The Connected Business

Wednesday March 27 2013

www.ft.com/reports | twitter.com/ftreports

New IT tools aid evolution of finance chief's role

ILLUSTRATIONS: ØIVIND HOVLAND

The job of minder of the company books is changing to a more strategic one and fresh analytics software can help, reports *Paul Taylor*

Traditionally, the role of a chief financial officer has been to look after the company books using spreadsheets and finance modules built into enterprise resource planning (ERP) suites from the likes of SAP, Oracle, NetSuite and others.

But that role is changing and now often includes helping to define corporate strategy and oversee the transfer of business to digital platforms.

"Based on our research, it is clear the chief financial officer role at today's leading companies is evolving," said a study by Ernst & Young published last year. "Alongside their traditional mandate to provide financial insights and analysis, chief financial officers describe a greater involvement in supporting and even developing strategy, guiding key business initiatives."

Rado Kotorov, chief innovation officer for Information Builders, a business intelligence provider, says: "The role is changing due to the growing importance of data assets in the process of revenue and profit generation . . . Keeping tabs on information is no longer enough. To be successful in today's economy, organisations need to treat their enterprise data as an investment."

Significantly, when asked by Gartner and Financial Executives International, 44 per cent of chief financial officers said their influence over IT investment had increased since 2010.

"The chief financial officer's growing role in IT decision making is not primarily around cost management; rather, it's related to making sure it's a key strategic enabler, and ensuring that IT is in step with other efforts," said Gartner.

> 'I would challenge a chief financial officer to have at least a working knowledge of IT'

Steve O'Neill, chief financial officer of northern European operations at EMC, an IT services company, says: "As the individuals who are most often tasked with the stewardship of our own corporations, it is incumbent upon us to ensure that we keep abreast of this fast-moving environment to maximise the benefits and minimise the potential risks.

"We can no longer absolve ourselves from engaging in this technological revolution and assume others within IT, legal or management have covered all the bases from an operational risk and reward perspective."

While he admits it is not necessary for every corporate finance chief to understand the intricacies of implementing a particular IT strategy, he says: "I would challenge a chief financial officer to have at least a working knowledge of IT to enable them to make informed investment decisions for their business and to weigh up the pros and cons and risks and rewards of chosen IT strategies.

"Understanding the [overall] picture will enable you to make much more informed business and investment decisions and leverage new opportunities, while minimising your exposure to previously unaccounted-for business risk."

Forward-looking finance chiefs argue that while they need IT tools to monitor and run the finance function,

Continued on Page 2

Better accounting systems offer richer forecasting resources

Information services

The need to share data is one factor driving the use of more analytics, says *Stephen Pritchard*

When businesses first started to invest in information technology in the 1950s and 1960s, the finance director was usually in the driving seat. The early computer systems were installed to carry out tasks such as accounting or running the payroll. But the chief financial officer is no longer the main user, let alone the sole custodian, of business data.

"When businesses first started putting in [manual] control systems 100 or so years ago, they measured the flow of goods, then cash, then information," says Frank Buytendijk, a research vice-president at industry analysts Gartner.

"Even over the past 20 years, the chief financial officer owned the management information systems. But now it's marketing driving a lot of innovation."

The finance function, Mr Buytendijk suggests, is moving from its role as owner or controller of data to a consumer of information. But, he points out, finance and accounting systems now offer richer tools for forecasting, analysing and reporting data, with finance teams able to do more of their daily forecasting and planning without exiting their finance or enterprise resource planning [ERP] software.

Companies such as Oracle and SAP have invested heavily in business intelligence applications, in part to boost those capabilities. And it is becoming easier to export data from financial systems, either to a cloud-based application, or even just to look at the numbers in Microsoft Excel.

But for larger, and more complex businesses, most finance directors will need to bring data into a specialist business intelligence tool, either for their own use or so a business intelligence specialist can carry out the analysis. Larger firms continue to invest in these specialists, sometimes setting up a business intelligence competency centre, to meet the board's need for more accurate and timely analysis and forecasting.

"Chief financial officers had large amounts of information in ERP systems, but because of their complexity it wasn't accessible to the business," says Peter Lumley, a business intelligence expert at PA Consulting. "There is a need to visualise what the data are telling them."

The need to share more key business data with the wider business is one of the drivers for finance departments to make more use of analytics. The chief financial officer should be providing a "sanity check" for the wider business, according to Tony Baer, a principal analyst at Ovum.

Often other business units' forecasts or analysis are not cross checked against the company's financial records, nor any decisions tested for their impact on the cash position.

The subprime mortgage crisis in the US is an example of the risks of putting market share ahead of profitability. Using business intelligence to give more people in the business access to finance-based data can only help.

Mr Baer says chief financial officers remain heavily involved in decisions about where a company should invest and finance teams need to look at wider ranges of data. He says: "Chief finance officers are widening their view point, looking at macro trends and looking for signals."

> 'Chief financial officers had large amounts of data in systems, but it wasn't accessible'

Investment decisions will be made in light of financial data, but also customer and supplier information, even third-party data sources or data from social networks.

Fortunately, industry analysts point out that the range and quality of business intelligence and analytics tools is improving, with more sophisticated algorithms, more powerful computers and techniques such as in-memory databases speeding up analytics.

Finance directors might not always need real-time information but quicker reporting and the ability to run multiple "what if" scenarios, without heavy investment in IT, is improving decision making. Analysis tools are also becoming easier to use, with the growth of visual analytics and applications designed for tablet computers in particular making it easier for senior managers to view reports and drill down into the data.

But some barriers remain. Variable data quality, and the difficulties of creating a single master data record, can hamper the finance director's ability to use a wider range of data. Finance analysts are trained to deal with highly accurate data from systems of records. Making use of new data sources and big data can mean dealing with incomplete or less accurate figures. This requires finance directors to change their approach.

According to Leo Sadovy, a former vice-president of finance who runs the performance management division of SAS, an analytics software vendor, just about 15 per cent of companies are carrying out "transformational work" with business intelligence. In a large number of finance departments they are still trying to improve their ability to handle the basics, such as management reporting.

Businesses, he says, are also held back by a lack of statistical knowledge, as well as by issues of data integrity. Paul Dennis, an adviser at the Corporate Executive Board, a member-based body, says the question of skills becomes even more acute as finance teams start to use more powerful tools to draw on a wider range of data. Improved analysis tools and better visualisation are important, he says, but so are the people.

"If you are going to invest to make more of data, it makes sense to have the expertise in place," he says.

Good old days: a typical office computer circa 1954 Getty

Biggest challenge is not to stifle legitimate goals

Regulation and risk

Stephen Pritchard finds new rules can lead to conflicts

Risk management and compliance are growing burdens. According to one industry statistic, a new regulation is published every 22 days.

For businesses trying to operate globally while streamlining their systems and improving efficiency, this can amount to a significant challenge. The need to comply with myriad and sometimes widely differing laws and financial regulations can go against efficiency measures, such as an integrated supply chain or even a single financial record system.

Since the financial crisis, however, companies have also increased their own scrutiny of financial compliance and risk management.

John Smart, head of the fraud investigation and disputes services team at Ernst & Young, says: "Questions about risk are coming from two directions: external environments and internal audit committees."

This, he says, means companies are spending more time and money on compliance. And, even where firms have good systems in place, compliance can pull in the opposite direction to good business practice.

"You can end up with a conflict between the operational part and risk management part of the business," says Mr Smart.

Avoiding these consequences means the chief financial officer not only has to run a tight ship – with automated risk management tools playing an increasingly important role – but he or she has to take a wider view of risk than pure financial compliance.

Recent events in the UK, where several multinational companies came under scrutiny for their tax practices, show a business can be legally compliant but act in a way that creates real reputational risk. Businesses are also looking at non-financial risks, especially in the supply chain.

The chief financial officer will usually have to take responsibility for the company's overall approach to risk, even if the risks themselves are managed by other business units.

"The chief finance officer is the originator of reporting and management information," says Tim Thompson, a partner in risk and regulatory analytics at Deloitte. "It is the finance director who is telling the board what has happened."

The finance or risk management department will need to pick through rules and regulations to establish what is likely to affect the business.

If a regulation is published you need to abide by it, but the effect on the business might be minor, says Loren Padelford, executive vice-president at Active Risk, a risk management tools supplier.

"The emphasis is shifting from risk management and compliance to understanding what the real risk is."

'Teams are not spending enough time improving visibility of risk exposure'

This shift also needs to be made with care. Mr Smart says that, in some recent cases, businesses actually identified the risks correctly but failed to act to prevent the damage.

Sometimes this is a result of a lack of resources, a lack of automation, or too much focus on the minutiae of regulations, with executives losing sight of the big picture.

"We coach clients to take a broader, risk-based approach," says John Wheeler, a research director at industry analyst Gartner. "You have to have a single governance, risk and compliance system and a single system of record. Once they have that [companies] can better understand their risk profile [and] make sure they operate within their risk appetite."

Bob Stark, vice-president for strategy at Kyriba, which supplies treasury services and technology, says: "Teams are spending too much time on manual tasks and not enough time improving visibility of risk exposure."

This is understandable as businesses have faced a wave of regulation, including Sarbanes-Oxley, Dodd-Frank and measures such as Basel II and III. Often the only practical short-term solution is to throw people at the problem.

But finance directors do not always go back later to see if tasks can be automated. Also, some compliance measures, whether automated or manual, can stifle legitimate activities.

"Compliance can over-control," says Richard Hunt, managing director of Turnkey Consulting, which specialises in risk management based on technology from the company SAP.

"You can put your business operations at risk by adding unnecessary compliance activity. But, [in] a lot of cases, there is now an automatic control option that there wasn't [before]."

The good news is more of these tools are available within, or as add-ons, to large enterprise resource planning and financial software applications, and they have matured during the past few years.

Cloud helps to make most of heavy weather

Case study
Gritit

Clear financials are key to banks' support, says *Michael Dempsey*

Matt Benham: '200 vehicles on the road in winter'

When the credit crunch first bit in the UK in 2007 small businesses felt the pain and, despite much political pressure, banks remain stubbornly cautious when it comes to companies with irregular turnover.

Gritit, a winter contingencies company that has grown rapidly since it opened in 2005, has to contend with the vagaries of British weather on top of expanding and contracting its workforce to meet seasonal demand.

Matt Benham, finance director of the Uxbridge-based business, says it pays to produce reports your bank manager can grasp instantly.

He says: "Banks are requiring reporting from small businesses that goes far beyond what many of them are capable of delivering. Your bank manager is not necessarily an accountant, but you need to have a reporting product that can give them an instant picture of where your numbers are heading."

Gritit has bolted two cheap, effective cloud products together to create management accounts packs so its bank can digest with ease.

Xero, a popular cloud financials package from New Zealand, is at the heart of Mr Benham's daily work. Another product, Spotlight Reporting, takes reporting data from Xero and presents it in a fiscally friendly way that avoids spreadsheets, which do not suit everyone and can be changed by third parties. This is a new cloud phenomenon, with companies in the software-as-a-service sector, which host services on the web, spotting a market for utilities written to ride on the back of products from other players.

Spotlight Reporting costs Gritit £30 a month, says Mr Benham, while he pays £50 a month for Xero. He admits to initial fears about the quality of such low-priced software, but relied on the experience of other financial directors who had switched to Xero.

Mr Benham has been down the route of using companies such as SAP when implementing large systems with other employers, and says they can change the entire way people work. But this was not appropriate for Gritit, which has 35 full-time staff but expands to 300 in the winter months, when it keeps forecourts and pavements clear for commercial clients and public bodies.

Mr Benham has a credit controller and a part-time accounts payable worker. This team of two and a half has to be able to master astonishing peaks and troughs. This January Gritit sent out 2,000 invoices, nearly half of its annual total, in just one month. Cash flow can be critical in a severe winter, with a welcome demand for its services counterbalanced by payments for salt and fuel.

This lean operation depends on Xero being fully integrated with its front-office software, Microsoft Dynamics, which is also accessed via the internet. In the frantic winter period, clients must be billed immediately to prevent costs mounting up, so front and back office have to work as one.

Cash management is key to Gritit's success, its rise to a turnover of £8.6m mirroring close control of outgoings. "We have 200 vehicles on the road in winter and I can see their fuel costs at any time and run reports," says Mr Benham.

His one regret at being in the cloud is that the customised adjustments a client can request from a large enterprise resource planning software provider are not available.

He says: "With the cloud you get what they give you, you can't go into the system and tweak it."

'Banks are requiring reporting that goes beyond what most SMEs can deliver'

Gritit is a business that highlights why cloud financials suit any concern where human resources are limited. The Xero-Spotlight Reporting combination has allowed Mr Benham to keep technology under control while addressing the critical question of cash management.

Gritit has passed a series of milestones as turnover exceeded the £1m, £3m and £7.5m marks. Being able to present these figures in a way that explained how profits are gathered in just half a year was crucial.

The turnover thresholds all required external investment, and Gritit has used a selection of cloud technologies to illustrate how and why a rather unusual business has been worth the support of the banks.

Cash savings are to be found hiding among the big data

Analysis strategy Finance officers find fresh ways to extract more information out of their company accounts, reports *Maija Palmer*

So far, big data has mainly been a toy for the chief marketing officer to play with. Companies are using tools for analysing large volumes of data to refine their product offerings, their marketing message or even the positioning of their goods on the shop shelf. The chief finance officer's involvement, in general, has been to approve the spending on such projects, which can cost from $200,000 to tens of millions.

But chief finance officers too are starting to see big data technologies as something they could use to get a better handle on company accounts, manage regulatory reporting requirements and identify cost savings.

"We have not seen chief finance officers getting a lot of limelight in big data yet. We have been seeing the chief marketing officers getting into action, and a lot of activity coming from the chief information officer," says Narayan Sivaram, global client partner at Infosys, the IT consultancy, which advises clients on big data technologies. "But chief finance officers are starting to be interested. A third class of project is emerging around regulatory reporting."

One large financial services company that Infosys worked with, for example, was collating financial data from operations in 120 countries. Not only was this creating huge costs because the company needed vast data warehouses to store the information but they were worried about whether the data were accurate enough. With ever stricter requirements to calculate exposure to risk, the financial services company feared that even a small amount of incorrect data could be damaging.

Because the company had already invested in some big data applications for analysing its clients, it decided to use these also for financial reporting. Using high-speed tools for handling data, it was able to take samples of various business metrics from across its operations, and run checks to see if these were in line with historical performance and what was expected of that unit. Any anomalies could be spotted and corrected more quickly.

George Davies, chief executive of MooD International, which provides management software for companies, says big data tools can help chief finance officers to have fewer surprises in financial reports. "We can model in real time the impact of the decisions they are making," he says.

"It's not just understanding the finances of the past or guessing at the future, but looking at real impact. Put together orders, revenue, operating profit and put in your forecast based on what you can achieve. What if I put more people in, can I drive up revenue? It is possible to do a review at any point of what is going on."

This should mean an end to the sudden profits warning, because the outcome of any change can be see far in advance, Mr Davies says.

Chief financial officers can also use data analysis to identify ways to reduce costs. Mike Connaughton, director of big data for Oracle's Europe, Middle East and Africa operations, relates the example of one customer, a large European telecoms operator, which was looking for ways to reduce the number of customers leaving the network, known in the industry as "churn". Even a 1 per cent increase in churn would translate to a 5 per cent reduction in the company's profitability, so it was crucial to find ways to reduce this.

'The oldest technologies were best liked, still worked well and were cheapest to run'

Historically the company had looked at call details and network performance figures but it was not getting accurate predictions of customers at risk of leaving. Using big data technology, the company started to also analyse the audio files of complaints made to its call centres. Cross referencing those with other factors, it was able to predict with 75 per cent accuracy if a customer was about to leave.

"It seems obvious but they had not been able to cross reference the audio with data sets before," Mr Connaughton says. The call-centre staff dealing with the complaints had, without the cross referencing, only picked up on 20 per cent of customers at risk of leaving.

Being able to put often subjective, disparate data, such as audio files, into the system for analysis is what many executives are finding helpful about big data. Søren Staun Biangslev, chief technology officer at PFA Pension, the Danish pension fund, used big data analysis tools when he was looking for ways to streamline the company's IT systems.

"It's against my nature to look at subjective answers . . . But we started asking people what they thought about the computer systems and putting that into the analysis too."

Mr Biangslev and his team might have once puzzled over sheets of A3 to work out usage patterns but the data tool, provided by MooD, gave an instant visual analysis and surprising answers. The oldest technologies were best liked, still worked well and were cheapest to run, so PFA shed some of its little-used newer software. The exercise shaved about 20 per cent off the IT budget.

Mr Sivaram of Infosys says there is a potential for a 60 per cent reduction in data handling costs when adopting big data technologies. Whether they have discovered big data yet or not, these are the sort of numbers chief financial officers might start to take an interest in.

Dashboard dream: modern software makes it easier for companies to compare data from a variety of sources Dreamstime

Improved IT tools aid evolution of finance chief's role

Continued from Page 1

manage risks, ensure data are secure and assist them in their role as strategic advisers, they also need a basic understanding of IT trends such as cloud computing, data sets so large they can become impossible to manage (big data) and the influence of mobile devices. This will enable them to work with IT leaders to use technology to the best effect

Kate Butler of Russell Reynolds, an executive recruitment firm, says: "We have seen a demand trend for chief financial officers who have already led transformation projects."

She says that while a deep understanding of finance is usually still a requirement, a growing number of candidates have backgrounds in consultancy and MBAs. This shift is also reflected in the IT tools they use.

Although many still prefer to use simple spreadsheets to pose "what if" questions, many now also use more sophisticated software and cloud-based tools including business analytics, demand forecasting and big data.

Miss Butler says: "The use of data and analytics at a corporate planning level is straining big organisations. Where chief financial officers previously had 18-24 months to build a strategic plan, now they have a reduced planning cycle of 4 weeks, forcing them to constantly adjust financial forecasts. That puts a huge strain on them."

Fortunately for executives, not only have the main vendors of ERP tools rapidly expanded their finance offerings to meet such requirements, but a variety of relatively young specialised software and services companies, many of them cloud based, have also developed products targeting treasury and finance departments.

For example, SAP has launched a fraud management package built on its Hana platform designed to let enterprises in industries such as insurance, banking, healthcare, utilities and in the public sector detect, investigate, analyse and prevent irregularities or fraud in sectors where the sheer amount of data may allow them to go unnoticed.

Examples of executives who have turned the new breed of tools to their advantage can be found in many different sectors.

Jared Waterman, director of financial planning at Pandora Media, the internet radio company, faced a problem because of the growth of the business. "One of the biggest challenges was bringing structure, infrastructure and analysis to key areas of the business," he says.

To accomplish this, Pandora built its entire financial system, including long-range planning, current month performance, cash flow, headcount and other key metrics, using Anaplan. This is a cloud-based modelling and planning platform that includes an in-memory data processing engine, which allows information to be processed more quickly by those needing it.

Pandora is now integrating the system across the company via tools such as dashboards and pushing the data across other departments.

"Anaplan allows us to work with most of the flexibility that Excel allows but in a structured manner so we can collaborate on a model in real-time," says Mr Waterman.

Meanwhile Fred Jezouit, vice-president of finance and treasurer for US-based Southern States Cooperative, an agricultural supply business, is using big data analytics tools offered by a company called Alteryx to drill quickly into company data and extract vital information. "Our business is highly dependent on seasonal changes that impact inventory," he says

"The main challenge was identifying the root causes of our slow-moving product, which was eating up working capital that could otherwise be used for business growth.

"Alteryx gave us insight into seasonality trends for each of our stores as well as predictive modelling capabilities to help ensure we had the right amount of product available at the right time."

In six months, the co-operative's retail division has kept revenue of seasonal products constant while carrying 31 per cent less stock. That translates to a $20m change in stock levels, and allows more working capital to be freed up to develop other projects and products that will improve revenues and aid growth.

Mr Kotorov of Information Builders says: "Data are a company's greatest asset, and often the most underutilised. Big data in particular holds vital power for the chief financial officer, as it gives new context to financial and operational data.

"The latter provide status on what has happened, but big data provides the 'why' – and this is why it offers such potential for learning and innovation."

Targeted mobile use can achieve 'holy grail' of profit growth

Retail Finance directors need to think about engaging with consumers in store, not turning outlets into showrooms, says *Michael Dempsey*

Strategic dining: the Hakkasan chain has adopted a different ecommerce route to money-off vouchers Bloomberg

The rise of the online shopper has hit traditional retailers hard. But what cheer, if any, can chief financial officers extract from the plethora of technological propositions jostling against hard-pressed outlets?

The mobile phone is feted as a personal shopping assistant but Deloitte, the management services company, thinks the hype around mobile payments, known generically as m-commerce, conceals a far more important truth. "People look at m-commerce but not at the way mobiles can be used to influence the consumer," says Ben Perkins, head of consumer research at Deloitte.

Mr Perkins' point is that while UK retail sales using the mobile phone as a payment device totalled £1.5bn in 2012, this figure is eclipsed by the £15.2bn Deloitte calculates was spent as a result of consumers being guided to a purchase by online information delivered to smartphones. "Every finance director is looking for one thing, the holy grail that is profitable growth. And this is definitely an area where mobile technology can deliver a significant impact. But it's about influence, not about transactions," says Mr Perkins.

Across the Atlantic, Deloitte thinks mobile influence on store sales in the US in 2012 hit $159bn. It forecasts a US market for such sales reaching $700bn in 2016, against an expected UK figure of £40bn.

These are numbers that could revitalise traditional shopping venues but only if the technology is exploited wisely.

In its report, The Dawn of Mobile Influence, Deloitte puts the case for the mobile device as a mini-shop window that allows consumers to research a brand or compare products and prices with items in other stores or online. This is not about firing adverts at consumers as they pass a specific location, a tactic Mr Perkins dismisses as "pretty crude". Smartphones have to give the consumer a sense that their personal queries are being answered, with highly focused sales promotions replacing blanket discount campaigns.

The aim here is to engage with consumers and prevent their business evaporating into the pure online world. In Deloitte's view the mobile phone can keep them in-store and spending as long as the retailers learn to build messages that appeal to smartphone-wielding shoppers.

Swedish company Pricer sees the traditional price tag as a vehicle for keeping shoppers in stores. Pricer installs digital price displays that can change in an instant and respond to a customer's mobile phone via quick response codes that link to product reviews.

Niclas Qvist, global partner manager at Pricer, says: "The idea is to use the electronic display as an inspiration to the customer to shop in a different way.

"The challenge for the traditional store is not to become a showroom where people just look at products and then go away and order online."

How much of this threat is recognised by the retailers Mr Qvist meets? He says: "They realise they need to change the way they do business in order to survive, especially the electronic retailers in Europe who sit on huge stores that don't match the growth of online sales."

Deloitte's US research indicates consumers are most likely to use a smartphone when shopping in electronic and appliance stores. Switched-on retailers can update prices over wireless connections to guarantee they will match online charges, says Mr Qvist.

For Pricer, the name of the game is to make consumers feel confident about their purchase and not fret about potentially better deals that might be found online.

Original approaches to the role of technology can be seen at Hakkasan, an upmarket Chinese restaurant chain that has opened across the globe from an early start in London.

Paul Deeming, the group's interim chief financial officer, faces the challenge of promoting the brand name as it rolls out across Los Angeles, Shanghai and Dubai without diluting Hakkasan's hard-won air of exclusivity. Staff use iPads to gather data from Hakkasan's diners in a way that suits the venue, says Mr Deeming. "The iPad looks professional and slick and we can get customer information on the spot. That is added to our database straightaway via a portal on the iPad."

The email addresses gathered by Hakkasan do not provoke a torrent of money-off deals. Instead, the chain contacts diners with invitations to special events at its venues such as music evenings.

Hakkasan's contacts are only useful if they are farmed imaginatively and Mr Deeming has strong views on the predictable discounts that characterise much of his trade's marketing efforts. "You have to add value, give the customer an incentive and make people feel they are part of a select club of like-minded people."

Hakkasan is steering away from the scattergun application of technology that can actually undermine profits.

Mr Deeming notes that some popular food chains are so associated with money-off deals that they have turned into discount destinations where it becomes difficult to persuade diners to pay the full price for any meal.

He says: "This can hit the margins of a big chain and it's hard to turn that around because the deal becomes part of the customer expectation."

On FT.com »

Video
Technology transforms high street
ft.com/video

Bosses turn to metrics to gauge performance

Management

Programs can aid data search, writes *Jessica Twentyman*

Bombast may be par for the course for interdealer brokers, the middlemen who match buyers and sellers of complex financial products. But at Swiss firm Tradition, Steve Umpelby, chief financial officer for Europe, Middle East and Africa, prefers to rely on robust data rather than boasts to assess the performance of traders.

"They'll all tell you they're the best thing since sliced bread," he says. "That's the industry we're in and we operate at a pretty aggressive end of the financial services market . . . Part of my job is to acknowledge what they say, then compare it with fact."

In a sector where trading volumes have declined and the scrutiny of regulators has intensified since the 2008 financial crisis, such performance management has never been more important. At Tradition, salaries and bonuses paid to front-office employees, about 70 per cent of 2,400 staff, account for some 62 per cent of overall revenues, so the firm has to be certain it is getting a good return on its investments.

Since last year, Mr Umpelby and his team have been using business intelligence (BI) tools from IBM Cognos to create a profit/loss statement for each trader that enables the tracking, on a month-by-month basis, of the revenues brought in by that trader and the costs incurred, from what the traders are paid to what they spend on entertaining clients.

Most traders, he says, have contracts that give the company the right to cut their salary, or end their employment if they do not bring in at least two and a half times their salary in revenue.

In almost any corporate environment, performance management tools, based on BI technology, are a must, says Mr Umpelby. "No chief finance officer I've ever heard of is short of data . . . The difficulty lies in getting it all into one place, checking it's right and presenting it in ways people elsewhere in the business can understand."

Addressing that challenge will only become more important in the years ahead, says Patrick Fenton, a partner at consultancy and accounting firm KPMG. While the chief financial officer has long had the role of internal "scorekeeper" in many organisations, their oversight is expanding to include non-financial metrics, as well as those relating to outsiders such as customers and suppliers.

> 'No chief finance officer that I've ever heard of is short of data'
> **Steve Umpelby, Tradition**

"The finance leader will need the ability to understand data but more importantly extract intelligence from that data, in a far more holistic and simultaneously deeper way than most do today," he says.

KPMG anticipates the emergence of a new breed of finance professionals who occupy a strategic chief financial intelligence officer role. "The chief financial officer will become an information broker on behalf of the business," says Mr Fenton. For that to happen, finance heads will need better corporate performance management tools and the ability to use them effectively.

A study in March 2013 from consulting firm the Advanced Performance Institute and BI tools supplier Actuate shows there is much work to be done here. The organisations polled business leaders from about 3,100 companies worldwide about approaches to measuring and managing performance and found 5 per cent say they had no or very little performance data at their disposal. A further 15 per cent said their approach to managing and measuring performance generated "some facts and data, but the collection and usage is ad hoc, sporadic and uncoordinated".

This leads the study's authors to conclude that, 20 years on from the introduction of the balanced scorecard approach by renowned management thinkers Robert Kaplan and David Norton, one in five companies have not truly benefited from the availability of business performance management (BPM) tools.

However, those that do use BPM tools rely on them to create a broad range of key performance indicators, dashboards, scorecards and benchmarks, with financial performance the most measured aspect of any business. Some 87 per cent of respondents measure this, compared with operational performance (measured by 75 per cent), customer metrics (69 per cent), employee metrics (68 per cent) and sales and marketing (53 per cent).

The finance department may be ahead of everyone else when it comes to performance measurement but if chief financial officers are to establish true oversight of company performance, they will need better understanding of all aspects of the business.

Contributors »

Paul Taylor
Editor, The Connected Business

Maija Palmer
Social Media Correspondent

Charles Batchelor
Jane Bird
Michael Dempsey
Stephen Pritchard
Jessica Twentyman
FT Contributors

Adam Jezard
Commissioning Editor

Steven Bird
Design

Andy Mears
Picture Editor

For advertising details, contact: **UK James Aylott**, +44 (0) 20 7873 3392, email: james.aylott@ft.co, or your usual FT representative.

All FT Reports are available on FT.com at ft.com/reports
Follow us on Twitter at **twitter.com/ft.reports**

All editorial content in this supplement is produced by the FT.

Our advertisers have no influence over, or prior sight of the articles or online material.

Automation drives treasury efficiencies

Cash management Keeping an eye on how much there is in corporate coffers is becoming easier, writes *Jane Bird*

Treasurers within companies – the centres of financial management – are under pressure to keep a firm grip on the corporate purse strings. This means avoiding surplus funds sitting in low interest accounts, spotting overdue payments promptly and minimising transaction costs.

But downsizing in financial departments is making such tasks difficult. Treasury managers are being asked to do more with less, says Cindy Murray, head of global treasury product, platforms and e-channels at Bank of America Merrill Lynch (BoAML). "What they need is more automation to make their activities more efficient," she says.

Cash management is the key building block, says Paul Bramwell, senior vice-president for treasury solutions at Pennsylvania-based SunGard. "The aim is to show treasury managers just how much cash they have in the business and where it is at any time."

Some groups want daily or hourly updates on their financial position. One BoAML client has updates every five minutes showing assets and liabilities in all subsidiaries. For organisations with overseas operations, this can include multiple currencies and payment formats. "Many [countries] expect you to have a local bank account to pay suppliers or staff, especially in emerging countries such as China," says Mr Bramwell.

Dealing with international currencies and payments is difficult because of multiple file formats, such as those provided by Society for Worldwide Interbank Financial Telecommunication (SWIFT) and Bank Administration Institute (BAI).

Some countries, Brazil for example, have their own formats. Others conform to proprietary standards from companies such as SAP and Intuit.

Global finances: keeping track of what cash companies hold overseas can be made easier with the right software EPA

BoAML's Ms Murray says some formats only allow 15 to 20 characters to be attached to the data. This can make it difficult to recognise what data refer to when, for example, matching a payment to an invoice. "Once it is multiplied by the number of transactions in a day, the challenge is formidable," says Ms Murray

BoAML's automated treasury service augments payment transactions with data from clients and puts it into a format that complies with the International Standards Organisation guidelines. This enhances the reconciliation statements and helps automate processes, improving operational efficiency, says Ms Murray. Automating reconciliation frees treasurers to spend more time on analysis.

'Treasurers need to understand the world in which they are trading and what the expectations are'

Mr Bramwell agrees having data in a standard format is crucial for answering "what if?" questions.

This helps manage risk, which treasury is increasingly about, says Paul Tivnann, global head of foreign exchange and commodity electronic trading at Bloomberg. The more currencies and interest rates you are exposed to, the more your risk increases because of the price variations. "Treasurers need to understand the world in which they are trading and what the expectations are."

Bloomberg's FXGO service combines international news analysis with the ability to execute transactions with more than 300 banks.

It helps judge the right moment to buy or sell currency and to pick the best price from a choice of counterparties, Mr Tivnann says. "In the past, you might have called five banks for a quote and, by the time you got to the last, the first could have changed."

FXGO simultaneously requests the price from multiple banks and calculates the cash difference in dollars. "At the click of a mouse, you can spot the best deal, execute the transaction, and have your positional risk system updated," says Mr Tivnann.

By avoiding the need for human intervention, automated processing reduces error. It also provides an audit trail and helps with compliance.

"You can prove you went to the market, looked at an appropriate number of counterparties and executed transactions at the best price instead of going to the same one all the time," says Mr Tivnann.

Treasury managers need to think more strategically than in the past, adds Ms Murray. Organisations want to look beyond the traditional 30-day timescale to plan up to a year ahead. "Before the financial crisis, they focused more on operational aspects, with tools for reconciliation and cash positioning. Now, a lot more forecasting is needed."

BoAML's CashPro Accelerate can extrapolate trends based on a company's historical information. It "locks" the core data so it cannot be changed or manipulated. This avoids the common problem of managers creating individual spreadsheets based on inconsistent financial data.

More treasurers are likely to keep financial data in the cloud in an accessible form. This would enable more people, such a sales or operations staff, to view it. The result would be a wider, deeper view of an organisation's cash position, giving treasurers more control of the coffers.

Broader view required on when to outsource

Finance functions

Charles Batchelor says companies must look beyond simply cutting costs

While many chief financial officers and finance directors have begun to take a more sophisticated approach to outsourcing finance functions they still do not get it right every time. Cost overruns and wrangles over the scope of outsourcing deals continue to trap the unwary.

"They have got a bit cleverer and can see what bits can be efficiently outsourced and what cannot," says Colin Rowland, head of European operations at Apptio, a supplier of business management software.

"They break the contract down and hand bits out to the specialists. Desktops will go to vendor A and business process to vendor B, for example."

Shamus Rae, head of European shared services and outsourcing at KPMG Management Consulting, says: "The generic offshore outsourcing players are struggling to maintain market share while companies with a strong financial capability are winning business."

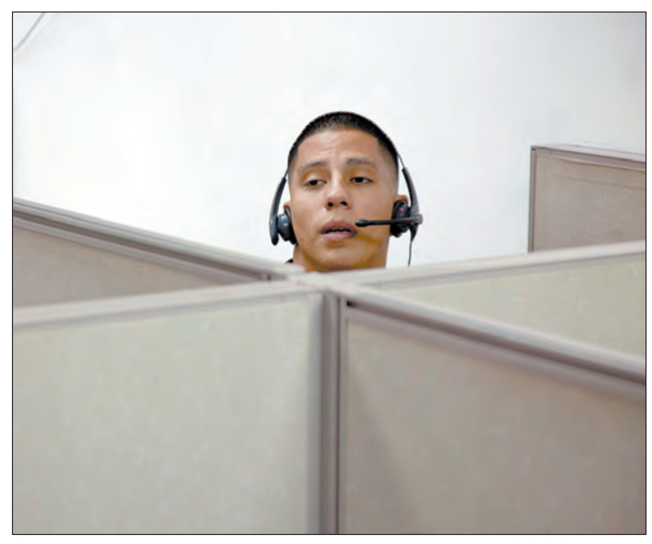
Many deals struck in the early 2000s were aimed at "labour arbitrage", for example, relocating jobs to lower cost areas of the world such as India but with no strategic aim beyond cutting costs.

However, says Mr Rae, managers are now taking a much broader view of what finance departments need to deliver.

"They are creating a vision and then breaking down what needs to be done to support that," he says.

Many multinationals have created shared services operations that bring together financial and sometimes other back office functions into one centre where they can be more efficiently managed. Chief financial officers have to ask themselves whether outsourcing this operation can put a further squeeze on costs as well as improving efficiency or whether they have gone as far as they can already.

The first step to be taken is to understand the costs being incurred when a particular function is being managed in-house, says Mr Rowland. "Managers get sold on making a massive return on investment."



Call centres: many jobs were sent abroad in the 2000s Getty

But unless the scope of the outsourcing deal, and the scale of demand the customer expects to put on the outsourcing supplier, are precisely calculated additional services may be required. Costs may rise and anticipated savings will not be made.

"Businesses change and that needs to be taken account of in the contract," Mr Rowland says. "That can lead to incremental costs that the outsource provider will put on you."

Simon Tennant, shared services and outsourcing expert at PA Consulting Group, identifies the key issues that must be clarified before a decision to outsource is taken.

"You must have a clear objective. Is it to save costs or to achieve an improvement, by, for example, providing headroom for people to do what they are good at rather than filling in expense claims?"

'Finance directors are creating a vision and then breaking down what needs to be done to support that'

Managers should take stock of where they are in terms of the state of their management technology and the degree to which they have already developed a shared services platform in-house. An outdated enterprise resource planning system might be expensive to upgrade in-house, for example.

Highly integrated companies may find it easier to outsource financial functions than companies that allow a greater degree of operational freedom to subsidiary companies and divisions. "The more difficult it would be to integrate systems the less you want an outsourcing provider to be involved because you are going to have to pay more money for the complexity," says Mr Tennant.

Finally, any outsourcing decision needs to have top-level support to induce a sense of urgency and ensure that targets and timetables are met.

Outsourcing is not the only option for a chief financial officer seeking to cut costs and improve efficiency. Companies can achieve both by standardising business management processes across all their markets and geographical areas of activity. Often areas of business are left out of such plans because they are perceived as having special characteristics that make them too difficult to integrate.

Companies can broaden the range of activities covered by shared service centres to include human resources or IT alongside finance, operating with a single helpdesk, the same software package and the same procedures for dealing with suppliers. Shared services centres need not be located near head office but could benefit from being close to the fastest-growing markets, often in emerging countries.

Common mistakes made by financial chiefs who sign up to outsourcing deals include failing to measure the starting point, failing to benchmark performance and failing to manage board expectations of what can be delivered.

"One client told me that the outsourcing players were now delivering what they had promised five years ago," says Mr Rae. "So what they are promising now we may see in five years' time."