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IT and finance sit ever closer side by side

Paul Taylor says results are better where chief financial officers and information officers work together on strategic decisions

Corporate finance and IT departments have become ever more closely intertwined.

Chief financial officers (CFOs) need IT tools to monitor and run the finance function, ensure data are secure, and help them in their role as strategic advisers. IT needs the CFO to sign off budgets, pay the bills and help sponsor initiatives for business development.

Mike McKeon, finance director, of Severn Trent Water, the UK utility, says: "Good IT investments can make an organisation, while poor investments can break it. As CFO, I am interested in taking the business forward to success and to do that the CIO and I need to work together . . . Separately, we will fail."

Myron Hrycyk, Severn Trent, chief information office (CIO), echoes the sentiment.

Over the past few years, the two have worked together on some of the company's most important IT initiatives, including the introduction of an enterprise resource management system and a move of the company's headquarters.

"We both understand what we need to do for the company," says Mr Hrycyk. Unlike in some companies, both the CFO and CIO report directly to the chief executive at Severn Trent.

"I am Mike's peer," says Mr Hrycyk, while acknowledging that his counterpart has "a higher profile in the business".

He adds: "I think reporting to the chief executive gave IT a credibility it would not have had if I reported to the CFO or chief operating officer."

The two say their success in modernising Severn Trent's IT systems and cutting costs highlights the benefits of close co-operation and shared goals.

But it also reflects other factors that CFOs and their IT counterparts say are important to extract the maximum value from IT spending.

"Maintaining flexibility is the key," says Mike Wroe, CFO of Just-Eat, an online fast food takeaway service. "Support on contracts and cash planning is [also] important.

"By having a day-to-day presence in IT, finance can be part of the decision-making process, ensuring spending is planned and monitored in advance, rather than in arrears when it is too late to influence behaviour."

Like other CFOs, Mr Wroe also acknowledges that the finance function is, "heavily dependent on back office IT systems to provide robust and timely data".

Just-Eats' financial accounting and group analysis team extracts data from IT systems and for this it relies on the technical staff he says.

Finance has dedicated IT staff for the accounting systems.

Like his counterparts in the private sector, Mike Bailey, finance director for the City of Redmond finance and information services in Washington State in the US, says that IT systems can be a powerful tool for improving and streamlining operations. "Today's challenging economic situation puts focus on the need for increased efficiencies, which can maintain services in tight budgets," he explains.

"Significant improvements in today's ERP [enterprise resource planning] systems not only enable process improvements but improve the controls that often drive the complexity of the processes."

Nevertheless Mr Bailey cautions that, "many organisations – both public & private sector – are stuck with ineffective ERP systems that aren't designed to accommodate how work is actually done."

Continued on Page 2

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Inside this issue

The Connected Business

Good security does not require fluency in 'geek'

Data theft

Board level leadership and accountability on policies and their implementation are more important than achieving 'gold standards', says **Kate Bevan**

A series of high-profile attacks on similarly high-profile websites last year left not only IT managers, but chief financial officers all over the world mopping their brows and muttering "there but for the grace of God go I".

Sony was the highest-profile victim of attacks by LulzSec, a hacker group, and faced significant brand damage when LulzSec members accessed several of its sites and stole more than 1m user passwords.

To add insult to the injury of those whose details had been stolen, it transpired that the passwords were not even encrypted: they were stored in plain text.

Before that, Gawker, the blogging network, had suffered a similar attack, when a group calling itself Gnosis stole and then published the account details of 1.3m users online.

Then, with the phone-hacking scandal at its height, LulzSec struck at News International, redirecting visitors to the Sun's website to a hijacked page and claiming to have stolen emails sent by the tabloid newspaper's staff.

The mere thought of that kind of security failure should keep chief financial officers awake at night, says Gerhard Eschelbeck, chief technology officer at Sophos, an internet security company.

Steve Jones, head of master data management at Capgemini, a consultancy, agrees: "CFOs should be kept awake worrying about accountability at the business level," he says.

Mr Eschelbeck advises: "Start by putting policies in place to help focus, identify roles and responsibility," he says. "Think policy first, then implementation."

The key to data security is not what your IT department does, it is the policies you set in the board room. A security breach costs not just money to put right, but can also inflict huge damage on a brand and its reputation.

For example, it is up to senior executives to decide whether to implement the increasingly widespread BYOD – bring your own device – policy in their business.

More and more companies let staff use their own smartphones, tablets and even computers for work as it can keep costs down, but that, says Mr Eschelbeck, can be a security nightmare.

"How do you manage those devices belonging to individuals? How do you implement policies to make sure they're properly secured?" He stresses that it is for the management team to decide the policy, and for the IT department to implement it. Weak leadership can mean an IT department picking the solutions it likes, but which might not be the best for the business.

> 'Have a look at data security from a risk management perspective: where are the pools of information and what policies do you have?'

At a senior level, executives need to worry about issues such as compliance and how much to spend on warehousing old data that might be required by regulators. Here the IT department's priorities – the best possible kit – will not be the same as the CFO's – the least expensive but most efficient solution.

It is about efficiency and expediency rather than striving for a mythical "gold standard", says Mr Eschelbeck. "I would be happy to see organisations reaching the bronze and silver standards," he says. "Gold isn't needed in every area.

"Have a look at data security from a risk management perspective," he adds. "Where are the pools of information and what policies do you have in place?"

For example, data in parts of the IT infrastructure that are connected to the internet need to have gold-standard security, whereas something like, say, old menus for a restaurant do not need bulletproof protection.

Another area that should concern the CFO says Mr Jones is the need to address bigger questions on data privacy. "People look mostly at IT systems – firewalls etc – and how to prevent customer information getting out there from servers.

"The bigger question around privacy concerns big challenges that CFOs are only semi-aware of, " he says.

New European rules on privacy mean that businesses will have to pay much more attention to keeping track of individuals across multiple databases, says Mr Jones, and that has security implications.

"If you have customer information in multiple systems, that's multiple vectors by which information can be stolen. That should be something the CFO worries about anyway," he says.

Techniques such as pulling together disparate pieces of information from multiple databases via a unique customer ID to identify the individual aid compliance with EU law and enhance security.

"If the unique ID is stolen," says Mr Jones, "that's not a drama. There's nothing a hacker can do with the ID." So the strongest security should be around the data themselves, not the marker that pulls all those data into one unique profile.

Achieving the highest standards of data security is not about learning to speak fluent geek with your IT department.

It is about understanding the challenges presented by business issues such as compliance and the need for formulating policies – and then ensuring these policies are followed.

IT and finance grow ever closer

Continued from Page 1

These "legacy" systems often hamper process improvements, he says. "Worse than that, legacy systems often do not meet organisational needs, resulting in the growth of shadow systems that can have unreliable and inefficient results for the organisation as a whole."

To address these shortcomings, Redmond recently overhauled its ERP as part of a wider technology plan. "The new system was designed and implemented with a focus on creating an organisation-wide approach," says Mr Bailey.

Technology – including tablets and smartphones – is also making it easier for senior executives to access the data generated by ERP and by other systems, such as business intelligence and analytics.

ERP developers, including SAP, a software group, and business intelligence companies such as MicroStrategy, have built apps for devices including the iPad, to provide CFOs and other company bosses with instant access to key data.

Rather than modernise their own systems, some companies such as BP, in collaboration with Accenture, decided to outsource the IT that supports finance. Accenture says BP's shared service centre in Aberdeen, built for finance and administration and SAP support in the 1990s, is still a pivotal part of the business.

> 'By having a day-to-day presence in IT, finance can be part of the decision-making process, ensuring spending is planned'

"Shared services and business process outsourcing can be used to reduce the operating costs of finance," says Paul van Kessel, Ernst & Young Advisory Global IT Risk and Assurance leader, "but deciding when to use them can be fraught with challenges. CFOs need to learn from the success and failures of others."

"The key benefits of business process outsourcing [BPO] are obvious. It allows organisations to focus on their core activity and, in addition, cost savings can be achieved. BPO also brings significant risks to organisations. Key risks include data security, compliance and quality issues. The key to success is solid supplier management and third party reporting."

Matthew Buckley from EMC, a data storage company agrees. "The challenge for CFOs, in determining which processes are appropriate for outsourcing, often comes down to evaluating the appropriate level of risk.

"Heavily regulated data are likely to require a higher level of control, and therefore will not be appropriate for outsourcing.

"However, businesses may look to outsourcing processes and data management for content that is less sensitive, such as emails.

"An interesting approach that has emerged is the use of hybrid [clouds] in organisations, which enables them to enjoy the benefits of public cloud resources for certain applications, alongside the greater control and security afforded by a private, in-house 'cloud', for others."

Indeed, because of the pivotal role that the finance function plays in almost all companies, it is crucial for CFOs to be closely involved in developing security policies.

A convincing case must be made before investment

ERP

Jessica Twentyman notes a good business will capitalise on these complex systems, although problems are all too common

Finance software that captures every transaction a company conducts and automatically routes it to the correct ledger is at the heart of every enterprise resource planning (ERP) system.

Implemented well, these complex software suites – which also include applications for manufacturing, logistics, human resources and customer relationship management – can make a chief financial officer's life easier, by automating otherwise time-consuming manual processes and streamlining financial reporting.

Implemented poorly, however, they can quickly become a CFO's worst nightmare, blowing a hole in the company budget and leaving staff struggling to perform day-to-day duties.

After more than 20 years of ERP implementations, the disaster stories keep coming.

Last year, for example, Ingram Micro, an IT distributor, reported two consecutive quarters of profit shortfalls, which it blamed on problems in its Australian operations implementing an ERP system from SAP, a software group. In the US, ERP software specialists Epicor and Lawson are both facing lawsuits from disgruntled customers over failed projects that they say led to substantial cost overruns.

> Implemented badly, ERP can blow the budget and leave staff struggling to perform day-to-day duties

While there are plenty of success stories too, an annual survey released this month by Panorama Consulting Solutions, an ERP specialist, suggests that some of the blame for failures lies with customers who fail to identify project costs and potential savings – both of which are clear areas of responsibility for the CFO.

Panorama Consulting surveyed 246 companies from 64 countries worldwide over the course of 2011, and found that in 50 per cent of cases, at least 50 per cent of expected benefits from an ERP implementation were not realised.

More than half of ERP projects (56 per cent) went over budget and nearly one in three organisations said they had yet to recoup project costs.

The report suggests that better business cases are needed for ERP investments. "A business case captures potential costs savings and establishes a baseline," it says.

"While organisations want to know when they will realise the total cost of a project, a good organisation will capitalise on the ERP system. Not only should a company calculate its break even point, but also its overall return on investment," it continues.

That view is echoed by Andrew Meade, UK and Ireland lead for finance and enterprise performance at Accenture, a consultancy.

While the CFO's role should include working with the chief information officer on the business case and project costs relating to an ERP implementation, he says, they should also "set the tone for the rules of the design and build of the ERP system", so the strategy is based on both "real business needs and business affordability".

That means that, from the start, CFOs need to take a careful view of the business as a whole – a view that extends beyond their own department.

Employees in the finance function are likely to be among the main users of the system, certainly, but the needs of employees elsewhere also need to be taken into account.

At Selecta Biosciences, a start-up pharmaceutical company that develops vaccines, David Siewers, the CFO, has been able to develop the company's ERP strategy from scratch.

When he chose a cloud-based ERP system from NetSuite, a seller of on-demand business software, he was mindful of the fact that, as Selecta grows, it is likely to require additional modules to the finance applications now in place.

"Finance applications drove this selection, but the ability to add HR software or sales software was a key factor in my choice," he says.

"From the start, I knew that I didn't want to be replacing the ERP system further down the line." The cloud computing approach, with its subscription-based model of payment, he says, means Selecta only pays for the applications it uses at any given time.

But what approach should CFOs take, who are working in companies that already have ERP systems in place?

According to a 2011 report from Gartner, an IT market analysis company, these CFOs should take a step back from automatically approving a hefty annual budget for upgrades and improvements.

"Specifically, we recommend that CFOs interrupt the annual default administrative ERP project funding trend, by placing a two-year moratorium on funding fresh ERP-based finance and HR solution additions, upgrades, enhancements and so forth if their organisations have already completed [these] within the past two years," writes Ken McGee, a Gartner analyst.

That moratorium does not need to be absolute, he adds – but only the most robust appeal should be allowed to override it.

The message is clear: just because an implementation was successful, that does not mean the system should go on making large claims on a budget.

Painful processing: older financial directors are more likely to be stuck on 'spreadsheet island' Dreamstime

Consolidating the numbers First, wean financial directors from spreadsheets

Integrated IT systems are commonplace in manufacturing automation and service delivery, but are surprisingly scarce on the financial director's desktop.

This makes it difficult to present senior executives with an accurate view of the company's financial situation.

It happens partly because of a tendency for financial people to stick to their own "personal spreadsheet islands," says Simon Tennant, finance transformation specialist at PA Consulting.

These do not integrate easily with the "shiny new enterprise resource planning (ERP) systems" in use across companies, Mr Tennant says.

Typically there are "multiple versions of the truth", with disagreement between a group's financial departments about even such basic information as spending on IT or the number of people on the payroll.

"Spreadsheets are extremely prone to errors, do not have an audit trail, and are massively difficult to keep synchronised."

As a result, consolidating the figures is a painstaking manual process of integrating old and new systems, which often causes delays.

The problem comes to a head in the frantic weeks at the end of the business year, when financial departments work long hours to produce the annual accounts.

Eddie Short, a partner at KPMG management consulting, says: "Often CFOs [chief financial officers] and group controllers are wrestling with numbers from general ledgers, ERPs and finance data warehouses that do not match operational management information from functions such as marketing and supply chain."

In international corporations, one reason for the inconsistencies is varying regulatory regimes. Subsidiaries tend to focus on conforming to local legislative requirements, so consolidation with head office accounts becomes secondary.

The problem is multiplied as businesses expand and make acquisitions, each of which typically comes with its own accounting methods.

This has been a challenge for IMI, an engineering group.

The company has made a number of acquisitions in the past decade, says Ivan Ronald, group financial controller. "My remit is to report to the board, executive team and externally, but it is not easy, and never all at the touch of a button.

"It sounds simple to identify and define what information you want, and the processes to capture it without manual intervention, but that can be tricky across a diversified group."

IMI's numerous subsidiaries and divisions tend to come with their own ERP systems, of which there are between 30 and 40. "Some are really creaking because they have not been updated for 15 years," Mr Ronald says.

For subsidiaries and divisions with similarities, it makes sense to introduce a single financial system, he says. "But consolidating the whole group into a single ERP would be so complicated and expensive, it simply wouldn't be worthwhile."

Some international corporations have tackled the problem by encouraging finance staff in subsidiaries worldwide to form "virtual" teams. Members collaborate electronically using technologies such as video conferencing to create a sense of involvement and responsibility for international activities, alongside their local ones.

Explaining to financial staff who are geographically remote that specific information is needed for decision-making also helps motivate them, says Mr Ronald.

"If they think they are being asked to perform a routine exercise or fulfil a random requirement, to collect data that is not being used by the board or the executive team, they are less likely to respond swiftly."

> 'Spreadsheets are extremely prone to errors, do not have an audit trail and are massively difficult to keep synchronised'

A significant problem with financial consolidation is deciding what level of detail to include.

You might find you are splitting administrative data in 150 ways, yet no administrative decision is ever taken at board level. Sometimes you collect too much data, says Mr Ronald.

Inertia also causes problems. "Things have a momentum of their own and it's easy to go on gathering information in the absence of any instruction to do things differently."

Deciding what to leave out can be difficult.

For example, many companies do not know how much they are spending on areas such as IT, and what is driving their costs.

Tablets and mobile phones are often accounted for under separate divisions or geographic areas, without total expenditure across the group being clear. This exposes organisations to risk, says Mr Short.

Another reason for the lack of consolidated systems in corporations is a cultural divide between the financial department and IT.

This happens partly because, whereas the IT director used to report to the finance director, increasingly, the two functions are separately run and each report directly to the board (*see page 4*).

IT and finance people have different perspectives, says Mr Tennant. "IT tends to spend money buying equipment and employing people, whereas accounts teams want to justify expenditure and don't buy much."

Some IT directors want their own empires, and like to choose which software products to buy without consulting finance.

"For successful integration, you need a happy marriage between finance and IT, both in decision-making and implementation," says Mr Tennant.

But the main challenge is to wean financial directors from their fondness for personalised spreadsheets.

This is partly an age issue, relating mostly to people in their 50s, says Mr Tennant. "Younger people will be more used to ERP systems such as SAP and Oracle, so this can only get better."

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The cloud comes into its own on rainy days

IT as a service

Flexibility and scalability make buying in capacity a popular option, finds **Michael Dempsey**

The advertising industry is expected to come up with startling ideas within tight time schedules.

Successful campaigns cannot wait for a supporting technology infrastructure to be put in place.

So the central proposition of "IT as a service", parked in the cloud and expanding or contracting to meet the client's needs, should be highly attractive for advertising companies.

Colin Fleming is chief financial officer at AMV BBDO, the UK's biggest ad agency by client billings. IT is not his priority, but adaptability and security loom large in a business that handles the accounts of clients that include Diageo, the drinks group, and the Gillette razor brand owned by Procter & Gamble.

AMV has committed itself to the cloud, but its approach illustrates that software as a service (SaaS) is not always a simple proposition.

Mr Fleming divides AMV's data into three categories.

The first, comprising emails and routine client information, is used by all of its 450 staff and will soon be accessed via Microsoft's Office 365 service.

The second and third categories of data, sensitive information, including consumer research and AMV's core accounting figures, represent corporate treasures that have to be carefully protected.

"It's OK to use a public cloud for the first data category, which is not business-critical," says Mr Fleming, "but if client data went astray, for example, it would put our business at risk".

He likes the off-the-shelf nature of Microsoft's product, but says that he would not feel comfortable putting in the cloud information that is normally accessible only by the top tier of AMV staff.

So AMV will use SaaS for 90 per cent of its work, while holding confidential material in an internal pen.

"The high-risk stuff involves low numbers of people," Mr Fleming says.

What does appeal to Mr Fleming is the way that cloud resources can be tailored to fit a precise need and changed at very short notice.

"The advertising industry needs to be scalable, because client relationships are dynamic," he says: AMV can sometimes push out a new campaign in a matter of days.

Mr Fleming expresses his frustration at the traditional IT industry model where a small expansion in capacity requires a large investment in hardware.

"I don't like to have to buy a whole new server just because we a have bit more data," he explains. He also notes that flexible working is on the rise, with staff much more receptive to logging on remotely, often via the cloud.

> '[Enterprise] systems cost a fortune to buy, install and maintain. The SaaS model is a no-brainer, while the software industry model is outdated'

Taking a strategic view, Mr Fleming wants the cloud implementation to free his small IT department from mundane tasks such as user support and direct them towards business goals.

"They should be developing better client relationships via intranets, or tracking campaigns," he says.

His vision is of the cloud as a liberating influence that gives IT the scope to turn its skills to more important strategic tasks.

Cost is not a prime consideration for this CFO. "It's not about cost, it's about a business strategy that's nimble and flexible to mirror our accounts and our clients."

However price can be a significant factor, points out Peter White, who was formerly a financial director in Prague at Ceske Radiokomunikace (CR).

Mr White worked at CR for four years, restructuring the company and then negotiating its 2011 sale to Macquarie Group, an Australian investment bank, for €574m.

He says that CR was a traditional company, with a matching approach to IT.

It had installed enterprise software "at vast expense", leaving Mr White to come to reflect on the superiority of a cloud approach.

"[Enterprise] systems cost a fortune to buy, install, maintain and upgrade. The SaaS model is a no-brainer, while the software industry model is outdated."

Mr White believes that cloud vendors are pushing at an open door.

"We CFOs are by nature risk-averse, but with opex [operating expenditure] and capex [capital expenditure] budgets under pressure, you will begin to see a viral impact as our peer group embraces the cloud and gains confidence that this is the way to cut costs."

So the cloud appears to be gathering momentum among CFOs, who are increasingly disillusioned with the way that software industry behemoths profit from a billing system that is two decades old.

And it is not just the bigger programs that are being edged out.

DC Dental, a Baltimore-based US dental supplies distributor, moved to NetSuite, a cloud service, when it felt it had outgrown standard small business software packages.

Howie Friedman, DC Dental's chief financial officer, appreciates the fact that using the cloud means it can take less than a week for new staff to be fully "IT functional".

This, and the ability to compose financial reports without needing database query skills, satisfies Mr Friedman's appetite for accessible technology.

Now he clicks on a spending item and sees exactly what it comprises. "I make reports myself, and that's what cloud should be about, not needing outside assistance."

Many treasury systems still fail the 'user friendly' test

Risk and cash control

There is demand for more sophisticated capabilities but the software is not there yet, reports **Jane Bird**

Just as "fly-by-wire" systems control aircraft with minimal intervention from the pilot, so intelligent software looks set eventually to take over much of the corporate treasury function.

Continuous calculations will be made in real time, for everything from cash management to complex risk, debt and investment strategy, with the software also spotting trends, raising alerts and triggering actions to optimise a company's financial position.

At present, such tasks are largely manual, making them time-consuming and prone to error, says Leslie Holstrom, senior editor of EuroFinance, which conducts research among 2,000 chief financial officers (CFOs) and treasurers a year.

In future, intelligent treasury applications will be able to accomplish many tasks without human involvement, Ms Holstrom says.

"If rating agencies downgrade a particular bank, software will run a 'checker' to see what exposure the company has, and adjust credit limits or take action to switch out of that bank."

The system will also generate reports – filing direct to government channels if a company opens in a new country, or issues a bond in a regulated market.

Such software is still several years off, but there have been big developments in treasury applications since the economic crisis of 2008, which focused attention on the need for companies to have a clear picture of their financial position at all times.

The traditional source of corporate treasury software was modules of enterprise resource planning (ERP) applications, from companies such as Oracle, SAP, Unit4, Lawson and IFS. But these have been limited in scope.

Most systems do not have much that relates to treasury beyond cash and liquidity management, says Nigel Rayner, a vice-president at Gartner, the IT market research company.

Now, corporate treasurers need software to help with a much wider range of skills, including managing financial instruments, issuing corporate bonds for debt finance, and understanding the impact of interest rate changes or currency fluctuations.

Mr Rayner says: "Some organisations almost become banks and financial services companies, for example trading commodities such as oil, and hedging with complex financial instruments to fund expansion."

Many corporations have gone for a hybrid approach, combining ERP modules with specialist treasury management software from suppliers such as SunGuard, Wall Street Systems, IT2, and SuperDerivatives.

Oren Cohanoff is head of strategic solutions at SuperDerivatives, which provides hedging and risk management software. He says current ERP systems are not up to combining a global hedging portfolio in a single system that could be managed across an international organisation.

"While most corporate treasurers do not have a background in trading, increasingly they need to perform these activities," Mr Cohanoff says.

"Standard ERP systems can't price derivatives, so corporate treasurers are unable to explore 'what if?' scenarios to investigate financial vehicles and assess their profit or loss. This creates risk."

Specialist treasury software is usually delivered, as software-as-a-service (SaaS), via the cloud. This makes it popular with CFOs, because it is a variable operational expense rather than a big capital investment, says Mr Rayner. "And in-house IT people don't have to manage it." Most CFOs have overcome security worries about the cloud, he says.

While corporate treasurers are revamping in-house applications, they are also demanding improved services from banks, says Olivier Berthier, global solutions director, transactional banking at Misys, a financial software supplier.

Previously, they expected banks to be cheap and quick, he says.

> 'Standard ERP systems can't price derivatives, so corporate treasurers are unable to explore "what if?" scenarios'

"Now, they want banks to understand their corporate treasury value chain and advise on suitable products and services."

These might include software tools for cash pooling, to balance multiple accounts worldwide and to stop any going into the red.

Trade finance tools, which help companies manage international transactions, are also in demand, says Mr Berthier. "This is the area of greatest demand. But companies need to ensure their in-house IT systems can integrate with instruments used by the bank," he says.

Increased demands from corporate treasurers are also noted by Cindy Murray, head of treasury e-commerce for Bank of America Merrill Lynch. "They want to understand where their cash is at any given moment, regardless of country and region," she says.

"They also want to deal with multiple banks without being locked into a single proprietary system. So they expect us to collaborate increasingly with other banks and develop a standardised global approach to technology through organisations such as Swift."

The move towards automation extends far down the treasury value chain to areas such as electronic invoice processing.

Although 99 per cent of invoices are created electronically, three-quarters of them are printed for processing, says Martyn Christian, chief marketing officer of Kofax, an information management company.

The goal is to make this process "touchless", so that invoices are automatically logged, checked against a purchase order and paid, Mr Christian says.

Treasury applications still have far to go. They have failed to become as user-friendly as software in other departments, says Ms Holstrom. In the words of Mr Rayner: "They still tend to be fragmented, with a surprisingly high number of disparate systems implemented in a patchwork, with no overall strategy."

The economic crisis highlighted the need for companies to have a clear view of their financial position Getty

Outsourcing The wise CFO will retain control of the company's vital data

The cloud – a big, fluffy zone of storage, shared computing power, services and applications. What's not to like?

At the consumer level, cloud services such as Dropbox, a file sharing service, and applications such as Google Mail and Microsoft's Office Live, make a lot of sense: you do not have to manage the infrastructure yourself.

The same applies to businesses: why have a bank of humming email servers and a team of techies to maintain them if you can outsource that function?

Similarly, there are any number of companies clamouring to take over other parts of your business process, relieving you of the responsibility of maintaining staff and infrastructure.

But is this a good idea? The decision should be taken not only by the IT department, if it is a business-critical function such as email, but also by the chief financial officer, as it is a policy issue with cost implications.

Making the decision to outsource a process is a balancing act for the CFO, says Chris Stancombe, head of finance and accounting outsourcing at Capgemini, a consultancy.

Outsourcing means that, in theory, a business can have "best-practice" operational processes at a fraction of the cost of doing it in-house, but if processes are fragmented and spread across a number of vendors consistency can be a challenge, says Steve Jones, head of master data management at Capgemini.

"The question for the CFO should be: How do I drive consistency? IT vendors have really great processes, but the CFO should be saying: 'I want to be able to have that control, the quality that delivers, and the cost reductions'."

The huge rise in amounts and type of digital information – big data – also presents outsourcing challenges for the CFO.

When there is too much to crunch in-house, the CFO has to work with the IT department in setting policy for managing those data.

There are infrastructure decisions to be made: Edwin van der Ouderaa, head of financial services analytics at Accenture, a consultancy, points out the need to manage processing capacity. "The cloud can be the most efficient way to handle big data," he says. "If you have all that capacity in-house, it can end up being expensive overcapacity," he says.

Another issue is how to manage the divide between the data and the application they are running in.

An IT supplier might be able to provide just the right application for you, but do you want to hand over your most valuable resource – your customer data – to that provider?

Chris Knowles, head of solutions at Dimension Data, an IT services group, suggests that the solution is to keep the data in-house.

"The application might be running in the cloud, but you retain control of the data. Otherwise, you have to worry about what happens if the vendor closes down – what happens to the data? Or your data might be mixed with that from another company."

> 'You have to think about the cost of accessing the cloud'

And that of course raises security issues, says Mr Knowles. Organisations can certainly benefit from the processing capacity in the cloud, but, he suggests, it is wise to "keep data local".

It might look like an obvious choice to outsource processes, but the wise CFO bears in mind other costs, such as bandwidth: if a lot of your information-crunching is being done via a provider online, notes Mr Knowles, "you have to think about the cost of accessing the cloud and your bandwidth requirements".

However, he says, there is "a lot of value in cloud computing – the advantages outweigh the disadvantages".

As the need to keep business costs under control grows, and as sellers of IT find themselves competing in a tough environment, perhaps CFOs should see this as a good time to be making decisions about what should remain in-house and what can be done outside the business.

Kate Bevan

An increase in customer details raises privacy issues

Big data

Making best use of the constant stream of information can be business-critical, writes **Kate Bevan**

"We used to think a terabyte was a lot of data.

"These days, a terabyte fits on a hard disk you can keep in your pocket." Edwin van der Ouderaa, head of financial services analytics at Accenture, a consultancy, has a point.

As more and more of our lives – data from supermarket loyalty cards, photographs of the cat, geolocational tags, trips to a bar with friends – are lived online, so too the amount of data we share increases.

This poses a challenge for businesses: how to manage the ever-increasing – and increasingly disparate – data that we generate every day, and how to use it.

Making the best use of information is an infrastructure issue, and thus one for the chief financial officer setting priorities for the business.

It is an important topic for the CFO, because these days, data are a window on the lives of customers. So making best use of that information is also business-critical.

Problems around management of huge amounts of data are increasingly pressing.

Chris Knowles, head of solutions at Dimension Data, an IT services group, points out that sheer volume can get in the way of doing business.

"If the data are too big to process, then they become valueless. For example, a business that relies on a process to make a decision might miss out on an opportunity if that process takes too long."

Huge amounts of data also put pressure on infrastructure: simple operations can take hours. Mr Knowles says there are four areas that CFOs must understand: storage, transportation, security and analysis of data.

"Organisations need to start by classifying data," he says. "What do you need immediate access to – and therefore have to keep in expensive primary storage – and what can be archived?"

He suggests that for many organisations, some 75 per cent of data are dormant, but need to be stored for compliance reasons. This does not need to be in expensive primary storage; off site warehousing is cheaper.

Many organisations are increasingly allowing staff to use their own devices – smartphones, tablets and laptops – for work. This raises obvious concerns about security, but also over the volume of data and even its legality.

> 'If the data are too big to process, then they become valueless'

Someone's personal laptop which connects to the corporate network will not only have spreadsheets and presentations for work, but could also contain music files that may have been downloaded illegally.

If those files get on to the network, they take up space and are a compliance issue.

And what about multiple copies of data? Mr Knowles points to the example of, say, a regular podcast from the chief executive.

"There only needs to be one centralised copy of that," he says. "But instead you end up with multiple copies in email databases as it's emailed around and copies are saved on to hard disks – they all use space."

If data management is a business cost, then the need to make the most of data is even more critical.

These days, businesses have access to so much information that they are "a bit like a child that has discovered a new toyshop," says Mr van der Ouderaa. So, CFOs need to rethink their approach to analytics.

"Most analysis techniques are still coming out of old-world relational databases," he says. "There are now so many forms of data and new techniques and algorithms to sift through."

The other problem is privacy, says Mr van der Ouderaa. As the "internet of things" takes hold – from cars that constantly upload locational information, to devices in the home that can send information on, say, which adverts you watch on TV and which you fast-forward through – our "digital footprints" are becoming bigger and easier to track.

"One of the first tasks is having a major rethink on what privacy really means," says Mr van der Ouderaa.

This is another question for the CFO, says Steve Jones, head of master data management at Capgemini, a consultancy.

Privacy laws are already tightening and businesses need to be able to manage data intelligently: rather than having disparate chunks of information in separate databases.

"At present, I need to be able to crosscheck across the databases addresses, names, dates of birth to identify the individual across the business," he says. "The business has to come together and this has to be driven top-down."

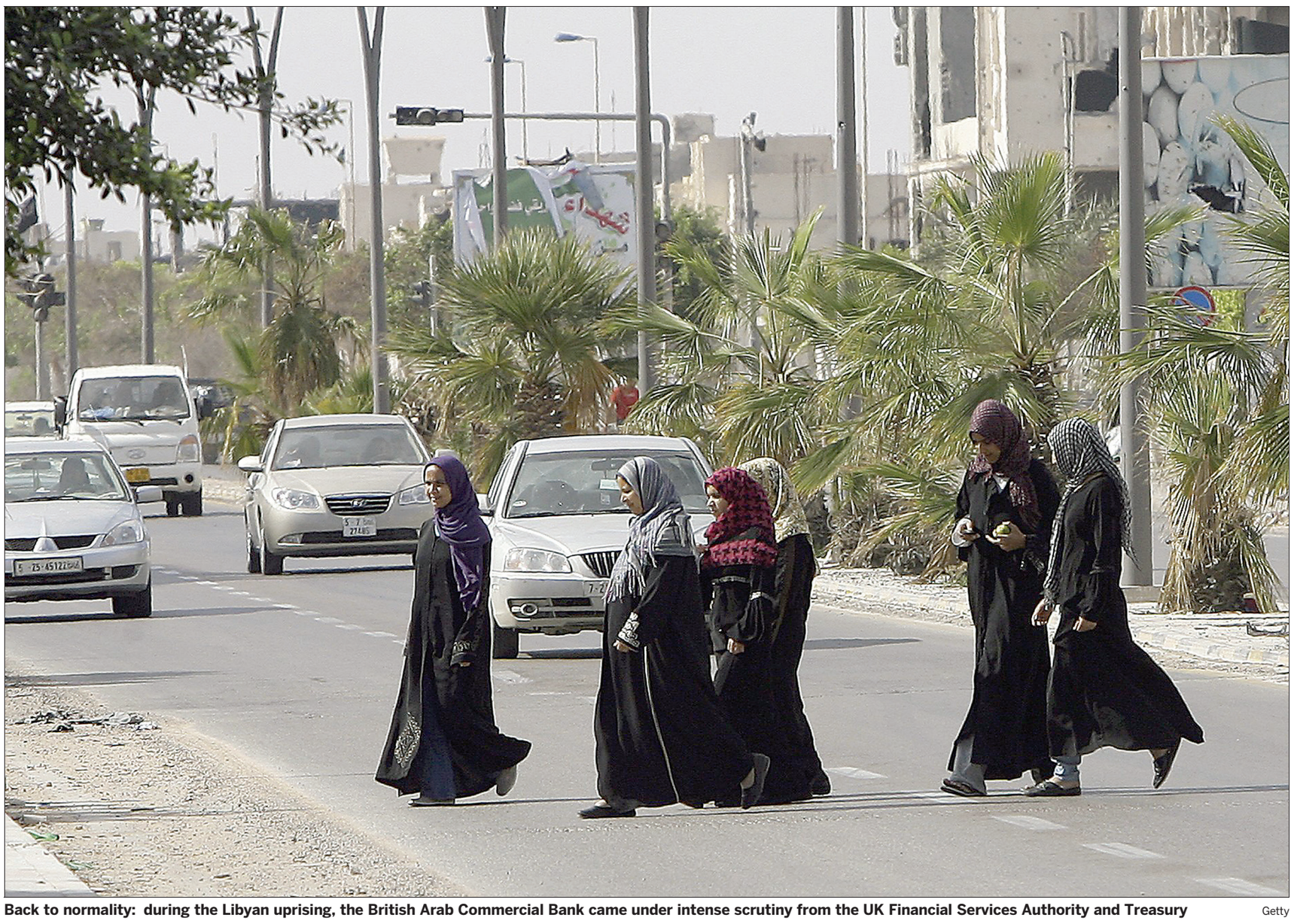
It is a dizzying array of subjects for the CFO to get to grips with.

But says Mr van der Ouderaa: "CFOs are actually always at the forefront of technology. They're the accountants: they know its value."

Dashboards make the corporate drive easier

Business intelligence

Jessica Twentyman says a strong visual overview of key data can help executives make sense of reams of information



Back to normality: during the Libyan uprising, the British Arab Commercial Bank came under intense scrutiny from the UK Financial Services Authority and Treasury Getty

Last year, as Libya descended into civil war, British Arab Commercial Bank (BACB) came under intense scrutiny from the UK Financial Services Authority and Treasury.

With international sanctions imposed on Libya, many of the accounts that the London-based wholesale bank operates on behalf of customers in that country were frozen.

Meanwhile, the bank itself – which is 83.5 per cent owned by the Libyan Foreign Bank – was obliged to operate under revised governance arrangements for much of 2011.

During this difficult period, investments that BACB had made in business intelligence (BI) paid off, according to Crispian Denby, its chief financial officer.

"When the regulators were crawling all over us, seeking answers they needed yesterday, we were able to produce them," he says. That ability to provide timely, accurate reports on its operations, gave BACB "a terrific amount of credibility" with the FSA, he says, "because they knew we were in control".

Normal trading conditions have now resumed at BACB and the BI system, based on technology from IBM, remains central to day-to-day operations.

Every day, Mr Denby uses it to check the bank's profit and loss account before the morning management meeting. Credit managers rely on it for the information they need to process loans and manage credit risk. Treasury staff use it to monitor and maintain liquidity.

It is not just in the financial services industry that finance professionals rely on BI tools.

Regardless of sector, today's CFOs are increasingly expected to oversee "business strategy execution in its entirety", says Peter Dean, director of finance for the UK and Ireland at SAS, a BI software company.

That means they must be able to access data from a wide variety of business systems – not just finance applications – and integrate it in ways that provide meaningful answers to complex business questions.

"Growth, profitability, share price and earnings per share, as well as other key metrics, will always be at the forefront of the CFO's mind," says Mr Dean.

"However, in today's economic climate, cash remains king. Strong awareness and management of a company's current and future position is essential. Consequently, intelligence on areas such as demand forecasting and inventory levels is increasingly important to be able to project, manage and use cash flows."

These days, many CFOs need access to customer data, he adds, as well as reports that enable them to identify, predict and prevent fraud.

BI tools enable CFOs to explore data in depth and to model it in various ways – but an at-a-glance view of key performance metrics can be valuable too, which is where executive dashboards come in.

> 'When the regulators were crawling all over us, seeking answers they needed yesterday, we were able to produce them'

These pull data from a variety of sources to create strong visual representations of the status of business operations in the form of graphs, charts and scorecards.

It is an approach that has been adopted by Jerrold Pellizzon, CFO at Ceradyne, a US-based manufacturer of technical ceramics used in body armour and other specialist products.

The company's goal to achieve $1bn in sales by 2016 (annual revenues are about $600m) means that Mr Pellizzon and his team need to spend less time mining data and more time acting on what it tells them, he says.

"If numbers are the language of business, then dashboards are the way we drive the business forward," he says.

His own dashboard, he says, enables him to "take the daily temperature of the business", by providing a single, view of forward-looking data on orders and deliveries, as well as information on expenses, such as materials, labour and logistics costs.

The BI dashboards used at Ceradyne are based on tools from Tableau Software that extract and present data in the company's recently implemented enterprise resource planning system from SAP, a software company. But at other companies, the "plumbing" that underlies a BI dashboard can be far more complex, depending on the number of information sources.

For example, at PA Consulting, a management consultancy, BI specialist Stephen Gallagher and his team are putting together a dashboard for the CFO of a global manufacturing business. When this dashboard "goes live" in four months, says Mr Gallagher, it will enable the CFO to view not just financial metrics, but also information on customers, employees, deliveries, quality, health and safety issues and how well the company is doing in meeting its targets to reduce its carbon footprint.

To provide that picture, PA Consulting needed to tie in information from four or five corporate IT systems, as well as spreadsheets, emails and PDFs.

"Hard financial measures are obviously important to this CFO – they're the bread and butter of what she needs – but she also required a wider view of company performance," he says.

That puts her ahead of many CFOs, he adds, but as others in the role start to see themselves less as department heads and more as the guardians of corporate performance, dashboards are likely to become more popular.

IT has crept from its silo and requires a change of approach

Alan Cane
PERSPECTIVES

The credit crunch has affected businesses of all sizes but the greatest and most deleterious impact has been on small and medium sized enterprises, the SMEs that provide the raw material for gross domestic product growth in most economies.

The response from policymakers has been far from uniform.

The US, for example, seems to have made a better fist of the affair compared with the eurozone countries – still struggling with the problems of the euro – and the UK, where SMEs are still finding it difficult to persuade banks, despite government urging, to provide capital for growth and development.

All of which is a serious headache for those managers charged with keeping their companies monetarily on an even keel – the chief financial officers.

In addition to these challenges, the CFO in many companies has responsibility for the information technology function as well.

In large companies there may well be a chief information officer to take on this responsibility. The CIO may be of equal seniority to the CFO – but rarely.

In most cases, the CIO will report to the CFO and the CFO will take ultimate responsibility for signing off on IT hardware and software acquisitions.

SMEs, on the other hand, may not be able to support a position as grand as CIO and the CFO will take responsibility for setting the IT agenda – not, of course, in terms of the practicalities – that will be left to an IT manager.

In these smaller companies, however, the CFO may be charged with overseeing the integrity of the IT infrastructure, ensuring the company systems can meet the objectives of the business, that they run efficiently, and that security measures are in place.

The CFO has these responsibilities for both historical and practical reasons.

In the early days of business computerisation, IT, then simply called data processing (DP), was limited to the automation of the back office.

It provided the information that CFOs needed to fulfil their primary function – maintaining the company's financial health.

Furthermore, the hardware and software made up a significant part of capital and recurrent spending and was therefore of great concern to budget-conscious CFOs.

An inevitable consequence of the cost and significance of data processing in many companies was the development of "a business within a business".

The DP department became a self-contained unit, cut off from the rest of the company – and especially from senior management – by culture, by technology and by the glass windows of climate-controlled data centres.

This development of technological silos was not helped by the comparative complexity of data processing in the days before personal computers, when even simple business intelligence was hard to come by and DP projects regularly failed to come in on time and within budget.

> 'Rather than CFOs having to fight their way into the citadel, technology has exploded from the back room and surrounded the business'

Third party organisations, such as software houses and computer bureaus (both archaic terms in these days of computer services and the cloud) often failed to meet service level agreements, heightening the mistrust that developed between DP and the business.

Many thousands of words have been published and conference speeches given suggesting ways that IT managers and CIOs can bridge this gap – for example, by ensuring they understand what the business is trying to achieve and aligning their systems to support its objectives.

Learning to communicate with top management in plain words rather than jargon has been another focus.

Surely, however, the CFO has an equal responsibility to understand the nature of IT systems, what they can achieve and why providing only enough finance to "keep the lights on" is short-sighted.

Events also favour a change of approach: essentially, IT now underpins most businesses in their back and front office operations.

The CFO must be aware of the importance of corporate websites, online marketing methods, ecommerce and the significance of social media.

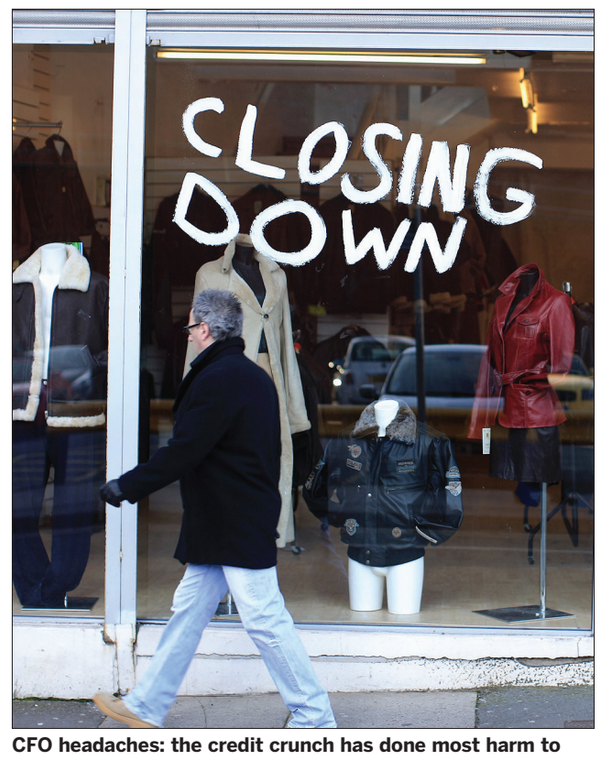
In a sense, rather than the CFO having to fight his or her way into the technology citadel, the technologies have exploded out of the back room and surrounded the business on all sides.

Now it is the IT manager or CIO who is at a disadvantage, forced to come to terms with applications driven by factors outside their control and which they were not trained to deal with.

In these circumstances and given the way the wind is blowing, the CFO should adopt the role of interpreter between the business and the IT.

But there is a lot to learn and the day job – managing the organisation's finances – is not getting any easier.

The rewards for success, however, will be substantial.



CFO headaches: the credit crunch has done most harm to small and medium-sized enterprises Getty