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# Leading EDGE

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ADVICE & INFORMATION TO HELP YOU MANAGE YOUR BUSINESS

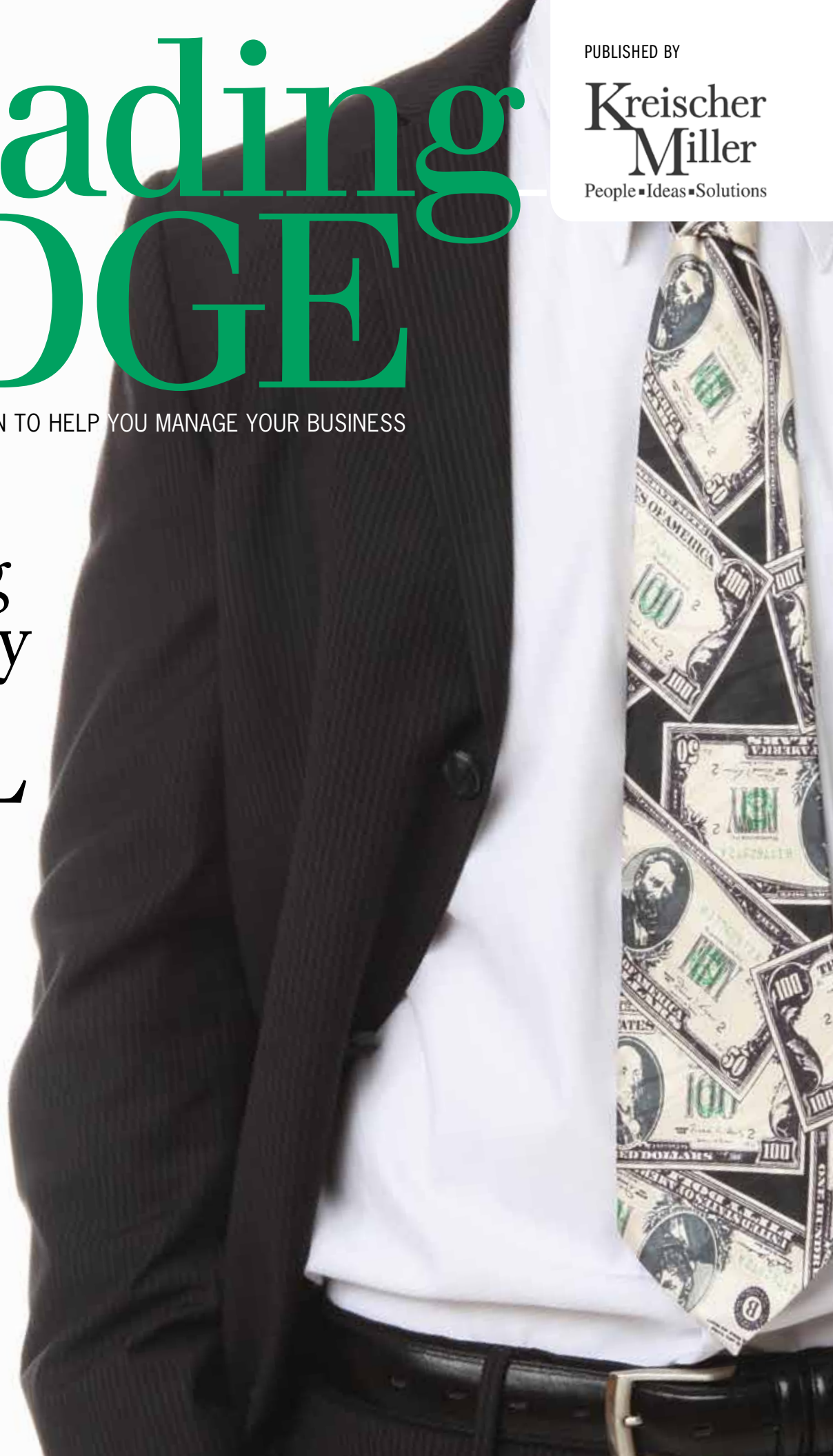
## Making Money *isn't* EVIL

*Done  
right, it  
can be good  
for all*

*Plus*

Globalize  
your business

Tech trends  
to know



## Dear Clients and Friends:



We all know that money isn't evil—it's one of the significant results of a successful business. Yet, making money has gotten a bad rap these days. In our cover article, we explore how to make the case for making money so all your stakeholders know why they should value your organization's revenue-producing opportunities and want to help boost the bottom line even further.

Speaking of a revenue-producing opportunity, have you considered expanding in the global marketplace? In this issue, experts share their insight on how to cross borders successfully. Even if you've already gone global, you will find a few ideas to improve your international business activities.

Our Kreischer Miller professionals provide more information to help your business, discussing financial strategies to improve your cash flow, managing IT risks for better results and understanding the employee versus independent contractor debate. Plus, we look at how proposed changes to lease accounting could affect you.

Also in this issue, we draw on our Leading Edge Alliance's Dezan Shira & Associates who shares the top 10 things you should know about doing business in China. Finally, we offer some advice on how to merge two companies successfully in our HR Q&A column. Here's a hint: It all stems from one word—culture.

As you consider what is best for you and your business, please know we are here to help.

Kreischer Miller is committed to providing you with valuable information to assist you and your business. Please share any suggestions, comments and ideas for future articles with me at (215) 441-4600 or [schristian@kmco.com](mailto:schristian@kmco.com). We appreciate your continued confidence in us and welcome any feedback on how we can better meet your needs.

Stephen W. Christian

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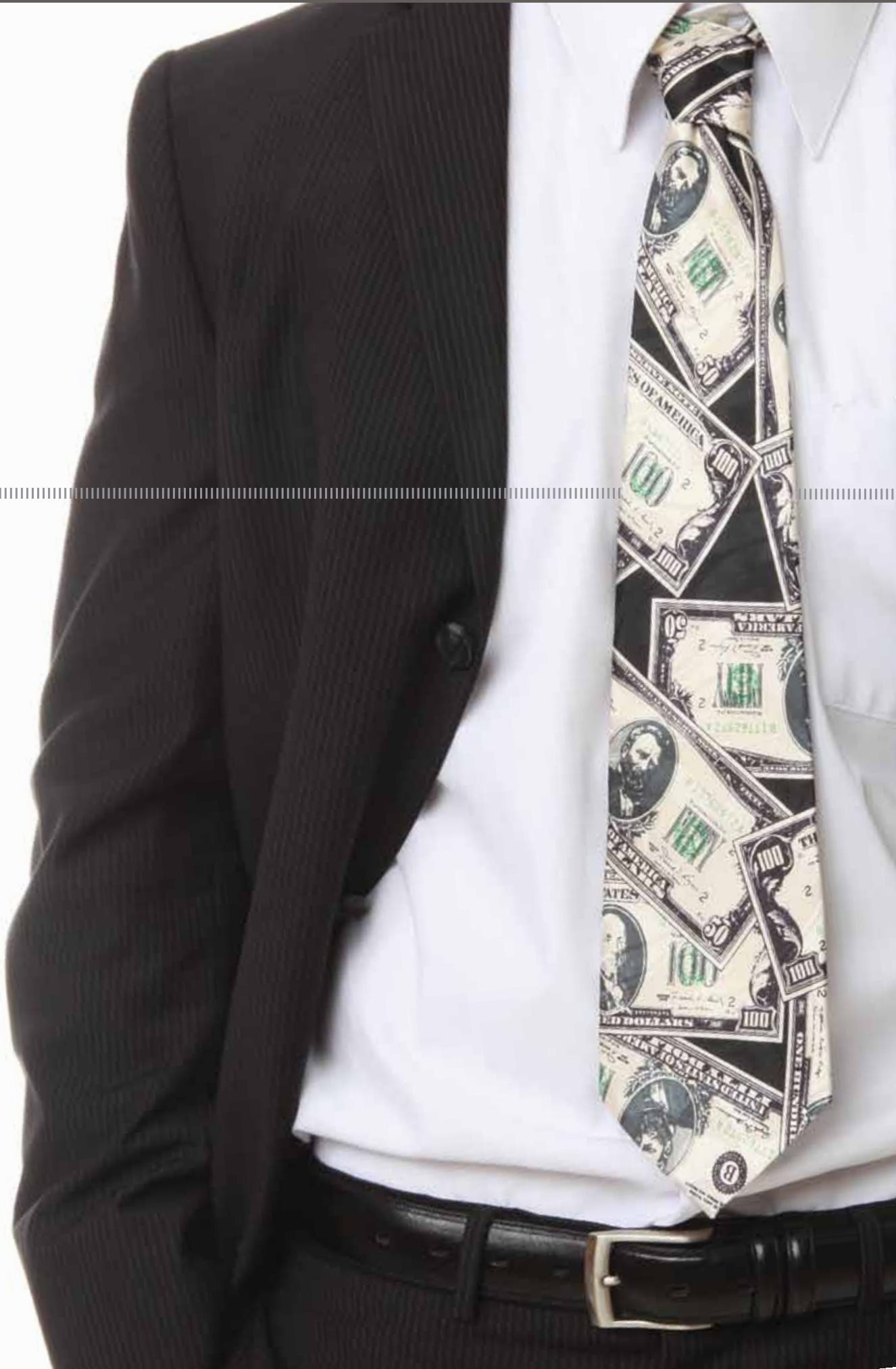
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# Money is *NOT* EVIL

MONEY ITSELF ISN'T INHERENTLY GOOD OR BAD—IT'S HOW MONEY IS USED THAT CREATES THE CONNOTATIONS. **By Ann M. Gynn**

**“M**oney is like any other social tool—and that’s all I think money is. There can be good uses of money and bad uses,” says Norman Kurland, managing director of the investment banking firm Equity Expansion International and president of the Center for Economic and Social Justice, a non-profit think tank.

Highly paid CEOs of failing companies, billion-dollar bailouts and nefarious ethics of executives make the headlines and further cement the idea to many that money is evil or at least problematic. So how does a company and its executives go about conveying money really can be a good thing and earning bigger profits is good for everybody? Make the case and get buy-in from all the stakeholders, from clients and employees to vendors.

#### Raise the emotion

Ted Sun, chief dream maker at Executive Balance, an executive consulting firm, and author of *Survival Tactics: Top 10 Behaviors of Entrepreneurs*, has shared his insight across the country with BizJournals, NBC News and Academy of Management and International Business. His advice? Refocus the conversation to identify money as a means to an end.

“By doing that, people will become a lot more attached to their core values,” Sun says. “So many people are  
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so disconnected with the outcome of their work. The outcomes are what people are working for.”

He explains that, too often, stakeholders see only the portion they create or are involved in and fail to see the big picture. Sun advises executives to talk about outcomes and how it influences customers rather than just talk about the person’s job.

“That focus allows them to have a much more emotional connection to it,” he says. To illustrate his point, he speaks of the Michelin commercial with a family driving a minivan. It’s not about the tires Michelin is selling; it’s about the family driving around safely.

“People are easily redirected if the emotional content is strong and well-designed. Help people understand that money is only a means to something else,” Sun says. “The end goal is something much more grand. Focus people on the purposes of the products/services.”

### Know what money means

Sun, who speaks frequently on executive development, says he asks two questions of his audiences. The first is “Why do you work?” Most people respond “to make money.” When he asks the second, “What’s your purpose in life?” most people do not say “to make money.”

“It gets people to think,” Sun says.

Business executives who understand what their stakeholders see as their purpose in life can work to promote the currency that helps them achieve that—and the means may not be money.

Billy Lowe, a celebrity hairstylist with salons in Beverly Hills, Los Angeles and New York, agrees with Sun. “In the beginning it’s important to figure what motivates a person. Some staff members are motivated by money; others are not,” he says. “Working with team members takes a little time in developing programs to help them set, see and meet goals.”

In turn, Lowe says, the business sees a direct benefit. “Team members who are rewarded well seem to take more pride in their work and in their environment,” he says. “They also seem to have a greater sense of business-building and enterprising. This is

obviously important to a salon owner because the team members are a bit more autonomous with their work, rather than waiting on the salon to drive traffic through the door.”

### Cultivate value

Nick Vaidya, profitability management specialist and president of The Global Alliance of CEOs, says leaders need to communicate their big picture vision to their team as often as possible so they see more than a paycheck. “Get out of your corner office and be there,” he says. “Create value and it will shine. Make yourself and your

vision visible and vulnerable.

“Do internal PR. Your employees are your constituents too. Mobilize them and you will have earned your salary. Let money be the by-product,” Vaidya says.

While some may balk at \$200 for a haircut at one of Lowe’s salons, he says it’s important to realize service is about more than a haircut. “I’ve always said, ‘If you look great, you feel great,’” Lowe says. “I believe looking your best keeps you feeling your best. Clients value their time in the salon and look forward to their visit—not just for the results after but for the relationships that happen in the salon.”

## START WITH W-2s

Many companies have been paying employee health and other benefits for years but never disclosing how much they were spending. Employees didn’t know the significant dollars spent behind the scenes on their behalf. Last year’s health care reform act changes that.

With an optional start in 2012 and mandated for 2013, companies now will show on each employee’s W-2 how much they spent on health care benefits. The new field isn’t taxable but it is educational so employees really will know what their employer spends on them.

## 4 Reasons: MONEY IS A GOOD TOOL

Frank N. Darras, one of the nation's top insurance lawyers, breaks down the benefits. Making money:

1. Helps people who need expertise and other assistance.
2. Creates jobs that boost the economy.
3. Creates more spending, which increases demands.
4. Allows people to give more to charities and favorite causes.

As such, he works hard to develop those relationships. Whether it's a glass of wine in the salon or an escort to the car, those added touches strengthen the business-client relationship. "It may be my southern roots, but I've always focused on outstanding customer service and giving clients a compelling reason to return time and time again," he says. "This is an industry that is truly built on relationships, and clients come to expect great service and excellence."

Sun explains building a connection is essential to achieving higher prices for your services or products. "People will pay you more if they trust you—if they really understand what emotion is all about," he says. "Once people focus on the positive outcomes of your products and services, the value will have higher emotional content. When organizations don't mention the emotional outcomes of their products and services, it allows people to create their own."

Lowe says businesses also must be willing to adapt their relationships to best serve the clients, further strengthening the emotional connection even if the money isn't there. At his salons, for example, if a long-term client is having a difficult time financially, he is more than happy to work with them. "We have a saying, 'Everyone gets in,'" Lowe explains.

### Serve wide income range

Frank N. Darras built his career as one of the nation's top insurance lawyers assisting poor

and disabled people. "It's never been about the money; it's always been about helping. For me, the money has really been just a by-product."

DarrasLaw, which has collected about \$750 million in claims over the last 25 years, may have started with the poor, but it's expanded to serve the wealthy. "Over the years, the poor came first to my practice, but the rich followed. Now my clients include professional athletes and high-profile actors," Darras says.

Growing his practice's revenue presented Darras with more opportunities and the ability to pick and choose his clients. "The richness of my practice enables me to help for free 1,000 people a month with questions, concerns and problems," Darras says, explaining the firm offers "free advice Fridays" and created [www.darraslaw.com](http://www.darraslaw.com) with high-quality videos and content to help people with their insurance-related questions.

### Spend more, get more

High-revenue businesses also find because they spend more money with manufacturers and other vendors, those stakeholders are more likely to help them. "Perhaps because they spend more in volume for products and equipment, manufacturers are happy to support high-end salons in providing more educational opportunities than smaller salons that might not spend as much," Lowe says, noting the additional support can be



*"People will pay you more if they trust you—if they really understand what emotion is all about."*

— Ted Sun, Executive Balance

invaluable to the business. "It's true that talent varies from person to person, and it varies based on the support that is provided."

Darras says high-earning businesses also gain leverage. "Insurance companies understand I have the largest practice in the country. That gives me stature. I see more cases. I can see what they're doing in real time. With 2,000 cases a month, I can see in two weeks if they're using a new claim device or changing program strategy," he says. "Money has allowed me to see the industry in real time."

In addition, Darras explains the firm also can use the money to better serve its clients by hiring the smartest people available. "It's allowed me to pay my people extraordinary dollars to do this work. It's allowed me to compete at the highest levels," he says.

### Rethink the perception

When Lowe was a child, his parents would say things like, "Rich people are stuck up."

"I never felt that way," he says. "I personally see the wealthy as some of the most generous people I have ever met. I believe the more I have, the more I can do good with."

"It doesn't do me or anyone else any good if I am suffering or challenged financially. I don't believe anyone should accept labels that are put on them because of limiting beliefs that others may have grown up with."

Sun says the key for business executives to overcoming the money-is-evil perception is understanding why the belief has some truth to it. "In today's world, the biggest challenge is when people amass large amounts of money, they lose touch with reality. They become arrogant, have an entitled mentality and don't treat others as well as they used to. That's where the evil association comes from—people who use money as a shield," he says. **LE**

## 5 talked-about tech trends – should you care?

By Danielle Toth

With technology constantly advancing, businesses may find it difficult to know which trends they can ignore and what they really need to know for their business. Jeff Rudolph, partner-in-charge of the technology division at Sikich LLP, a member of the Leading Edge Alliance, shares his thoughts on five talked-about tech trends.

### PAY ATTENTION TO

#### Smartphones

Smartphones will only continue to grow in popularity. About a half billion cell phones connect to the Internet, and that number is expected to jump to 5 billion in just two to three years, Rudolph says.

Businesses should look to smartphones as marketing tools (reaching out to connect with customers and prospects) and as communication tools. “Our company, for example, just brought in a new smartphone policy. Anyone can use any smartphone, and we reimburse them,” Rudolph says. “The employees are more productive – I mean work is 24/7.

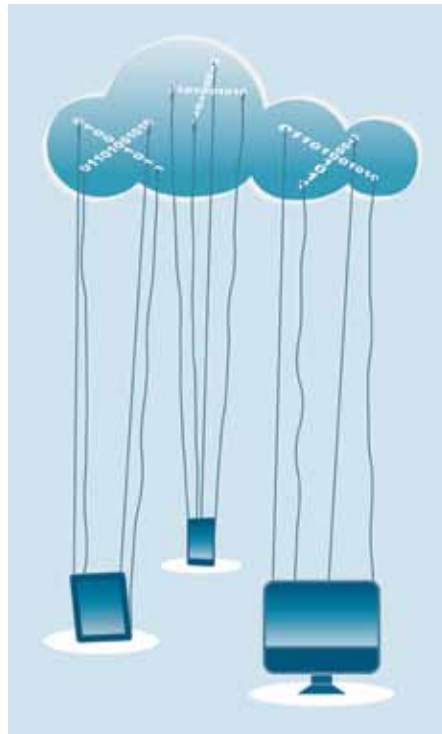
“The younger generation especially is used to being online and giving instantaneous answers all the time. There’s going to be a big push for businesses to respond to their clients and colleagues quickly due to the smartphone.”

#### Cloud computing

Another technology businesses should be talking about if they aren’t already is cloud computing, which allows companies to store and access their documents, photos, presentations and more online so they can access them anywhere with an Internet connection.

The lure for many companies is that cloud services cost significantly less than buying software and internal infrastructure equipment every few years as well as providing physical space to house that technology, Rudolph says.

In turn, the company’s IT department no longer needs to focus on maintenance and can take a more innovative role within the



business, he adds.

“The only real downside is the lack of privacy if you have many people using your company cloud, and if the cloud provider goes down, you’re out of luck,” Rudolph says. “Businesses should always back up their data.”

#### Virtualization

Virtual creation of a physical technology, such as a server or operating system, presents some opportunities. Businesses usually use multiple servers to handle their computing needs, but some of those are underutilized, Rudolph explains. For example, a server that holds a business’ payroll application is used at near-capacity only twice a month and rarely, if ever, used the rest of the month—that’s inefficient use of a server.

“Virtualization allows you to take one physical server and create virtual servers on it,” Rudolph explains. “So you’d have multiple servers residing on one physical server, and they would take advantage of the downtime of the server. You maximize the use of your servers and decrease cost because instead of

Businesses shouldn’t spend the time and money on an app just to have it.

five servers, you could have maybe two, and you save on electricity. It is also good for disaster recovery because the servers are smart and back themselves up onto other servers.”

### PROCEED WITH CAUTION

#### Apps

While it seems you can’t turn on the TV or surf the Web without hearing about a new app, Rudolph says only one in four apps are used.

“It’s very trendy to have an app right now,” he says. “I’d say a company should look into developing an app if it has a business model where an app makes sense. For example, it makes sense for a lot of banks. You can take a picture of your check and deposit it. Or a CPA firm could set up an alert when a client’s tax return is done. But businesses shouldn’t spend the time and money on an app just to have it.”

#### Tablet computers

While tablet computers receive a lot of buzz, it is a trend businesses can hold off on, Rudolph says. While many upper managers use and enjoy tablets for business, it will be a while before they find their way into mainstream business use.

“Tablet computers are really good for looking up information, but not so good for outputting information because the interface is not that great,” Rudolph explains. “You have the virtual keyboard on the screen, but it can be hard to type, and you can only type so much. While the tablets are very good at looking up information and getting information, I don’t think they’re really set up for heavy input.” **LE**

## INSIDE:

- Manage IT risks for better business results
- How the proposed lease accounting changes may impact you
- Tax implications of the employee vs. independent contractor debate

# Financial strategies offer ways to improve cash flows



By **Steven E. Staugaitis**, Manager,  
Audit & Accounting

Companies today are faced with tighter lending, slower growth projections and leaner profit margins than they were several years ago, all of which is putting a bigger strain on corporate cash flows. One of the ways to help combat these challenges is to improve your own internal cash flows, particularly by focusing on three key areas—inventory, accounts receivable and accounts payable. Even making adjustments in just one of these areas can often have a positive impact on cash flows and reduce the amount of dependency a company may have on external borrowings.

## Controlling inventory

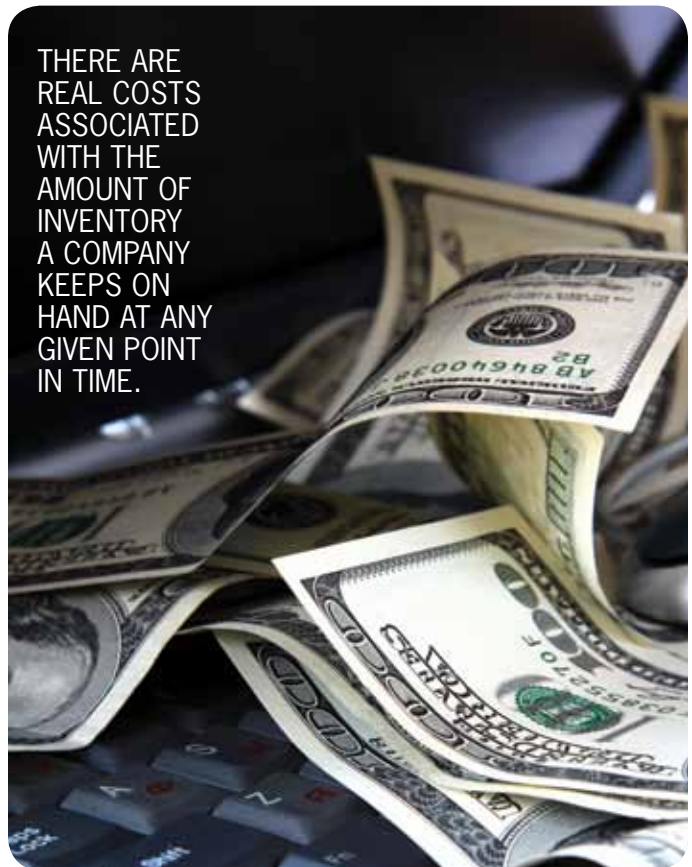
Companies often overlook how much it costs to maintain inventory. There are real costs associated with the amount of inventory a company keeps on hand at any given point. First, the levels of inventory impact the size of the warehouse that is needed. The size of the warehouse in turn directly drives many other costs such as rent, real estate taxes, utilities and insurance. Secondly, the amount of inventory also has an impact on the number of personnel needed to oversee and handle the inventory. Keeping a close watch not only on the levels, but also the variety of inventory maintained has a direct impact on controlling and positively improving cash flows.

## Monitoring accounts receivable

A company can post outstanding sales, but if it doesn't collect the cash, the sales won't have a positive impact. A company's ability to effectively monitor its accounts receivable is critical to generating positive cash flows. Organizations that have strict credit policies and manage their credit risk are much more effective at controlling their cash flows than those that don't. Companies with tight controls often put services or product delivery on hold until a customer becomes current. This enables organizations to allocate their resources to their more productive customer base and often increase profits.

## Managing accounts payable

Most privately held companies have significant control over their accounts payable, but may not manage them effectively. Taking a thoughtful approach to the payments a company makes to its vendors can generate some positive cash flows for the business. For instance, some vendors offer discounts, but management should evaluate these discounts to determine whether taking advantage of them makes sense. If the company needs to borrow on a line of credit to take advantage of a discount, it may end up paying more in interest expense, thus negating the benefits of taking the discount. Some companies pride themselves on paying all vendors within 15 or 30 days regardless of payment



THERE ARE REAL COSTS ASSOCIATED WITH THE AMOUNT OF INVENTORY A COMPANY KEEPS ON HAND AT ANY GIVEN POINT IN TIME.

terms. This practice may be well intended, but doing so increases the amount of "float," or the difference between the time it takes to collect from customers and the time it takes to pay vendors. Increased amounts of float can create a greater need for external borrowing. Therefore, evaluating the company's vendor payment policies can be important.

Another strategy when dealing with vendors is to determine if there are ways to extend payment terms to better match the average collection period of customer payments. This can be an effective way of

managing the float.

Finally, before making a major purchase from a vendor, companies should inquire about special financing that may be available. Depending upon the industry, low or no interest financing for a period may be available.

In the end, the difference between the time it takes to collect from customers and the time needed to pay vendors can either positively or negatively affect the company's cash flows. The ability to effectively manage or reduce float allows companies to create their own internal financing. **LE**

# Manage IT risks for better business results



**By Sassan S. Hejazi, Ph.D.,** Director, Technology Solutions Group

There is no doubt that recent advances in information technology have created exciting opportunities for many organizations to increase productivity, introduce innovative products and services, and enter new markets. Increases in IT capabilities, coupled with the reduction of hardware and software costs, will provide even more opportunities in the next few years.

With such an increased dependence on IT capabilities, organizations are at a higher level of risk exposure from their IT systems. Interruptions to IT availability, data corruptions and security breaches can have a serious and adverse impact on any organization's operational capability and financial health.

Recognizing the importance of IT systems to the well-being of an organization is a critical first step. Managers can then devise a simple approach to address IT risks in a more effective and sustainable manner. Analyzing potential IT risks along the following four dimensions enables managers to better assess such risks and devise practical solutions to address them:

## Security

There has not been a shortage of IT security breaches recently. Companies of all sizes and across all industries have experienced them. IT security issues range from internal concerns such as unauthorized access to sensitive data by employees and the

introduction of worms and viruses through downloads to the theft of confidential business data. External security issues range from hackers and worms to denial of service attacks.

An effective security plan encompasses periodic user password changes, ongoing user and IT training on the latest security practices and the establishment and verification of effective user rights and privileges for application and information access protocols. External security solutions can range from conducting periodic intrusion detections and traffic monitoring to maintaining updated firewalls, the use of encryption technologies and updated information access platforms.

## System effectiveness

Not having the right hardware and software systems will result in increased IT risks. Outdated hardware platforms that lack the proper support lead to increased downtimes and expenses for the organization. Outdated software systems introduce security holes to the organization because of the lack of availability of updated patches. Poorly fit software applications, even if they have been updated, result in the creation of workarounds such as the increased use of spreadsheets and other offline recordkeeping methods, which can in turn lead to errors and quality issues.

To minimize such risks, organizations should be updating their key regular hardware and software components on a regular basis and should move away from outdated and poorly supported platforms. It is important to establish budget



allocations for hardware and software upgrades to ensure such risks are minimized. Additionally, using proven application selection and implementation approaches, coupled with a continuous monitoring of key business processes, will help reduce IT risks from poorly selected and implemented business applications.

## Business continuity

As operations are typically so highly dependent on IT availability, it is critical to have plans in place in case IT systems are not available or functional. Many organizations look at business continuity as having backups available for data restoration. The ability to successfully restore backups is important, but it is only a small portion of the overall business continuity framework.

An effective business continuity plan addresses a wide range of IT and non-IT elements, from computer systems to office facilities, in case key aspects of the organization are not available because of an unforeseen disaster. Recent advances in cloud technologies are starting to offer many innovative IT-enabled business continuity capabilities for organizations. Not having a plan in place that has been updated and tested on an annual basis

poses substantial risks to an organization.

## Business intelligence

Nothing is worse than having invested in IT capabilities but then not being able to get the right data at the right time to make good decisions. Low quality data, data errors resulting in multiple versions of truth and lack of standardization across departments all can lead to errors affecting decision-making processes and can result in increased organizational risks.

Effective data management practices can substantially reduce organizational risks by providing decision makers with timely, accurate and relevant information to manage more proactively. Organizations with poor data management practices are not able to take advantage of recent developments such as dashboards and performance management tools because such tools are only effective if their underlying data elements are accurate and updated in a timely manner.

In summary, an effective IT risk management system should not be simply looked at as a necessity but rather as an opportunity to minimize risks and enable the organization to grow and prosper through increased productivity, process capabilities and better management decision making. **LE**

## Proposed lease accounting changes may impact you



By **John J. Helmuth, Jr.**, Director, Audit & Accounting

The U.S. Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have jointly developed a new draft standard for lease accounting. Under the current accounting guidance, lessees are required to categorize their leases as operating leases or capital leases. The existing accounting treatment has been criticized for not providing an understandable picture of an entity's leasing activities by not recording all lease obligations on an entity's balance sheet. In addition, a lack of comparability may result for users of financial statements. As a result, the FASB and IASB have proposed new guidance to address these issues.

The proposed lease accounting guidance will affect any entity that enters into leases and will result in significant changes to the accounting requirements for both lessees and lessors. Existing lease arrangements will not be grandfathered, causing all existing leases to be assessed under the new standard. Some of the major changes impacting lessees from the proposal include the following:

- All leases will be included on the balance sheet and there will be no distinction between operating and capital leases.
- A right-of-use asset and a liability to make lease payments will be recognized in the statement of financial position.
- The initial liability will be measured based on the present value of the "likely" lease obligation, discounted using the lessee's incremental borrowing rate at the lease inception. The right-of-use asset will be measured at the amount of the liability plus any initial direct costs incurred by the lessee.
- Interest expense will be recognized on the liability to make lease payments and the right-of-use asset will be amortized over the shorter of its estimated useful life or the lease term.
- Lessees will reassess the carrying amount of the liability to make lease payments and the right-of-use asset will be evaluated for impairment at the end of each reporting period.

The accounting for lessors is also addressed in the proposed standard. If a lessor retains exposure to significant risks or benefits associated with the underlying asset, the lessor would continue to recognize the underlying asset and, in addition, recognize a right to receive lease payments and a lease liability. If a lessor does not retain exposure to significant risks or benefits associated with the underlying asset, the lessor would remove a portion of the leased asset from the balance sheet that represents the lessee's right to use the underlying asset during the term of the lease. Lessors will record a right to receive lease payments in the balance sheet, along with a residual asset for the right to the leased asset at the end of the lease term.

The proposed changes described could have significant impacts to businesses and users of financial statements. Assets and liabilities would be grossed up due to recognition of all leasing



transactions on the balance sheet. This may cause deterioration of key leverage and capital ratios. Lessees income statements will also be affected because rent expense will be reclassified as amortization expense and interest expense. In addition, expense recognition would be front-end loaded due to the recording of interest expense under the effective interest method. Earnings before interest, taxes, depreciation and amortization (EBITDA) will be more favorable.

Companies could face many operational and strategic challenges in adopting the proposed lease accounting changes. Consideration should be given to buying versus leasing certain assets. In addition, gathering and tracking lease data for proper accounting treatment could be a daunting task. Processes and internal controls may need to be revisited.

Because of the significance of this proposal and the potential impact to businesses and users of financial statements, the FASB has received nearly 800 comment letters on the topic. Currently, the FASB and IASB have tentatively decided to revise some key areas in the original proposal to address these concerns. The more significant areas of revision include the classification of leases as "finance leases" or "other-than-finance leases;" determination of the lease term as "reasonably assured," instead of the proposed "more-likely-than-not threshold;" consideration of variable lease payments in the measurement of a lessee's liability and a lessor's lease receivable; issues with the definition of a lease; and further consideration of lessor accounting.

The proposed lease accounting standard will likely take some time for FASB and IASB to finalize. However, significant changes appear to be on the horizon. Companies with substantial leasing activity should begin to prepare for the new rules now. Becoming knowledgeable of the proposal's requirements will help you transition to the new standard and address the issues impacting your company. **LE**

# Tax implications of the employee vs. independent contractor debate



**By Richard J. Nelson,**  
Director,  
Tax Strategies Group

As part of its Employment Tax National Research Project, the IRS will audit 6,000 randomly selected businesses focusing on worker classification. The project began in 2010 and will continue through 2012.

The question of whether a worker is an independent contractor or employee for federal income and employment tax purposes is a complex one. It is intensely factual, and the stakes can be high. If a worker is an employee the company must withhold federal income and payroll taxes, pay the employer's share of FICA taxes on the wages plus FUTA tax, and often provide the worker with fringe benefits, including retirement plans, it makes available to other employees. There may be state tax obligations as well. These obligations do not apply for a worker who is an independent contractor. The business sends the independent contractor a Form 1099-MISC for the year showing what he or she was paid, if it amounts to \$600 or more, and no other actions are required. A reclassification from an independent contractor status to an employee status can result in significant deficiencies and possible penalties.

In determining whether an individual is an employee or an independent contractor, consult the "common law" rules that have been developed by the courts and Section 530 of the Revenue Act of 1978, which provides a safe harbor rule.

Under the common law rules developed by the courts, a worker

generally is an employee for federal tax purposes if the employer has the right to control and direct the worker regarding the job he is to do and how he is to do it. The employer does not have to actually direct or control how the services are performed; it is enough if the employer has the right to do so. (See 20 Factors box at right.)

The IRS takes these 20 factors and places them into three broad categories: behavioral control, financial control and the relationship of the parties. Each category contains types of information (facts) that illustrate the right to direct and control, or its absence. There is no magic formula of factors that will control the outcome. Instead, all the facts must be weighed in evaluating the extent of the right to direct and control.

Section 530 can provide a safe harbor for workers who have been misclassified as independent contractors. Section 530 protection applies only if the employer: filed all federal returns consistent with its treatment of a worker as an independent contractor; treated all similarly situated workers as independent contractors; and had a "reasonable basis" for not treating the worker as an employee. For example, a "reasonable basis" exists if a significant segment of the employer's industry has traditionally treated similar workers as independent contractors.

If you find yourself audited by the IRS for a worker classification issue, be prepared to engage in an extensive fact gathering process. The IRS will want you to prove that the facts support the classification of your



## THE 20 FACTORS ARE:

- |  |  |
|--|--|
| (1) Instructions to worker                           | (12) Paying worker by the hour, week, or month               |
| (2) Training   | (13) Payment of worker's business and/or traveling expenses  |
| (3) Integration into business operations             | (14) Furnishing worker's tools and materials                 |
| (4) Requirement that services be rendered personally | (15) Significant investment by worker                        |
| (5) Hiring, supervising, and paying assistants       | (16) Realization of profit or loss by worker                 |
| (6) Continuity of the relationship (permanency)      | (17) Working for more than one business at a time            |
| (7) Setting the hours of work                        | (18) Availability of worker's services to the general public |
| (8) Requirement of full-time work                    | (19) Firm's right to discharge worker                        |
| (9) Working on employer premises                     | (20) Worker's right to terminate relationship                |
| (10) Setting the order or sequence of work           |  |
| (11) Requiring oral or written reports               |  |

workers. You will have to support your classifications under the factors listed above. Be prepared to provide to the IRS not only your payroll records but any independent contractor agreements, employment agreements, and employee manuals. You may have to provide invoices from and payment records for each contractor. You may also have to gather information from your contractors to support their classification as an independent contractor.

Some say the best defense is a good offense. If you are in an

industry that uses a lot of independent contractors, you should proactively prepare your defense. Be familiar with the factors that determine classification. Do you have enough documentation to support the classification of your independent contractors? Consider having an independent contractor agreement that would clearly state the relationship is a non-employee relationship. If you monitor your relationships and put the relevant policies and contracts in place, you can limit your exposure to an IRS worker classification audit. **LE**

# bits & pieces

## EMPLOYEE-OWNED DEVICES CAN MEAN MORE TROUBLE

More than half of information technology leaders in the United States believe that employee-owned mobile devices pose a greater risk to a business than company-supplied mobile devices, according to a new member survey by ISACA, a professional IT governance association. However, 27 percent of respondents said they still believe the benefits outweigh the risks.

“BYOD (bring your own device) presents both opportunities and threats,” says John Pironti, advisor with ISACA and president of IP Architects. “It lets employees and organizations take advantage of technology innovations at limited cost to the organization.

Unfortunately, it also introduces new vulnerabilities due to the limited ability of most organizations to effectively manage and secure employee-owned devices accessing their information infrastructure.”

Pironti advises organizations to educate their employees on their BYOD security requirements and implement a comprehensive mobile device policy that aligns with the organization’s risk profile.



## MORE SOCIAL MEDIA: IT CAN HELP WIN NEW CUSTOMERS



The last year has seen a rise in U.S. companies using social networks to win new business, according to Regus, a global workplace solutions company.

According to a survey of more than 17,000 managers and business owners, 43 percent of U.S. firms are successfully using social networking to win new customers, up eight percentage points from last year’s survey.

The survey also shows more firms are using social media to engage existing customers, with 50 percent of businesses in the United States using social media platforms such as Twitter to engage, connect with and inform existing customers.

Sixty-nine percent of U.S. businesses and 74 percent of international businesses say social media plays a bigger role today in their marketing strategy. Furthermore, 64 percent of U.S. businesses and 61 percent of international businesses believe successful marketing campaigns need to balance traditional and digital techniques.

## BUSINESS CREDIT CARDS: MANAGE THEM BETTER

Your organization likely relies on credit cards to facilitate day-to-day expenses. The Better Business Bureau and CapitalOne Financial Corp. recently created a guide that can help with that.

Among the tips offered ([www.bbb.org/credit-management](http://www.bbb.org/credit-management)):

**Use the expense tracking feature.** Most business credit cards provide expense reports divided into categories that make it easy to track spending and report expenses for your taxes.

**Recognize higher limits.** A business credit card may have higher spending limits than a personal card, which can help with monthly cash flow. Make sure to separate your business expenses from your personal expenses to simplify reporting.

**Have employee-specific cards.** Business cards for your employees enable your organization to establish pre-set spending limits and streamline expense tracking and travel reimbursement.

**Strengthen credit.** A good history of managing a business credit card can help build your business credit record and improve your profile when applying for a business loan or line of credit.

**Research the added protection and perks.** Explore the added benefits the card can offer such as travel insurance and auto rental insurance for you and your employees. It also sometimes offers airport lounge memberships, concierge services, reward programs, cash rebates and other benefits.



# Experts talk about how to fly your business into the global marketplace

By Danielle Toth

With the post-recession environment and President Obama's goal of doubling exports by 2014 with the National Export Initiative, even more businesses are dipping their toes into international water. Companies already there are getting more deeply involved. The key to success, whether you are a newcomer or a veteran, is knowing both the opportunities and the caveats.

## Resources, demand, compliance

Small and medium-sized businesses can greatly benefit from the National Export Initiative, which provides a platform for U.S. companies to go international.

"This is a real opportunity for businesses that are not exporting or are afraid to enter international business to jump on the bandwagon," says James Min, vice president of international trade law and corporate compliance at DHL Americas, which is one of the largest logistic supply chain providers in the country.

"This initiative is coordinating the Department of Commerce and other agencies to provide support to these businesses so they can have a partner in international business," Min says.

Among the assistance provided through the National Export Initiative at [www.export.gov](http://www.export.gov): basic how-to and market information, educational webinars, financing resources and access to local trade specialists.

Min says DHL has seen the recession global slump change as demand is back up. Businesses are ramping up and doing so efficiently, rationally and intelligently because they're making sure their capacity meets their demand.

Many countries also have stepped up their enforcement of imports to ensure they're collecting the appropriate taxes, says Larry Harding, president and founder of international business services provider High Street Partners in Annapolis, Md.

"They're not necessarily increasing tax rates, but they're taking extra steps to make

sure all of the taxes that should be paid are being paid," he says.

In addition, Min says, countries are stepping up enforcement for security reasons. After Sept. 11, 2001, the United States required companies to submit data on imports at least four hours prior to their arrival in the country. With recent terrorism activity, security regulations are even tighter. Now shipment data must be submitted before it is even loaded onto an aircraft to come into the United States. Min says other countries will most likely follow suit, and eventually it will become a global standard.

## Where's hot?

EU countries and BRIC (Brazil, Russia, India and China) are excellent places to conduct business now because the U.S. dollar is weak, Harding says.

"To some degree, there is a little bit of a perfect storm pushing U.S. companies to look to overseas markets," he says. "The BRIC countries, and recently South Africa, are getting a lot of publicity for their huge growth rates and continued increased spending on technology and infrastructure. The weak dollar is making U.S. goods and services comparatively cheaper to the rest of the world than they have been in a long time."

The weak dollar creates a favorable Euro-dollar and pound-dollar exchange rate that makes U.S. goods and services inexpensive for EU countries, Harding says.

Min says he thinks many second-tier, non-BRIC economies such as Mongolia, Turkey, Israel, Chile, Peru, Vietnam and Colombia are also excellent areas for business right now.

"These economies are growing rapidly, and while they may not be as large as China or India, they have some great opportunities," he says. "Mongolia, for



example, has had GDP growth surpassing 10 percent for the past couple years, and a lot of that is driven by their supplying of raw materials and commodities to China. These countries have seen some solid GDP growth, very strong export activities and an obviously very well-educated workforce."

Harding offers that the only markets he thinks companies should avoid are places like United Arab Emirates because they have not yet recovered from the recession.

## What's hot?

The best industries right now are technology and infrastructure, including architectural firms and building suppliers such as concrete companies, Harding says.

"In India, China and Brazil, they're building more buildings and roads," he explains. "They're also upgrading their telecom networks and adding more broadband capabilities and mobile wireless capabilities."

The extraction industry, including oil, gas, minerals and other deposits, is hot as well, Min says, because commodity prices globally are still volatile and increasing rapidly, combined with the fact that demand is high for energy-related and other types of ore commodities.

Consumer-related IT has also seen a lot of activity, even with the recent tsunami and earthquake in Japan. "Many folks thought there would be a dampening in the IT sector, but we're seeing an indication that the

rebound is quite steady, and a lot of people are projecting Japan will recover well,” Min says. “Japan actually supplies 60 percent of the wafers used for semiconductors that the Asian economies such as South Korea and Taiwan produce. It shows the demand is there and Japan will continue to play a pivotal role.”

### When's the time?

Before any business enters the global market, it should have a proven brand, Min says. The information age has revolutionized the global market, he explains, and consumers all over the world, including underdeveloped countries, have access to the Internet to see if a brand is legitimate.

Businesses also need to time their entrance correctly into their target market. For example, if a business is targeting the Middle Eastern markets, it should avoid arriving during Ramadan or in Asia during the Chinese New Year. Know the market's calendar, and don't assume it's the same as the United States', Min advises.

Harding says businesses also should make sure they are equipped to handle international sales. That requires strong finance and accounting departments as well as logistics and system capabilities that can handle the additional workload. A business should have a strategy for each part of its organization before entering the international market, he says.

### What mistakes?

DHL's Min says the biggest error made by U.S. businesses is failing to understand the culture.

“There was a big retailer in an Asian market that sold products a consumer had to take and assemble at home,” he explains. “The consumers in that market were baffled by this concept because in that culture, most don't have tools at their house or apartment. Most retailers there deliver and assemble products free of charge. This just shows you really have to know your local market. Asia, for example, is a huge continent, and within it, there are major cultural and linguistic differences.”

Another mistake businesses make is assuming too much, Min says. Many businesses assume a culture acts or behaves a singular way or expect different cultures to respond uniformly. Research each individual market and the targeted audiences ahead of time, he advises.

Eddie Goldsberry, CPA and director of international tax at PKF Texas, a Leading Edge Alliance firm, agrees about the need for significant research. For example, he says,

businesses need to identify any potential customs problems both in importing and exporting.

“On the export side, there's usually not a lot a business is concerned about except getting paid,” Goldsberry says. “However, it becomes difficult depending on what country you're operating in. For example, the rules and regulations to open a bank account and take money out of China are voluminous.” **LE**

## Get going global

Eddie Goldsberry, CPA and director of international tax at PKF Texas, a Leading Edge Alliance firm, says companies can seek assistance doing business internationally through many outlets.

“There are a number of resources that go out of their way to help businesses conduct business internationally,” he says. “For example, I was on a trade mission with the Greater Houston Partnership, and our first stop was in Milan. The U.S. Commercial Service in Milan hosted our meeting and was instrumental in helping get companies involved.”

In addition to working with your local chamber or state development agency, here are some other resources suggested by Goldsberry:

**U.S. Export Assistance Centers:** Staffed by professionals from the Small Business Administration, U.S. Department of Commerce, U.S. Export-Import Bank and other public and private organizations, these centers are designed to provide export assistance for small- to medium-sized businesses. For more information and to find your local center, visit <http://www.export.gov/eac>.

**U.S. Commercial Service:** These offices are the trade promotion arm of the U.S. Department of Commerce's International Trade Administration. Located in more than 100 U.S. cities and more than 75 countries, they help U.S. companies get started in exporting or increase sales to new global markets. For more information or to find a local office, visit <http://trade.gov/cs/>.

**U.S. Chamber of Commerce International Division:** The chamber has 113 American chambers of commerce in 100 countries around the world. These chambers pursue trade policy initiatives, present publications and services and sponsor a variety of business development programs. For more information and locations, visit <http://www.uschamber.com/international/directory>.

# Top 10 things to know about doing business in China

## 1. What business structure should I choose for investment in China?

Foreign investors have several choices when it comes to structuring a China enterprise: the representative office, the wholly foreign-owned enterprise, the joint venture and the foreign-invested commercial enterprise. Generally, the representative office can be used to get a feel for the market (but not conduct business activities), while the wholly foreign-owned enterprise (a more committed choice) allows greater freedom in business activities and more control over business operations and is often used for manufacturing operations. A joint venture sacrifices the latter but brings advantages of its own, including an ability to invest in otherwise restricted sectors. A foreign-invested commercial enterprise, an increasingly popular option, is a trading company that permits the import and sale of foreign goods and services, as well as the export of Chinese products. Foreign-invested commercial enterprises also can be used for franchising. When deciding between the options, you will need to address questions such as:

- What do you need to do in China now? What about a couple of years down the line?
- Do you need to hire your people on the ground and rent an office?
- Do you need to invoice locally for services or products?
- Are you getting a feel for the market or have you committed to a larger-scale operation?
- Are you planning to set up a trading or production-oriented entity, or do you need only a representation in the country to carry out market research or liaison activities?

## 2. What sectors encourage foreign investment?

The Chinese government encourages, restricts

and prohibits investment by sector, according to the demands and the needs of the country and the particular time. However, China has become increasingly liberal in the scope of activities permitted for foreign companies, and standard import/export and manufacturing businesses wishing to sell to the China market are unlikely to face many restrictions.

## 3. Are representative offices still a good option for me?

Since Jan. 1, 2010, representative offices are no longer exempt from corporate income tax in China. A circular issued by the State Administration of Taxation on Feb. 20, 2010, explicitly stipulates that representative offices must pay corporate income tax on their taxable income, as well as sales tax and value-added tax, and will be required to assess corporate income tax liability using either the cost-plus method or actual revenue method. Representative offices must submit an annual report between March 1 and June 30 every year providing information on their legal status and standing, ongoing business activities and payment balance audited by accounting agencies.

The administrative regulations on representative offices issued by the State Council that took effect in March 2011 specify the activities in which representative offices are permitted to engage. These include market research, display and publicity activities that relate to company product or services, and contact activities that relate to company product sales or service provision, and domestic procurement and investment. Representative offices are forbidden from engaging in any profit-seeking activities except for those which China has agreed in international agreements or treaties. As such, a representative office may not directly invoice for sales or services in China and can only interact with Chinese businesses indirectly.

As of 2010, a parent company must have

been in existence for two years to establish a representative office. It can still be useful for pure market research and liaison activities, but these new regulations mean representative offices are no longer a cost-effective vehicle. Companies would be advised to set up a foreign-invested commercial enterprise or a wholly foreign-owned enterprise instead.

## 4. What can I do to protect my intellectual property rights in China?

China is a “first-to-file” jurisdiction, meaning the law protects the party who is successful in first registering the trademark or patented technology/design, as opposed to the party who first used it. This means that you should take action to protect your intellectual property rights as soon as possible and definitely before Chinese market entry. It is alarming how many companies do nothing to protect themselves, even though they are fully aware of the intellectual property rights-related risks in China. IP protection should extend to Internet domains, trademarks and patents, and these should be managed through filing in China. China is, however, a signatory to the various international protocols and does follow the normal filing and category procedures familiar to most foreign investors. However, copying is rife and legal action expensive.

## 5. What are the main guidelines for labor contracts in China?

China's top legislature, the National People's Congress, adopted a labor contract law in 2008. Among other key points, this law protects workers' legal rights by demanding a written contract between the employer and employee. If no contract is provided, then the employment relationship will commence from the employee's first day of work. An employer who fails to provide a contract after one month will be forced to pay the employee twice his or her monthly salary. The law only



allows for two continuous, fixed-term contracts, and any further contracts must be, in general, open-term contracts, which make it significantly harder to fire an unsuitable employee. In addition, the Central Government will double the minimum salary level in China within the next five years, meaning mandatory salary increases of about 20 percent per annum.

#### **What are the mandatory additions and special circumstances of labor payments?**

The company is required to pay mandatory welfare or social security payments for each employee, including pension, medical, unemployment, injury and maternity. Many cities also require mandatory housing fund contributions. These payments vary regionally but are generally about 40 to 50 percent of an employee's monthly salary. A new law including foreign employees in some of these payments took effect July 2011. It is important that these costs are built into the business plan as part of operational costs; it is a common mistake to omit them.

For overtime payments, the labor law states employees must not receive less than 150 percent of their normal wage for extensions of regular working days, not less than 200 percent in extensions on day of rest and not less than 300 percent for extension of statutory holidays. In addition, China has a relatively high number of national holidays.

#### **What are some prevalent inaccurate accounting practices to know?**

A common method of tax avoidance rampant in (but in no way unique to) China is underreporting accounts receivable in an attempt to hide sales to reduce taxable income. A slightly more country-specific accounting practice is multiple sets of financial accounts. While these multiple books are quite often used to avoid tax, they are also sometimes used to cover up other

inappropriate financial behavior within the company itself. Moreover, often the official set of accounts is prepared electronically whereas the other set is maintained manually, and accordingly, it is often very difficult or impossible to reconcile these accounts. Due to the structuring of China's tax laws and the liability window, local staff may commonly break the law to "assist" the company cash flow. Diligence, training and monitoring of accounts prepared by local staff need to be maintained. Fines for non-compliance can be as much as five times the original amount due plus the due amount.

#### **What are the main taxes and tax rates?**

<b>China Tax Rates (May 2011)</b>	
Corporate income tax	25 percent
Withholding tax	10 percent
Value-added tax	3 to 17 percent
Business tax	3 to 20 percent
Consumption tax	Varies widely, based on product
Stamp Duty	0.05 to 0.10 percent

#### **How does value-added tax work in China?**

All enterprises and individuals engaged in the sale of goods, provision of processing, repairs and replacement services and import of goods within China shall pay VAT. The rate for general taxpayers is generally 17 percent or 13 percent for some goods. For taxpayers who deal in goods or provide taxable services with different tax rates, the sale amounts for the different tax rates shall be accounted for separately.

The sales threshold for small-scale taxpayers is approximately \$77,300 (for enterprises engaged primarily in the production of goods or the provision of taxable services) and approximately \$123,600 (for enterprises engaged in the wholesaling or

retailing of goods). Non-enterprise units and entities that normally do not engage in taxable activities are given the choice of whether or not they are taxed as small-scale taxpayers, while individual (natural person) taxpayers with business turnover exceeding the threshold shall continue to be taxed as small-scale taxpayers.

#### **What are exchange controls like?**

China has tight exchange control policies. After a foreign-invested enterprise receives its business license, it is required to register with the State Administration of Foreign Exchange, upon which a "Foreign Exchange Registration Certificate" will be issued to the enterprise. The certificate is required for the opening of a foreign capital bank account and when handling all foreign exchange-related matters.

As for repatriating profit and dividends, the enterprise must submit receipts proving corporate income tax payments have been made in full, an annual audit report, a board resolution on the distribution of profit and dividends, a capital verification report and the Foreign Exchange Registration Certificate. Dividends from profits are subject to a 10-percent withholding tax. A lower withholding rate may be applicable under double tax treaties. **LE**

Leading Edge Alliance member Dezan Shira & Associates provided this article. Dezan Shira & Associates is a specialist foreign direct investment practice, providing business advisory, tax, accounting, payroll and due diligence services to multinationals investing in China, Hong Kong, India and Vietnam. Established in 1992, the firm is a leading regional practice in Asia with 19 offices in four jurisdictions, employing more than 170 business advisory and tax professionals. To contact the firm, please email [info@dezshira.com](mailto:info@dezshira.com) or visit [www.dezshira.com](http://www.dezshira.com).

# Acquisition leads to merger of office policies, cultures

By Mary Ellen Harris and Tyler Ridgeway, Kreisler Miller

## QUESTION:

Our mid-sized company acquired a smaller business earlier this year. Our policies and culture are a little different. How do we go about making sure the acquisition is successful on a personnel level?

## ANSWER:

One of the significant challenges associated with acquisitions is the integration of the people and cultures. Successful integrations are those where the employees of the two legacy organizations are able to come together for the greater good of the newly combined organization. This, of course, is easier said than done. Many factors are outside of the control of the leadership team. However, some specific actions that the leadership does have control over will improve the probability that the integration will be successful.

**1. Tell employees things will change.** The most common mistake during the integration process is that management makes statements, frequently during well-intended communication meetings, promising employees that things will stay the same or be very similar. This is factually not true. Practically everything will change: procedures, policies, seating assignments, compensation, benefits, etc. will be impacted by the acquisition. The best course of action management can take is to state very frankly that there will be significant change in the upcoming months and years.

**2. Have a communication plan.** Frequent communications with employees is essential to retain their engagement. When facts are absent, employees make things up. Combat the rumor mill by providing as many truths as possible. During the first few months following the public announcement of the

acquisition, management should provide weekly updates at a designated time and day. The consistency of communication will provide employees comfort because they can expect to receive updates at regular intervals.

**3. Take your time when making decisions.** Often, the frenetic pace associated with the integration process causes a sense of urgency to have everything decided right away. Rushing to make decisions can result unintentionally in creating additional change and anxiety for your employees. The best course of action is



to slow down and take a methodical approach to decision-making that involves a plan or a schedule of all of the major decisions that need to be made that takes priorities into consideration. A systematic process for analysis and decision-making increases the probability for success.

**4. Include people from both of the legacy companies in the decision-making process.** If only employees from the acquiring company are included, the employees from the acquired company will resist the changes and disengage. Inclusion and collaboration are essential for gaining buy-in and support for the new direction, new policies, procedures, etc. There are a variety of ways to include a cross section of employees. For example, you

could set up specific teams with representatives from each step in the process. The key is to have a cross-section of people and to share who those members are so employees know their best interests will be represented in the decision-making process.

**5. Adopt a “we” attitude and demonstrate the “we” attitude at every possible opportunity.**

Mergers and acquisitions inherently result in us-versus-them attitudes at all levels.

Therefore, it is imperative that all levels of management clearly demonstrate by their behaviors and the words they choose that they are committed to the collective “we.” Middle management are the most at risk for perpetuating the us-versus-them attitude because they are in the trenches of the day-to-day operations and frequently have to juggle the challenge of keeping the operation going while attempting to keep employees engaged and focused on performing their respective jobs. Pay close attention to your middle management level. Check in on them regularly and provide them

with as much support as possible. If this group of employees is on board and supportive of what the overall organization is trying to accomplish, then the other employees will be too.

This list is not all-inclusive, but is intended to provide you with a quick, actionable list of essential items associated with successful acquisitions. It is our intention that these five actions will provide you with food for thought and help generate ideas and thoughts that will aid in the integration process. **LE**

Mary Ellen Harris is director, human resources, and Tyler Ridgeway is director, executive search practice, at Kreisler Miller, a Leading Edge Alliance firm.



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