

Chief Executive

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Navigating the New Normal

Listening to John Veihmeyer brings to mind the old saying, “May you live in interesting times.” His message: today, companies across every sector face an inordinate number of global challenges, many of which will demand radical transformation. After 36 years at the global audit, tax and advisory services firm KPMG, Veihmeyer would certainly have the perspective to know.

“I don’t care what sector you’re in, everybody feels like they have a new normal today,” asserts Veihmeyer, who is chairman and CEO of KPMG LLP. “Whether it’s back office transformation around finance and HR or front-end functions around approaching customers, companies are looking at literally transforming the way they operate.”

A wide range of forces—from technological innovations to threats around cyber security—are driving this transformational need, but sweeping regulatory change is the most top-of-mind among business leaders, he says. In a recent KPMG survey of 1,092 mid-market company top executives, respondents cited growing regulatory pressure from governments around the world as their top risk. “It’s across every industry sector,” notes Veihmeyer, “and every agency of federal and state governments has been active from a regulatory standpoint.”

While regulatory change is generally viewed as a matter of compliance, the types of regulatory action today—think Dodd-Frank and the Affordable Care Act—can necessitate fundamentally changing operational models. Companies in the healthcare industry not only need to build the systems, processes and controls to comply with the ACA, they also need to figure out if their former revenue models will work within the new framework. The same holds true for financial services firms adapting to Dodd-Frank.

“Companies come to [the] advisory side of our business asking, ‘How do I take this regulatory environment that I now have to operate in and evolve my business models [and] my operating system in a way that enables me to have a competitive advantage?’” explains Veihmeyer, who says the advisory business is growing more rapidly than KPMG’s other units. (KPMG Americas, the division Veihmeyer leads, delivered strong growth in 2013, with revenues rising by 6.7 percent, driven by a 16.4 percent growth in advisory revenues, a 7.4 percent increase in tax and a 0.3 percent increase in audit revenues.)

Coming during a conversation just before Target’s massive—and embarrassing—cyber security breach, Veihmeyer’s prediction that “every CEO who might read this will have been in a conversation with his or her team in the last month about a recent cyber threat” proved prescient. “There’s a growing realization that it’s virtually impossible to keep all the threats out and that part of what you have to be able to do is react quickly,” he says. “You need to be able to identify and clamp off a security breach immediately, not to allow it to linger for an hour or three hours or, God forbid, a 24-hour period.”

Responding swiftly to a crisis is an area Veihmeyer had to contend with relatively recently, when KPMG’s Scott London admitted to disclosing privileged information to a friend and was convicted of insider



WHO: John Veihmeyer, Chairman & CEO, KPMG

WHERE: New York City

PASSION: The KPMG Family for Literacy Program

trading last year. “We responded as quickly as we became aware... and we got a lot of credit for that full transparency,” he says, noting that the firm’s partners called each of its clients to inform them of the situation and then issued a press release—all within hours of discovering the issue. “The reaction from our stakeholders was consistent with the idea that the measure of an organization is not whether you have one person who inexplicably does something totally inconsistent with the organization’s values; the measure is what the company does about it when they identify it,” he notes.

Clearly, KPMG faces challenges itself, but the firm also, in a way, a beneficiary of them, deriving business from helping its clients manage and adapt to change. “Ten years ago, our advisory business was largely based on helping companies assess their controls, risks around those controls and forensic-type skills,” Veihmeyer says. “In the last five, it has completely transformed, so we are [now] actively engaged with our clients in areas like disruptive technologies—whether that’s the cloud or applying analytic capabilities to all the data that people are now accumulating.”

KPMG has had to transform its own operations to address that new reality, he adds, noting that the company has staffed up in areas like data analytics and behavioral psychology. “A decade ago, the requests from our clients were much narrower—project management around an IT implementation, for example. Today, it’s ‘I want to transform my finance function.’ That means pulling 10 to 12 disciplines within our firm together into one project team to be a seamless provider.”

Veihmeyer, who spends 85 percent of his time on the road, devotes a considerable amount of his time to reinforcing the company’s culture and developing its talent pool through town halls and smaller group meetings during his travels. Ultimately, for KPMG, the human element is the trickiest part of staying current, he says. “You can get the technology right, you can get all the process design right, but if you fail to focus on the fact that you’re going to be asking your people to change the way they’ve been doing something for 10 years, then you will suboptimize the investment you’re making in everything else.” ■