 83 global HR staffing firms showed:

- Fewer than 10 percent of China's 9.6 million young professional college graduates with at least seven years of experience had the necessary training, language and cultural skills required to work in an MNC.
- In India, only 10-25 percent of Indian's 14 million college graduates had such skills and work experience

The future of the finance/emerging markets partnership.

The global-minded finance professional's goal is building an integrated financial organization — an entity that promotes enterprise-wide standards for the chart of accounts, common data definitions and standardized processes. Developing an integrated financial delivery platform may sound simple but is the end result of years of effort by CFOs with trans-national experience.

This involves recruiting and retaining the best local and expatriate talent, and working within a framework that puts performance innovation, transparency, security and quality front and center. Dealing with idiosyncratic local accounting methods, fragmented IT systems, the hard-to-predict trajectory of emerging market risks, and the impediments to implementing good governance principles should keep the emerging market CFO busy. The challenges are great; the rewards even more so.

What's important for finance professionals to remember is the critical role they play in capitalizing on the wide range of opportunities that emerging markets present for corporations. Without financial expertise to effectively help manage funding, acquisitions, international accounting standards, risk management, etc., these expansions will not be feasible. Therefore, it becomes mission critical for multinational corporations to recruit and cultivate the right finance talent in order to execute on their expansion strategies. Finance professionals who keep a close eye on what's happening in this space and take the time to educate themselves on global finance trends and issues will benefit in the long run as corporate growth opportunities continue to be multinational, oftentimes leading to professional growth opportunities for one's career.

CFOs and risk

IBM's 2007 Global CFO Study of Risk showed substantial concerns. Of 1200 CFOs and financial executives in 79 countries:

- 62 percent reported a major risk event
- 42 percent said the company was unprepared
- 63 percent head their firm's risk management team
- Most common risks: strategic 32 percent, geopolitical 17 percent, environment 17 percent, financial 13 percent, operational 13 percent, compliance 8 percent

SOURCE: IBM GLOBAL CFO STUDY, OCTOBER 24, 2007

About Ajilon

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