Key issues for Financial Directors in 2014

This is nothing new: you've been trying to improve the company's performance for years by collecting data, cutting it up and analyzing it, using structured data often generated internally.

However, new technologies have brought an increasing volume of externally generated data and some companies have learned how to make the most of the bulky, unstructured data they find buried in web servers.

The first user of Big Data: marketing

Marketing departments have always tried to obtain new information and understand the behaviour of prospects and customers. They were therefore the first to use data originating from outside the company in order to analyze behaviour in greater detail, determine segments and identify and target prospects.

The benefit derived from this new information can be seen in companies such as Google or Facebook. Amazon learned to use the information it obtained about users' behaviour to build its recommendation system: Amazon uses the history of its customers' purchases but also analyzes all the clicks on its website.

What users want

As a CFO, you are confronting new investment requests

- Users want ready-to-use information originating from other services.
- They want applications to make sense of that unstructured and bulky data.

In all cases, the question of the return on such investments arises.

What you need to know about Big Data

New technologies and new skills.
Benefitting from Big Data means giving meaning to unstructured data – a challenge which requires new technologies and new skills.

Although Big Data offers are still at an early stage, it will be worth your while to make the most of SAAS offers to save you having to install a software program as complex as Hadoop. Setting it up is a lengthy and expensive process and requires skills that are as yet in short supply on the market.

Quality is not guaranteed by volume
The existence of bulky data in no way guarantees that the company's performance will improve.

There's nothing magical about Big Data.
Comparisons have to be made and then checked, so experience and intuition are needed.

A correlation may be just a matter of chance.
As you know, a correlation may be the result of luck. Moreover, a correlation can exist without a link between cause and effect.

Glossary

Big Data: extremely bulky data that cannot be processed using databases or other traditional management applications.

Business Intelligence (BI): computer tools which collect and restore data, enabling a decision maker to make a decision.

Unstructured data: data which cannot be set out in a table because its structure is not predefined. It can consist of texts but also music or videos.

Hadoop: an infrastructure which enables large volumes of data (Big Data) to be processed.

You don’t have to start with a major investment.

You don’t have to start your analyzes with Big Data. Your existing systems (CRM, Finance, Supply Chain Management) may provide you with useable data. Based on that information you can make analyzes which go beyond reporting or control panels.

You can also use your travel expenses software to check hypotheses about sellers or sales, thanks to detailed reports. For example, you can consider the hypothesis that you need to meet five prospects in order to win one customer, calculate an average cost per meeting and thus gain a clear view of the cost of acquiring a customer. You can also check the hypothesis that frequent visits to a customer are reflected in a more fluid order-settlement cycle: fewer disputes, fewer credits and fewer late payments.

You need to do it because companies which are at ease with decision-making computer tools will have the advantage when the time comes to move to Big Data.

The Finance Department uses Big Data

Big Data will revolutionize the way companies make forecasts and calculate margins.

- Thanks to a better understanding of demand, forecasts will be more reliable.
- Thanks to the immediate use of data, deviations and trends will be quickly discerned.
- Thanks to measurement tools disseminated at the right moment, operational staff will be able to optimize costs.
- Thanks to detailed sales forecasts, per day or per hour, operational staff will be able to allocate the required resources.

To sum up, financial departments will play a strategic role by lessening risks, reducing costs and making operations more efficient.

Big data, which requires new technologies and new skills, is a long-awaited development to be added to those with which your company is already familiar:

- New technologies (Cloud, ERP, etc.)
- Environmental changes (outsourcing, the challenges of social and environmental responsibility, etc.)

COSO internal Control – Integrated Framework

The COSO framework was updated in 2013 to take account of those new factors and others too. It will be applied as from 15 December 2014. Whether or not you are legally obliged to use COSO, it remains an essential internal control framework and will help you prevent fraud.

COSO defines five components:

1. Control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring

Involving middle management

Whereas until now internal control was the province of internal auditors or the person in charge of risk management, COSO 2013 wants everyone to hold a stake in internal control. In reality, internal control has to be implemented at operational manager level.

Principle N° 5
The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives

This necessitates a clear distribution of responsibilities:

Principle N°3
Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.

You will therefore have to meet the people involved, communicate with them and explain the principles and procedures to them in order to obtain their involvement.

Principle N° 14
The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.

Set up managerial reviews. Internal control must help improve performance, so it must be included among the managers' objectives.

Paying attention to the risks of fraud

COSO emphasizes integrity and ethical values. Define rules of conduct in accordance with principle N0 1:

Principle N°1
The organization demonstrates a commitment to integrity and ethical values.

Ensure that these principles are respected by the company's employees and by outside service providers.

Fraud must form an integral part of risk assessment.

Principle N° 8
The organization considers the potential for fraud in assessing risks to the achievement of objectives.

Plan to assess the internal control system so as to detect any weaknesses and take corrective action. Consider reporting the result of your assessment to the other people involved in the internal control system.

Principle N° 17
The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

Because the reimbursement of travel expenses is one of the fraudulent methods employees use most often, adapt your internal control system and equip the company with an expense software program which will facilitate risk control.

Paying attention to changes in the organization

Organizations are forever changing and transforming themselves. They outsource part of their activity and set up shared service centres. They take over or dispose of companies and some of them merge. They set up new information systems. In other words, they adapt themselves to their environment and seek to improve their performance. The internal control system therefore has to be adapted to the new challenges and the new organization.

The changes must be identified and their effects on the internal control system must be understood.

Principle N° 9
The organization identifies and assesses the changes which could significantly affect the internal control system.

COSO 2013 reserves a special place for changes resulting from the outsourcing of activities.

Paying attention to outsource operations

The company remains responsible for outsourced operations. It therefore has to apply the same internal monitoring standards as those applied to the operations it carries out itself. Moreover, it has to check the specific risks linked to confidential information, industrial property or the coherence of the value chain.

Set up a transition plan

A transition plan will help you switch from the old benchmark to the new one. Consider documenting the checks and conducting effectiveness tests. Checks will have to be effective by the end of this year.

Big Data and COSO 2013 have been added to the many regulatory changes in recent years. But that is not all.
The financial function, which was initially a technical one, is constantly evolving. Although financial departments always need technical skills, they must also provide the necessary support to the operational staff: Their employees must therefore be skilled in communication, leadership and managing change.

Financial departments are facing a talent shortage.

Contrary to what the current context might leave one to suppose, some jobs are difficult to fill:

- Consolidation,
- Internal audit,
- Management supervision (with knowledge of information systems).

Especially when companies are looking for multilingual employees.

They are often looking for 5-legged sheep

Recruiting means taking a risk, so employers wait until the last moment and want to recruit employees who will be operational at once. In doing so, they are restricting opportunities in an already stretched market.

For employees, changing companies is also a risk.

Employees who hesitate to switch companies and companies which wait until their backs are against the wall before they recruit: two attitudes which are difficult to reconcile.

Recruitment processes have therefore become increasingly time-consuming, with the risk of losing the best applicants who are in hot demand elsewhere.

Immediate needs and constant development

Encourage assignments and fixed term contracts (CDDs) for immediate purposes and plan your indefinite contract (CDI) recruitments by emphasising leadership, change management and communication capacities. It is easier to acquire technical skills than what are known as “soft” skills.

Shorten the recruitment process so as not to lose the best applicants and consider new recruitment methods: serious games are reliable ways of attracting and recruiting young people.

Keep your employees.

Employees hope for career advancement, but they leave a company because of their remuneration. Pay attention to your staff and ensure they are trained to enable them to progress.

A legislative, economic and technological environment that is changing so fast means even more attention should be paid to training your staff. By training them, you enter a virtuous circle: you have motivated employees; you are no longer seeking a new employee to take up a challenge; your company enjoys the advantage granted to companies which adapt themselves straight away.

In conclusion, the financial function is becoming increasingly strategic in companies and you must take care to manage your skills and talents rigorously. Recording transactions is no longer the principal task of financial department. They must now obtain services which add value: a software program for managing travel expenses does not only record your transactions, it also enables you to make the most of reduced transaction costs thanks to online recording, rationalise negotiated rates and optimise negotiations with suppliers.

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KDS (www.kds.com)
is a global provider of expense management software.

The cloud based technology consistently applies company policies, facilitates VAT reclamation, drives data accuracy and provides a robust auditing and reporting platform in order to keep tax and benefit authorities happy.

KDS offers extensive connectivity to financial service providers ensuring KDS clients achieve significant cost and productivity savings.