

The Ties that Bind

How IT knits together corporate necessities

Business systems can play a vital role in helping organisations achieve good corporate governance, says Robert Gosling. Here's how.

Effective corporate governance is no longer just desirable, it is being mandated, and will become an unquestioned business practice. A vital component of any move towards better governance is an integrated IT infrastructure that supports an organisation's internal requirements for greater transparency and control, as well as compliance with market and industry regulations.

High-profile accounting scandals have made corporate governance a topic of intense public interest, and rightly so. As a result, many senior executives now designate corporate governance among their top business priorities.

Many commentators accurately identified honest and timely financial disclosure as part of achieving good corporate governance but this is just the tip of the iceberg. Good governance is not simply a matter of complying with industry regulations and financial reporting frameworks; it has just as much to do with what happens from day to day inside the company.

The principles of good governance dictate that a company must be fair, honest and open with all of its stakeholders, and that includes employees as well as external parties.

In other words, a company's internal business objectives need to be compatible with the demands of the external regulatory environment. The primary goal of today's senior executives, therefore,

should be to create an organisation that is transparent and compliant both inside and out.

Furthermore, everyone in the organisation needs to be aware of both sets of requirements, and management needs to keep very close tabs on how the company is performing against each one, so that no unwanted "surprises" occur.

These considerations are pervasive across the organisation, affecting the supply side, the internal financial and administrative functions, and the customer-facing side of the business. As the backbone of modern business, IT systems have an extremely important role to play in the creation and maintenance of the well-governed company.

Companies using multiple operating currencies and with offices, divisions or subsidiaries abroad are well aware of the pressures associated with trying to comply with multiple regulatory bodies, each with different requirements.

Even with the introduction of the International Accounting Standard (IAS), the first single framework for financial reporting, firms will still have to report in IAS as well as one or more national Generally Accepted Accounting Principles (GAAPs).

IT systems can aid the quest for accurate and trouble-free compliance in two important ways. They can help companies disclose information faster and minimise

the potential for reporting errors, thus reducing the potential for startling the market at reporting time. They can also play an important role in ensuring that a company's activity remains compliant with internal and external policies.

The first can be achieved by streamlining and centralising information systems. The second can be facilitated by the use of employee management and online learning systems to disseminate crucial compliance information and rapidly train and retrain the workforce on corporate ethics and compliance requirements.

Although most large organisations have solid systems in place for financial accounting and personnel management, these have usually been implemented on an ad-hoc basis as the company has grown, and tend to be scattered around the company and disconnected from each other.

Recentralising financial systems is an effective way of meeting the escalating demand of timely delivery of quality information.

Independent research conducted by PricewaterhouseCoopers in April 2002 revealed a number of problems associated with multiple financial systems.

These range from the need to re-key financial data, reconcile inter-company balances and manually correct errors, to late delivery of results to group headquarters, the inability of existing consolidation tools to consolidate data quickly and accu-

rately, and the difficulty of stating results according to multiple reporting standards (often a combination of IAS, local GAAP and US GAAP).

As the PWC report concludes, many of these issues can be resolved by ensuring better integration between the financial systems deployed at headquarters, divisional and local entity level, and a greater level of process automation to avoid error-prone re-keying of data and manual reconciliation of balances. Indeed, those companies that have simplified, standardised and automated their reporting processes were found to “achieve much faster and higher quality reporting with less resources”.

A good example of this is the Jebsen Group of Companies based in Hong Kong. One of Asia Pacific’s largest privately owned marketing and distribution companies, and holder of important franchises for Porsche and Renault, Jebsen has integrated all of its key business units into a single web-based accounting system. The new centralised system allows the company to consolidate all financial data in real time.

Previously, each business unit had its own accounting system, thus – for a corporate-wide view – the data had to be manually consolidated. Now, information

is instantly available for review on the company’s intranet, resulting in further time gains and greater internal transparency.

Business intelligence software can help businesses review all their financial data in real-time, and delve into information either at the macro-corporate level or granularly to a specific country or even a specific office.

This greatly reduces the amount of time spent gathering financial data, and allows far more time for considered analysis and indepth presentation of the results.

However, all the information systems centralisation in the world will not make companies compliant if the actual day-to-day work being done by employees does not adhere to internal and external regulations. Corporate governance is therefore not just the province of the finance department; it is everyone’s responsibility.

Ethical policies and procedures need to be communicated to all staff, and the legislative and regulatory environment needs to be regularly explained. Any changes must be communicated quickly and accurately.

Not only this, but management must ensure that staff are regularly trained and tested on compliance issues, and the results of that training carefully recorded

and monitored in case of any future compliance breaches.

In an economic downturn, many companies are understandably reluctant to lay out large amounts of money for ongoing company-wide training that is not directly linked to profitability. Small wonder, then, that the move towards better corporate governance is fuelling the uptake of online training, which can be rolled out to employees quickly, simultaneously and at very little cost.

Of course, no IT system can guarantee to prevent rogues from falsifying books and records, but the centralisation of financial and online training systems may help to overcome some of the governance challenges that companies are currently facing.

It is certain, at least, that opportunities for abusing the system can be minimised if reporting is simpler, transparent and more accurate.

I bear in mind the title of a book on management at General Electric, one of the most admired companies in the world: *Control your destiny or someone else will.* **M**



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