BDO SCOPE

EXPERT UPDATES FOR INTERNATIONAL BUSINESS

'Reporting is definitely a competitive tool'

Fiona Beijdorff
Head of Corporate Finance & Tax at Atradius

THE QUEST FOR OPTIMISED MANAGEMENT REPORTING

MINING YOUR OWN **GOLD**

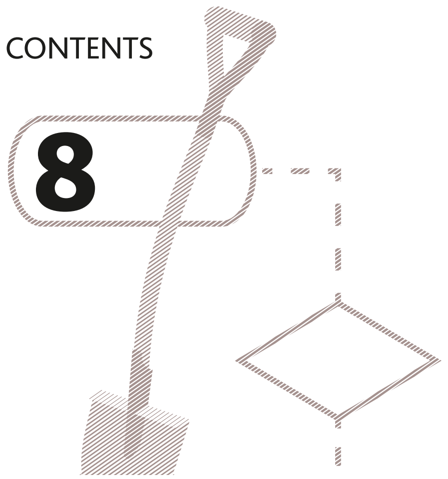
BDO

'Once we know something, we find it hard to imagine what it was like **not to know it'**

Chip & Dan Heath

MANAGEMENT REPORTING ~ (mæn.ɪdʒ.mənt rɪˈpɔːtɪŋ)

Management reporting is a complex, multi-stage activity which takes place in the context of other business processes and makes use of the multiple information systems that may have been provided for other purposes – general documentation, project management, financial control, email communication and business presentation. Managers treat information from these sources as 'harvestable, contextualisable data', which is combined, summarised and reinterpreted in management reports.



‘We know our **tax position** straight away’

Fiona Beijdorff,
Head of Corporate Finance & Tax, Atradius

COLOPHON

BDO SCOPE is published by BDO • **Concept & production** Monte Media • **Texts and interviews** Leonard van den Berg, Paul Groothengel
Photography Sander Nagel, BDO, Monte Media • **Illustrations** Ivo van IJzendoorn • **Art direction and layout** Veronique Gielissen
More information BDO, Winthontlaan 2, NL-3526 KV Utrecht, PO Box 4053, NL-3502 HB Utrecht, +31 (0)30 284 98 00, www.bdo.nl/corporateclients

Management Reporting: READY **TO DIG?**

There are a wealth of opportunities and plenty of scope for improvement in your organisation. Yes, even yours. I’m referring to all those larger and smaller areas where diversions and uncertainty are hindering your decision-making process. Where your reports are being delayed. Where you have to manage using assumptions, which results in missed opportunities.

You’ll find opportunities for improvement in every company and at almost every level. Some will lie on the surface. Others will be more deeply embedded. More still will be found in better coordination between departments, in end-to-end communication and in the fine-tuning of your client processes.

If you manage to dig this data out of your organisation and unlock that knowledge, the benefits will be there for the taking. That’s what this issue of BDO Scope is all about: how to optimise knowledge flows within your own organisation, through management reporting, financial and tax reporting and process mining.

We’re kick-starting this issue with valuable insights from some of the leading experts in the field and we follow up with inspiring, practical examples from large and complex organisations that are turning in a markedly better performance thanks to excellence in reporting.

I hope this edition of BDO Scope gives you useful insights and inspiration to unearth these hidden treasures in your own organisation so that you can outperform your competitors by further streamlining your internal reporting and processes, thereby improving the quality of every decision you take.

If you have any comments, please feel free to contact me at john.hijmans@bdo.nl. And don’t hesitate to ask me for help. I’ll be happy to grab a spade myself and start digging with you!

Sincerely,

John Hijmans,
Partner, BDO Corporate Clients
Utrecht

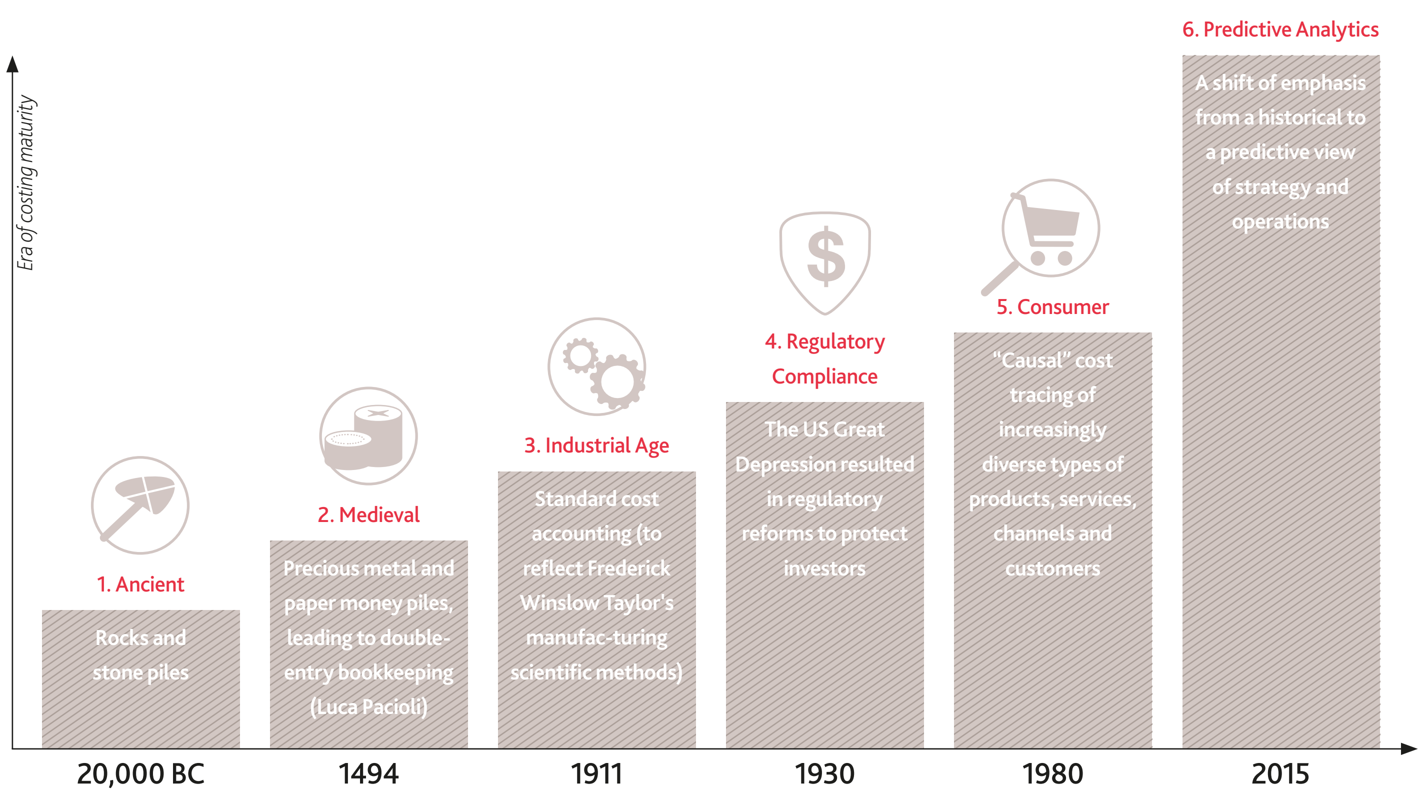
GETTING MORE OUT OF YOUR INTERNAL DATA

I WANT IT **ALL** I WANT IT **NOW!**

1

THE EVOLUTION **OF REPORTING**

FROM COUNTING ROCKS TO RUNNING BIG DATA ANALYSIS



2

MINING, MINING

SURPRISING EYE-OPENERS FROM BDO PILOT

Over the past two years, BDO has run a comparison test analysis of a large number of process mining methods. With the friendly help and consent of a selected number of our customers we ran a check on tens of millions of their process records, ranging from simple (about 7,000 records) to large and complex processes (more than 8,000,000 records), using different IT systems and including both audit and non-audit engagements. This gave each of the participating companies **valuable insights** for improving their accounting, their billing and their process efficiency. It did so at relatively low cost. Even the most specific processes and complex systems took limited time to analyse.

3

PROCESS MINING:

THE **ADDED VALUE**

- Surprising speed and effectiveness of zooming in on anomalies and risk areas.
- Useful for almost all internal processes.
- Ideal tool for internal audits.
- More in-depth knowledge about operational processes.
- Efficient identification of controls, anomalies and sideways in processes.
- Clear view on risk areas and potential segregation of duties conflicts.
- The ideal tool in highly automated and sufficiently structured processes in modern ERP systems.

4

7 MAJOR **TRENDS**

IN MANAGEMENT ACCOUNTING

1. Expansion from product to channel and customer, profitability analysis.
2. Management accounting's expanding role with enterprise performance management (EPM).
3. The shift to predictive accounting.
4. Business analytics embedded in EPM methods.
5. Coexisting and improved management accounting methods.
6. Managing information technology and shared services as a business.
7. The need for better skills and competency with behavioural cost management.

Sources: Gary Cokins, CPIM, STRATEGIC FINANCE, December 2013,

MINING YOUR OWN GOLD

DISCOVERING INTERNAL DATA TREASURES

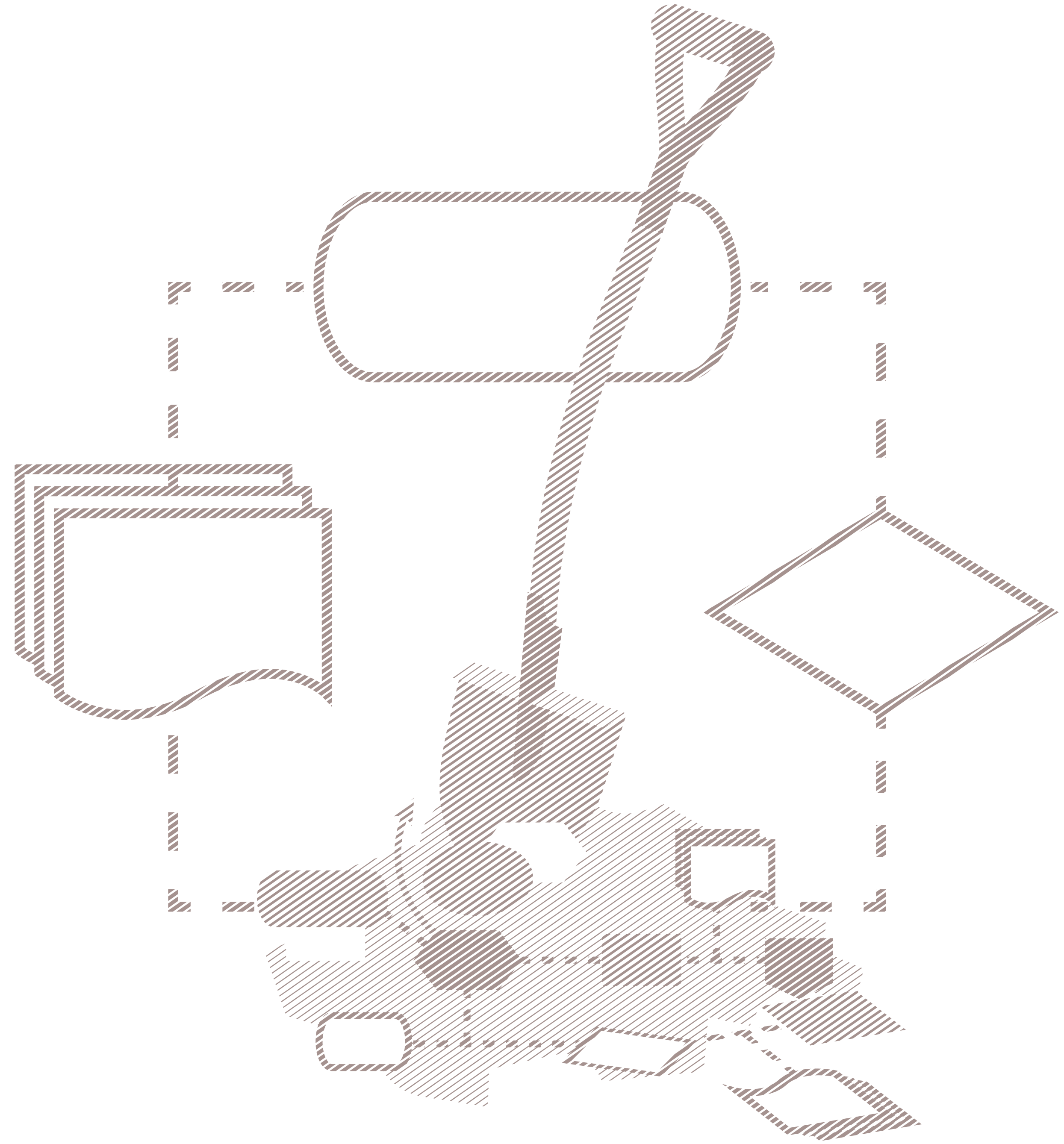
Management directors have a growing volume of management information at their disposal. With the right technology and tools, they can quickly access the most relevant data and make strategic adjustments where necessary.

Good, effective decision-making depends on high-quality and preferably real-time management information. But how to access it? It's no easy task because organisations are increasingly bombarded by information and the risk is that they fail to see the wood for the trees.
However, there's good news. Increasingly, there are more opportunities to improve the situation because technological developments surrounding management information and reporting are moving ever faster, say Niek de Haan and Marco Francken, Partner International Tax Services & Global Outsourcing and Partner IT Audit at BDO respectively.

What's your view of the importance of management reporting?

Niek de Haan: 'It can give company directors up-to-date insights into the elements that are most vital to them and into opportunities and risks so that ›

'Working with outdated information or estimates means you risk missing out on opportunities'



THE 4 'DOS' OF TAX REPORTING

1. Keep information on your tax position up to date.
2. Include ethical considerations in tax policy.
3. Create software links between the figures for financial statement purposes and for tax purposes.
4. Use up-to-date tax forecasting software for tax planning.

TOP 3 BENEFITS OF PROCESS MINING

1. Detects inefficient or ineffective processes.
2. Shows whether or not an organisation is in control.
3. Highlights cost-saving opportunities.

Niek de Haan is Partner International Tax Services & Global Outsourcing at BDO. He is also on the board of BDO International's advisory panel on EU law.

Marco Francken is Partner IT Audit at BDO. He is head of the IT Audit practice in The Netherlands

› they can make the right strategic choices based on existing data. In that sense, management reporting is increasingly less about looking back and more about analysing and making strategic choices.'

Marco Francken: 'I like to compare management reporting to a car dashboard: it gives real-time information that helps the driver decide what to do next. The technology in the latest generation of cars provides increasingly accurate and predictive analysis, too. For example, it will tell you that you don't always need a major service after 30,000km and that it depends instead on the owner's driving style. Another example: if you park a Tesla three times, it will remember how to do it automatically… Well, we're not quite at that stage with management reporting, but we're moving in the right direction.'

Do companies appreciate the strength of optimum management reporting?

De Haan: 'In the average organisation, financial data that forms part of management information is relatively up to date. However, experience tells us that this is far less true of data on the tax position of the company, where opportunities to generate a higher return are often neglected. After all, to be able to take good tax planning decisions, you need up-to-date information on the tax position of the organisation. Many companies work with outdated information or

'Dashboards allow management directors to check immediately whether they are in control'

with estimates and therefore miss valuable opportunities. For instance, if a company defers paying tax on capital gains, its taxable income will be lower and so will its tax bill. Accurate reporting also helps cash management – for instance, in the event of exchange rate fluctuations.'

To what extent do progressive calls for transparency and integrity play a role in tax reporting?

De Haan: 'This external pressure is forcing companies to go back to working with accurate tax planning and reporting – not only to clarify their tax payments and tax structures, but also to accurately assess future tax positions and payments. We provide companies worldwide with advice on this. For example, what is the effective tax liability of transferring specific financing streams to other countries? Ethical considerations play an increasing role in management decisions of this kind.'

How do you predict your forward tax liabilities?

De Haan: 'Partly by establishing a software link between earnings for financial statement purposes and the tax position. And by using tax forecasting software to improve tax planning based on real-time information. Companies are keen to use up-to-date tax software because they prefer to spend their time more efficiently by analysing tax data rather than gathering it.

'We present the results of tax forecasting analyses in the form of dashboards so that company directors can immediately view the status of their compliance obligations in all the countries where they are active. In other words, they can then see whether they are still "in control". Use of these dashboards for management reporting has snowballed in the past few years. They can help company directors promptly access the right management information and make adjustments where necessary – not only to meet the complex requirements governing financial statements but also to improve the internal transparency of management information and maintain better control of tax processes. In short, to be more in control.'

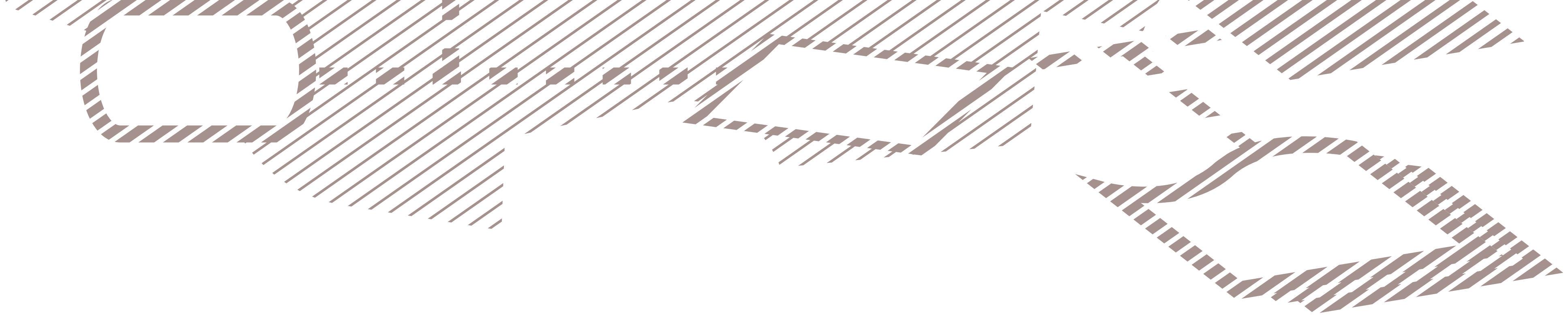
The new technique of process mining can also contribute to better management information. What's the secret to this?

Francken: 'Process mining detects inefficient or ineffective processes in organisations that until now have often remained below the radar. It does so by digitally recording every action taken by every employee as far as possible. This makes it easier to see how internal processes are progressing. ›

'PROCESS MINING IS NOW REALLY GAINING TRACTION'

'I work on the application of process mining techniques based on research and know-how, albeit in a commercial context. In other words, in partnership with companies wherever possible, for example, in the areas of auditing and operational excellence. My thesis was about investigating and preventing fraud using data mining and process mining technology. Process mining has been around for about a decade but is only now beginning to gain ground, mainly in the Netherlands, Belgium and Germany, as a tool offering major opportunities to companies. It's complex. Companies can easily lose themselves in the many opportunities provided by process mining. The technical aspects aren't one of their core activities so it's better to subcontract it to specialists. One of the plus points of process mining is the visual aspect, which makes it more comprehensible for senior managers. Thanks to extremely powerful computer programs, the calculation strength offered by process mining is unprecedented. Previously, you never got further than analysing transactional data. Now, with process mining, you can really immerse yourself in the internal processes and that can generate substantial efficiency gains.'

Professor Mieke Jans is a lecturer and researcher at Hasselt University. Before this role, she spent five years with Deloitte Belgium, where she developed process mining solutions.



'TAX AUTOMATION MAKES ANALYSIS EASIER'

Hank Moonen: 'Some of the major tax workstreams are repetitive and perceived as a commodity for which companies want to pay less. Tackling repeat work at lower costs means automation. There's a steady rise in demand for software but it isn't growing very fast. Companies are hesitant to use it because they often haven't mastered their tax control framework, whereas tax professionals have little affinity with software. 'Roughly 98% of companies use Excel when calculating their tax position for their financial statements. However, Excel is prone to error and can easily be manipulated.

'Some multinationals have gone a little further in automating their tax function. In medium and smaller firms, this task is often a responsibility for the (group) controller or consolidation manager, but lack of time and/or in-depth knowledge often affects quality. 'Tax automation lets you collect and order data faster and better. It also gives your company more time to analyse its current and future tax position. CFOs need their tax reporting to comply with accounting rules and to have access to transparent, up-to-date tax information to be able to explain the tax position to internal and external stakeholders.'

Hank Moonen launched tax technology and support company TaxModel in 2005. He previously worked as a tax professional for PwC and in-house head of tax for ABN AMRO Investment Banking and Stahl.

› You could see it as an advanced form of data analysis.
'People often think that operating processes within organisations have been standardised and work in the best way possible. However, they frequently aren't getting the real facts and figures. At the end of a process, all they can conclude is that throughput times are too long and clients are having to wait too long for a product. Or that more products than average are being sent back to a particular location. Process mining therefore yields some surprising and unexpected insights and opportunities for improvement. What is clear is that internal processes are usually far from optimal.'

But surely existing enterprise resource planning and customer relationship management systems also show how internal processes are performing. What does process mining add to this?
Francken: 'Many such systems operate according to a fixed blueprint governing the sequence of steps within processes. For most of these systems, process mining won't yield any surprising insights. Yet there are often substreams that don't work to a standard sequence and exceptions where employees skirt round routines. It's this element in the process where inefficiencies or risks can arise and process mining exposes them.'

'External pressures are again forcing companies to use accurate tax planning and reporting'

'Process mining allows you to spot inefficiencies that would otherwise be below the radar'

Process mining costs time and money, so where's the added value?
Francken: 'Cost savings, better insights leading to the right management decisions and a completely new approach to establish whether or not an organisation is in control. The crux is that, thanks to process mining, management directors can lead their organisations based on facts rather than on previous experience or intuition.
'One of the systems we've been working with since last year is "Disco", an innovative software tool developed specifically for this purpose. It means we can give a company an initial impression within roughly four hours of how their internal processes are performing, plus a clear visual indication of the process stages involved. Then if necessary, we can advise them on how to structure these internal processes more effectively.'

Is the application of process mining based on your work with big data?
Francken: 'No, they are different concepts. In recent years, organisations have been highly focused on the external commercial opportunities afforded by big data and less with the process mining options of internal data. That's actually surprising, because experience shows that strategic decision-making becomes far more effective with real-time process information from the inside out.'

How does improving tax reporting or introducing process mining affect the behaviour of managers and employees?
De Haan: 'First of all, it reduces the incidence of error. It amazes me just how many errors emerge, especially in large organisations, when you start delving into their accounting records or software. Many tax departments still use Excel spreadsheets, which is both risky and unnecessary, given the state of technology these days.'
Francken: 'New technology is forcing management directors to decide what information they really think is important. Because we now have access to so much data, there's a danger of not seeing the wood for the trees. You can cover the walls of your boardroom with as many KPIs as you like, but what then? What really incentivises people is the prospect of being able to spend more time analysing data rather than gathering it – and hence using it to review or adjust company strategy where necessary.' ‹

VODAFONE NEDERLAND
Sector telecoms
Staff complement 3,175 full-time employees
Number of client connections in the Netherlands more than 5 million
Annual revenue €1,854 million (2015/2016 fiscal year)

‘POWER TO THE PROCESS MINERS’

Telecoms operator Vodafone uses process mining to analyse practically all of its business processes and this results in greater efficiency and competitiveness. However, they’ll never be completely perfect, says Business Intelligence Manager Bart Cloosen.

Bart Cloosen (35) has been a Business Intelligence Manager at telecoms provider Vodafone Nederland since 2011. He started out with Vodafone as a business analyst in 2004 before moving on to the roles of senior business intelligence and business information specialist.

‘By making all the cogs visible, you can connect each one to the correct axle’

CASE | **1**

Bart Cloosen rates Vodafone's approach to process mining as 8.5 out of 10. His two main points for improvement are:
• Keep on increasing the quality requirements for data
• Closer coordination between budget holders for new initiatives

'Power to you' is what Vodafone promises its clients. The extra 'power behind that power' is provided by Vodafone's Business Intelligence department, where more than 50 smart data analysts supply their colleagues with vital knowledge and insights to benefit the company and its five million Dutch customers.
Business Intelligence Manager Bart Cloosen has been with Vodafone Nederland since 2004. His career with the firm began with a part-time job in the customer service's data analysis department and developed into a key role as head of a team of 10 data crunchers. During those 12 years, Cloosen has seen the use of process mining increase rapidly.

What does business intelligence mean for you and your current role?
'I always explain it to my friends like this: we collect as much information as possible about client behaviours and our processes so that our decision-makers can arrive at more carefully weighed decisions and are no longer having to guess.'

Can you give a few specific examples?
'For instance, my team gave advice to our colleagues about how to reward our sales channels more effectively. We found we could do it in a smarter way than by the usual method of multiplying numbers and units. We also look at consumer behaviour, obviously as far as privacy laws allow. We look at whether our clients have the plan that's right for them. When might they exceed their call package? And what form of subscription would then be appropriate?'

Do you also analyse the point in a sales call when a client says they aren't interested? And how you might change the way the call is handled – for instance, by using a call script?
'We ask clients how they have experienced their interview with our contact centre. We distil a lot of information from their answers – for example, the fact that the length of the conversation doesn't necessarily correlate with conversion or customer satisfaction. These factors are more influenced by the persuasive powers of our employees. As a result, short calls are often more successful. We can't influence what our employees and customers talk about, but we can give our personnel and their team coaches the right tools.'

Such as?
'Always listen carefully to what the customer wants. If you don't, you'll see this directly reflected in the conversion. There's also a logical relationship between an employee's average conversion ratio and how long they've been with the organisation. Experienced advisers achieve substantially better scores.'

How long has Vodafone used process mining?
'It was introduced very gradually on an iterative basis. We haven't used the term itself for very long. We used to refer to it as "information processing". We use process mining a lot – for example, to streamline our orders processing and to improve the flow of interactive voice response (IVR) systems, where you guide the customer through a menu based on a flow chart. You don't want the customer to have to talk to several employees before his or her issue is resolved. And it doesn't have to be like that. Process mining gives us an increasingly clear picture of where a customer contact process sometimes grinds to a halt.'

What are some of the reasons?
'The device the customer ordered might not have been in stock. Or there might have been a glitch in the back office. We might have filled in the wrong address. Or perhaps the number didn't transfer properly when the customer switched to Vodafone from another telecoms company. By making all the cogs in the process visible, you can connect each one to the correct axle.'

Are you now at the point where all the processes in Vodafone are running optimally?
'No. After 12 years in the job, I know that we can always do better. Our department is asked each day to analyse the performance of new or revised processes. For instance, we're currently looking at the billing process. We know that some of our customers don't understand their bills. So where necessary, we advise our colleagues to improve internal processes. And, of course, an employee can occasionally still make a mistake with a connection procedure. A good thing, though, is that the software tools we use are becoming increasingly intelligent and intuitive.'

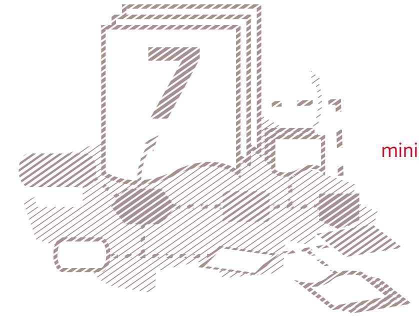
What questions from the business can't yet be adequately answered by process mining?
'How best to organise the process involving a new business customer, especially if it's a big company with which we're concluding specific agreements and that involves many different disciplines within Vodafone. As a result, we're constantly having to adjust our processes to the customer's wishes.'

What are the pitfalls of working with process mining?
'It's extremely important that we match our approach to the results we've gleaned. Conclusions aren't always obvious. Sometimes you've really got to take the decision-makers in the organisation by the hand and advise them so that they can take the right decisions promptly. Now and then, of course, someone will dig their heels in because our advice doesn't tie in with their targets. You've got to be able to stand up to that. But they'll come round as soon as you can show them that the customer is more appreciative if they do (or don't do) certain things.' ‹

VAN AMEYDE
Sector local and international claims management services
Staff complement 1,500
Local offices in all European countries
Annual revenue approx €115 million (2015)

‘TRACKING PROBLEMS **THE DIGITAL WAY’**

Robert Poinsitt (39) has been Head of Internal Audit at Van Ameyde since 2014. He previously worked for Mazars, BDO and PostNL.



Robert Poinsitt rates Van Ameyde's approach to process mining as 7 out of 10. His two main points for improvement are:
• More transparency in the standards used
• Improve the reporting function

Process mining makes organisations super-efficient thanks to clear one-touch analyses. International claims handler **Van Ameyde** also uses it for its internal audits.

Claims handler Van Ameyde's 1,500 staff offer total management of claims registration throughout Europe, mainly for insurers, car fleet owners and other major corporates. ‘We've invested years in our own IT system, which gives us a significant lead on our rivals. We're now the European market leaders in claims management,’ says Robert Poinsitt, Head of Internal Audit.

What exactly does claims management involve?
‘All the activities we carry out for the individual or company that has sustained the loss but also, for example, for the insurer. We handle everything from receiving the claim to checking the level of cover, as well as evaluating the damage and the liability to the payment.’

The process involves many stages. Is that necessary to benefit from process mining?
‘Yes. Process mining won't yield very much for a simple process. Our claims handling process contains at least 14 steps and sometimes more than 200. To manage this, we've developed our own customised IT system. We handle all claims throughout Europe on this web-based system in the client's language. It registers all stages of the claims process for each client and our claims handlers can use it to look up all the important information.’

How did you come across process mining?
‘BDO suggested we conduct a pilot project using a process mining tool. This was initially to enable them to perform their own external audit more efficiently since it could produce better insights into the processes and lower audit fees, so we readily agreed.’

What were the initial results?
‘The benefits were visible straight away. The tool showed very clearly the basic stages in our claims handling process, together with their throughput times. You could then zoom in and out very efficiently through a simple click on the button. We could even see whether and where each claim deviated from the norm. As an internal audit department, we were triggered to make our own checks more efficient and hence more cost-effective.’

Can you give us an example?
‘We're always on the lookout for non-standard processes, which are difficult to detect. Process mining enables us to be much more targeted in our search. For instance, we can now call up and analyse very specific data prior to the audit. Process mining allows claims handlers to address stages in the claims process that were previously missed out.’

What pitfalls do you need to be aware of when you start process mining?
‘Begin by asking whether you've got enough digitised data and internal processes with multiple stages. After that, keep asking yourself the right questions or you'll get bogged down in details, precisely because you can zoom in with such detail and make all possible cross-sections in your database. The big plus of process mining is that you can see at a glance whether all the transactions are taking the same route – and identify potential problems in the process straight away, which is great.’

‘We can now even see whether and where individual claims deviate from the norm’

Atradius

Sectors credit insurance, collection services, bonding
Staff complement 3,300
Local presence in 50 countries worldwide
Annual revenue approx €1.7 billion (2016)

50 COUNTRIES 1 STANDARD

'Indirectly, financial and tax reporting is definitely a competitive tool'

Fiona Beijdorff (42) was appointed Head of Corporate Finance & Tax at Atradius earlier this year. After training as a tax lawyer, she began a career as a tax adviser at Freshfields Bruckhaus Deringer, among others. That was followed by a role as in-house tax adviser at VNU before she joined Atradius in 2008.

'Our tax return is signed off immediately, so we know our tax position straight away'

Fiona Beijdorff rates Atradius's financial and tax reporting as 8 out of 10. Her two main points for improvement are:
• Further automation of a number of manual processes
• Refinement of the existing automation

Credit insurer **Atradius** operates in 50 countries. So how does Fiona Beijdorff, Head of Corporate Finance & Tax, ensure she gets efficient, clear and consistent financial and tax reports from them all?

Atradius was established in 1925 as Nederlandsche Credietverzekering Maatschappij (NCM). In 2003, following a merger with the German Gerling Kreditversicherung, it changed its registered name to Atradius. In 2008, Atradius was acquired by Grupo Catalana Occidente, an international insurance group listed on the Spanish stock exchange. Atradius has 3,300 staff and more than 160 offices in 50 countries. The bulk of its revenue comes from credit insurance, an area where the firm ranks in the world's top three. The head office of this financial services provider is in Amsterdam, as is its finance unit, where Fiona Beijdorff is based as Head of Corporate Finance & Tax.

In today's business world, fast, accurate reporting is more important than ever. What do you consider to be your priorities?
'Meeting our compliance obligations and compiling fast, efficient and accurate reports in order to free up as much time as possible to focus on our clients. In that sense, financial and tax reporting is indirectly a competitive tool as well'.

What kind of financial reporting system do you use?
'All our country units except one use the Oracle E-Business Suite application. Our organisation in Spain is the only one that has yet to switch over to this financial reporting system. Each country or region we operate in has a finance unit that is headed by a local finance manager who reports to their local general manager and to the head of the central finance unit at our head office.'

Each country has its own tax regime. How do you organise tax reporting at group level as efficiently as possible?
'Two years ago, I decided to bring in Oracle's Hyperion Tax Provisioning module. The tools provided by this tax accounting system make it easy for us to standardise the tax process for the group's financial IFRS reporting requirements. They also automatically calculate the tax position of each country and simplify the consolidation of the tax position for our financial statements.'

Is it difficult to get all these country organisations to use the same reporting system?
'Not really. Atradius was initially centrally managed and local management had to make do with the reporting system they were given by head office. We've become slightly more decentralised over the years so that we can work in a more client-oriented way locally, but the centralised financial reporting processes have remained intact. Sometimes local finance managers prefer to add some calculations manually – for example, using an Excel sheet – but we tell them it's not efficient and that we're offering them the centralised tools to make life easier.'

How important is speed in your financial and tax reporting?
'You've got to distinguish two things where speed is concerned. First, there are the IFRS reporting requirements for the annual report. Then there's the compliance for the annual tax return. Our annual report has to be ready by the beginning of March at the latest, but our systems already have 90% of the tax return ready by January as well. The corporate income tax deadlines also differ from country to country. The advantage of quick reporting is that you know very early on what your tax position is.'

How do you use the system in conjunction with the tax authorities?
'In 2012, we signed a covenant with the Dutch Tax & Customs Administration so that our tax return would be signed off straight away and we'd know very quickly what our tax position is. This is important, not just for our annual report but also because it delivers vital management information to our executive board and the regulatory authorities. After all, don't forget that our tax bill ranges from 25% to 30% of our gross profit, which last year came to nearly €250 million. So we're talking about a very large sum of money indeed. We try to make the most of any opportunity to optimise our tax position and reduce our tax bill, obviously within the limits of the law and tax ethics.'

How far does Atradius go in trying to reduce its tax bill, given the growing demand for corporate integrity?
'It's no longer acceptable to allocate all your expenses to the countries where you're generating the most profit. In any case, Atradius's risk appetite is low. We want to pay the right amount of tax wherever we owe it and we certainly don't apply aggressive tax planning. It wouldn't be ethical and nor would it tie in with the way we want to present ourselves as a financial services provider. "Practise what you preach" is our motto.'

Nevertheless, there are international companies with many local outlets where sometimes things do go wrong. Take Imtech. How do you prevent that from happening?
'As a global insurer, we are supervised by several regulatory authorities. Governance and control have therefore become part of our everyday business practices. Moreover, we don't pay a single invoice without a careful preliminary check. As far as our tax liability goes, our tax control framework ensures that we have an external adviser check the tax returns for all material countries. You should never say "never", but the chances of anyone manipulating the figures to avoid paying more tax are practically nil at Atradius.' ‹

‘EMBRACE FULL DISCLOSURE’

Supervisory director and former top executive **Tjalling Tiemstra** expects supervisory and executive directors to take their obligations seriously to actively request and provide information. Clear reporting is vital: only full disclosure of all relevant activities will reveal the true correlation between strategy and risk.

Tjalling Tiemstra studied business economics at the University of Groningen and accountancy at Erasmus University Rotterdam. He spent more than 20 years working for Unilever in the Netherlands, the UK, Mexico, Poland and Germany before becoming CFO for Hollandsche Beton Groep and then Hagemeyer.

Since 2008, he has been a member of the supervisory board of Bruynzeel, Ballast Nedam, Batenburg Techniek, ABN AMRO and Royal HaskoningDHV. He has also been a member of the supervisory committee and the Financial Reporting & Accountancy committee of the Netherlands Authority for the Financial Markets (AFM). He is a deputy member of the Enterprise Division of the Amsterdam Court of Appeal.

‘Executive directors aren’t always keen to disclose the nitty-gritty of their loss-making activities in their reporting’

Tjalling Tiemstra rates the level of management reporting to supervisory directors as 7 out of 10. His three suggestions for improvement are:

- Introduce 12-month rolling working capital productivity
- Establish a link between cash flow forecasting and financing agreements
- Create greater insight into the return on invested capital by activity

A trouble-shooter and foul-weather CFO: that's how Tjalling Tiemstra was known to financial analysts when he was a company director. After a series of management roles at Unilever over a 20-year period, Tiemstra was briefly CFO at construction and dredging firm HBG before becoming a member of the management team involved in the recovery of Hagemeyer. This last job was a real achievement because Tiemstra and his colleagues saved the firm from near certain bankruptcy and turned its fortunes around to such an extent that two competitors paid a premium for the business in 2008.

Tiemstra was 55 then. He made a new start as a financial consultant and became a sought-after supervisory board member, serving with AFM, Ballast Nedam, Royal HaskoningDHV and, most recently, ABN AMRO. His mantra is that management reporting should always be adapted to, and move in line with, corporate strategy and how it's implemented. Pushing at an open door? 'Yes, of course,' he says. 'But reality is often more tricky. It often means that supervisory directors have to evaluate whether an organisation's risk management and governance are still structured in the best possible way to achieve the new strategy.'

As a supervisor, what requirements do you make of management reporting?
'That depends on the nature and environment of a company, such as whether it's a family firm or a listed company. Precisely how you approach management reporting depends on the context and is determined by three aspects: company strategy, its implications for risk management and the governance structure that has been chosen. Where does it usually go wrong? This happens, for example, when executive directors slowly shift the strategy but don't sufficiently realise how this is likely to affect the organisation's risk profile.' (See separate story on Hagemeyer, right.)

That's odd. You'd think that would be obvious.
'Yes, you would. To properly identify and manage changing risks, you need "granular transparency". By that I mean you need to break down the different KPIs for your activities to relevant levels – for example, by product group, region or client group. This makes it easier to assess the relationship between "risk" and "reward" for each activity and manage it more efficiently. At the moment, this doesn't happen enough.'

HAGEMEYER: 'CHANGE OF STRATEGY? THEN CHANGE THE RISKS YOU REPORT ON, TOO'

It's a pitfall executive directors often fall into, says Tjalling Tiemstra: 'They change their strategy but don't realise that the associated risks change as well.' Tiemstra learned this lesson himself the hard way, as CFO of Hagemeyer: 'We were traditionally a company that traded in electrical engineering materials and safety products. But we gradually shifted towards selling more private label products in the UK, which was our biggest market and by far our biggest profit centre. The problem was that we didn't report on these private label activities separately, even though they involved completely different risks to our trade in premium brands – not just higher gross margins, but also responsibility for both the end products and ongoing investment in product development and procurement. We changed our management reporting accordingly.'

Why is that?
'Continuity risks are often linked to so-called operational gearing – the degree to which costs and invested capital can move in line with revenue and gross profit. By nature, however, executive directors are more fixated on total revenue and EBIT than on operational gearing. They're not always keen to disclose the nitty-gritty of their loss-making activities (which are currently neatly hidden among the profit centres) or to field difficult questions about them from their supervisory boards. At Hollandsche Beton Group, for example, construction and real estate activities were initially reported in a single segment, even though construction for third parties has a completely different risk profile from the development and management of property. When we drew up the report, we presented all these figures separately.'

What should a supervisory director be able to see from all that dissecting in the management report?
'Everything! It should tell them what product or product group is generating the highest margin, in which region, within which division and so on. Ideally, the CFO will report on each of these activities. But I've noticed that companies often only report their revenue and EBIT for each activity. They say too little about the return on invested capital. This means you're raising money for that invested capital even though you have no idea whether each of the activities you finance using that money can each bear the cost of that capital.'

Is this due to lack of knowledge, ignorance or a deliberate attempt to hide these facts?
'You know it when you see it. It's important that executive and supervisory directors maintain a holistic view of the correlation between strategy, the risks associated with your key activities and the financing structure of the company as a whole.'

Have you experienced that yourself as a CFO?
'I certainly did. I joined Hagemeyer as CFO in 2002 and a year later the company nearly went under. This was mainly due to the introduction of a new ERP system in the UK while we were also concentrating our logistical activities in a single distribution centre. A fair number of things went wrong, as a result of which costs went up and our UK customers left us. We also had too little insight into the returns on each item and client group. Once we'd investigated and sorted it out, our earnings improved and the value of the company went up.'

To what extent do supervisory directors share responsibility for errors like that?
'It's the CFO who's ultimately responsible for providing the insight needed to manage risks and attain strategic goals. Supervisory directors are responsible for overseeing the whole process, but they generally only see what the management reports to them. Nevertheless, they should be expected to ask management the right questions based on their knowledge and experience. That's why I think supervisory directors should at least have operated at the same level as the executive directors they supervise. They must be able to add value. Only then will they be capable not merely of responding to the information they are given but also of proactively looking for any missing links.'

Many supervisory directors won't meet that criterion.
'No, and not all supervisory directors need to have that capacity. The important thing is to ensure that the expertise and experience of the supervisory board as a whole is up to the mark. Executive directors also have to be receptive to this approach, although they won't always welcome a supervisory director looking over their shoulder. Be that as it may, in today's world of management reporting, executive directors have a duty to actively provide information and supervisory directors have a duty to actively request information. End of story.'

Do you see any progress in the future, in that these reciprocal obligations might be drawing closer together?
'I do. Executive and supervisory directors increasingly understand that they're in the same boat. Both are increasingly subject to public exposure. These days, supervisory directors can't simply hide behind the claim that executive directors were guilty of mismanagement. If they think that's what's happened, they should have intervened promptly and visibly.'

'STEERING WITH A CLEAR FOCUS'

In order to take the right decisions, it's vital to have up-to-date – and ideally real-time – information about your company. That way, you no longer need to manage your organisation based purely on estimates. Management reporting helps you steer with a clear focus.

BDO is challenging companies to actively use management reporting when taking strategic decisions. So if you'd rather manage on the basis of knowledge than assumptions, we'd be happy to help. With a global reach of more than 1,400 offices in 154 countries and a staff complement of over 64,000 professionals, we have specific expert knowledge and can combine it throughout our network to offer genuine cross-border services.

Why BDO?

At BDO we offer a focused and timely service based on effective coordination and teamwork within our global network. BDO is the answer if you are looking for:

- Centralised planning, management and control by our dedicated client teams with a proven track record
- A customised client portal through which progress can be monitored
- Timely and constructive feedback

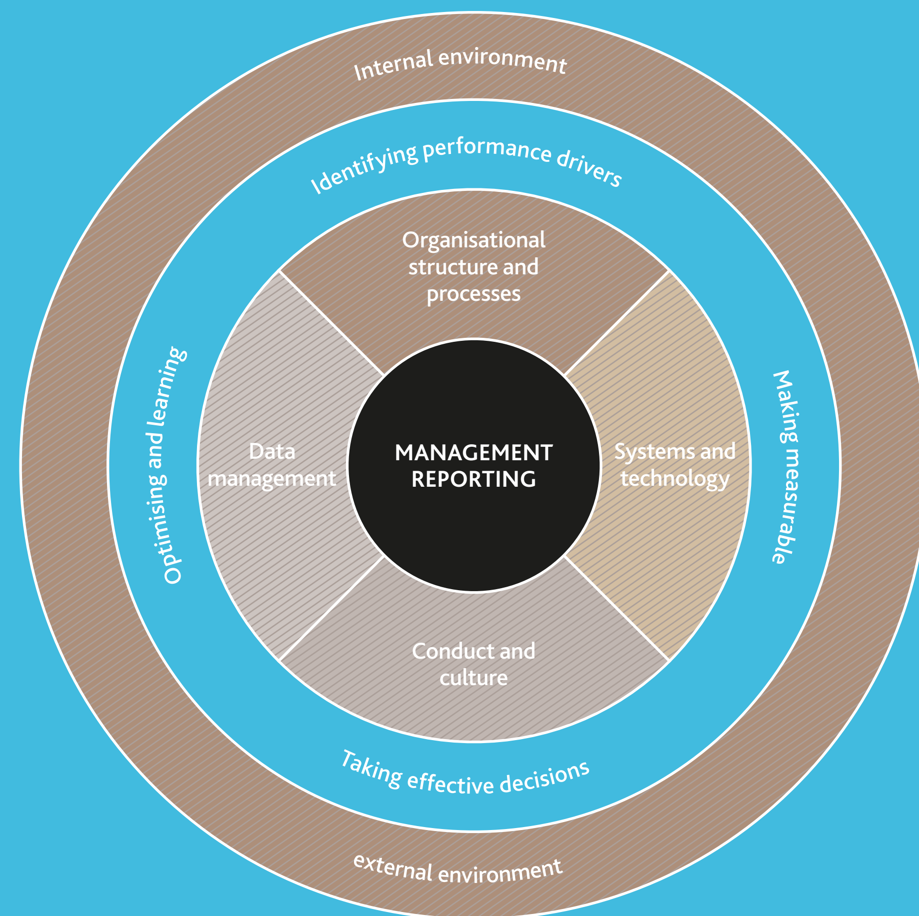
If you have any questions or would like more information about this topic or BDO, please contact:

Marco Francken,
Partner IT Audit
marco.francken@bdo.nl
Tel. +31 6 412 63 513

Niek de Haan, Partner International Tax Services & Global Outsourcing
niek.de.haan@bdo.nl
Tel. +31 6 483 80 427

'GETTING TO THE HEART OF THE MATTER'

The BDO integrated management reporting model highlights the key elements needed for effective management reporting, plus their correlation. In our view, management reporting is a dynamic system that has to continuously adapt to changing internal and external information needs.



THE WORLDWIDE
BDO NETWORK

BDO Countries

COUNTRIES
154

LOCATIONS
over 1,400

PROFESSIONALS
more than 64,000

REVENUE IN 2015
$7,300 million

'It is a capital mistake to theorize before one has data. Insensibly one begins to twist facts to suit theories, **instead of theories to suit facts'**

Arthur Conan Doyle

‘An investment in knowledge always pays the best interest’

Benjamin Franklin

WWW.BDO.NL/CORPORATECLIENTS

10/2016 – CC1605