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HORIZONS

Top Management Quarterly

RISK ADVISORY SERVICES

People & capital

Lean manufacturing
Working capital
Slashing costs on human resources

Data security

Data management
Preventing the loss of key data
Finance shared services

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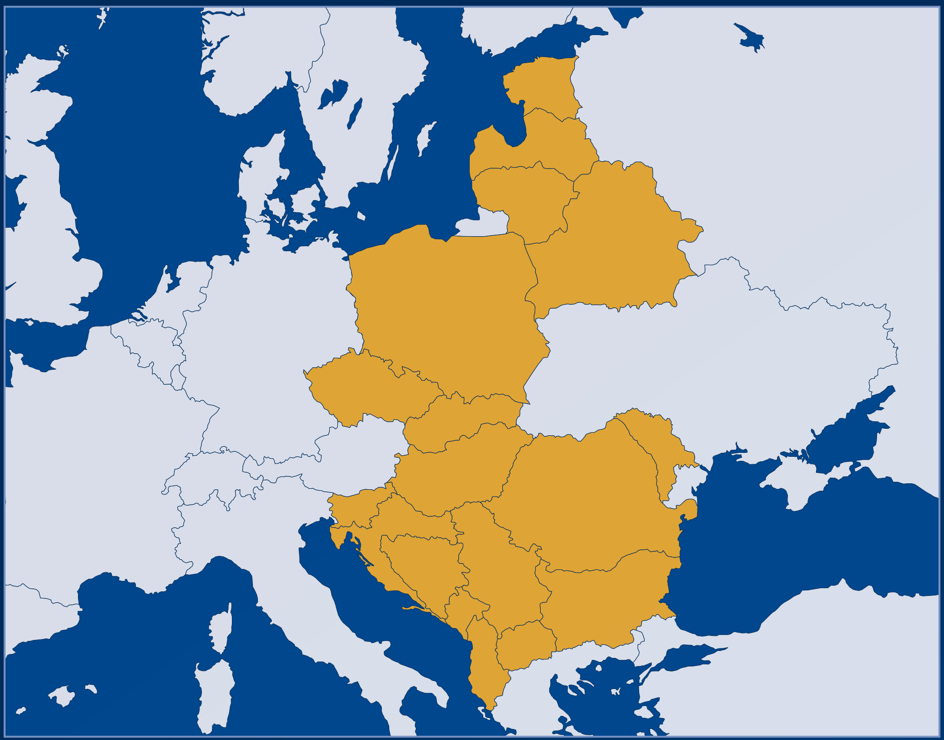
František Dostálek
Managing Partner
KPMG Czech Republic

Regional Chairman, CEO
KPMG Central and Eastern Europe



In this issue

Eva Racková, Partner in charge of Risk Advisory Services

Firms which understand the advantages of managing working capital up to the strategic level will acquire a crucial advantage in the fight with the competition.

The lean production concept brings improvement not only for customers, but also to the financial and process spheres.

Personnel expenses are very much in the spotlight when looking for opportunities for quick savings. Staffing analysis (HR audit) and HR costs reduction can help.

Quality and clear data is critically important to the areas of commerce and marketing, credit risk management and recovery and management of supporting processes.

The article on data loss describes the current situation and looks at how the situation will develop in the near future and how to protect sensitive data.

Many of the companies are now looking for ways to take their Shared Service Centres to the next level of performance.

Arenas in the CR are mostly publicly owned. However, a private entity based on the principles of PPP appears to be the most suitable facility operator.

A company that implements CSR principles becomes a responsible partner in the sustainable development sector.

Editorial

Eva Racková, Partner in charge of Risk Advisory Services

Executives are currently facing a difficult situation. Each day they are confronted with gloomy reports: sagging consumer demand… mounting pressure to cut costs… dwindling order numbers and decreasing income… personnel expenses disproportionate to revenues…

In this issue of Horizons we therefore focus on ways to manage cash, increase the efficiency of production and business processes, and reduce HR costs in a crisis.

Can cash management make your company rich? Unfortunately not, but it can free up some capital and strengthen your future position in unstable times. When the economy slows down, firms can turn available cash into a decisive competitive advantage as they are not forced to do the things that are normally done as a result of recession fears, such as scaling down research and development expenditure, reducing marketing budgets or even making their employees redundant. Working capital is a significant source of liquidity. Modern approaches to working capital management should become the basis for the efficient management of cash flows within a company and one of the main tasks of the finance function.

Operations and production are the costliest processes in any company, and as such they are the first to be examined in the search for opportunities to save. This is where the lean manufacturing principles, introduced and made famous in the business world by Toyota, can be of considerable benefit. The system, with the relevant adjustments, can still be applied in virtually all business sectors. More often than not, managers end up being (pleasantly) surprised by the results in the form of increased capacity, reduced lead times, or higher inventory turnovers, by tens of percent.

Not a day goes by without media reports about a company that has opted for mass layoffs. Due to the volume of funds it consumes, HR is one of the high-priority areas that managers examine when looking for quick savings. However, it is also a very sensitive matter, and approaching it rashly, without analysing it thoroughly beforehand, does not pay off. In a time of economic prosperity, firms tend not to monitor their personnel expenses very closely. Consequently, they must focus on these costs all the more rigorously in a crisis, taking reasonable advantage of the existing savings potential.

A crisis presents an opportunity to scrutinise business processes and structures, and ask some fundamental questions. Do they work correctly? Are they beneficial? Are the resources allocated to them used efficiently? Data – or rather data administration, use and protection – is one such, often sadly overlooked, area. Quality data means quality information, based on which the right decisions, both short-term as well as strategic, can be made. And that is a priceless competitive advantage, especially in times of crisis.

It may seem that the last two topics of the March edition of Horizons do not fully relate to the current debates about savings, liquidity, lean principles and reductions. However, the opposite is true. The economic crisis in the Czech Republic will not affect only manufacturers, developers or financial organisations.

The tourism, leisure and entertainment industries will most likely be hit as well. Last year we conducted a unique study on the operation of multi-purpose facilities, arenas and ice-sports facilities in the Czech Republic. In it, we tried to highlight some issues relating to managing and financing them. It will certainly be interesting, therefore, to observe how this sector deals with the downturn.

A crisis leads to more than just streamlining and cost optimisation. It is also a chance for us to consider new business models, opportunities and global trends. There is no doubt that the key issues of the 21st century will include the environment, tackling global warming, the search for alternative energy sources, and corporate responsibility in general. This is understood not only by the new American administration headed by Barack Obama, and by car manufacturers, but also by the majority of leading companies. They are fully aware that corporate responsibility has an increasingly positive effect on their performance, shareholder value, enterprise risk management, and their image.

Finally, I would like to mention an interesting article series entitled "Mastering management: managing in a downturn", which was published in January and February of 2009 as \a supplement to the Financial Times, the most well-known business daily, and which was prepared in cooperation with the global network of KPMG member firms. The articles include a number of analyses and guides to operating in the current economic crisis. They also provide advice about how to successfully deal with its repercussions. You will find the link on our website, at www.kpmg.cz.

In Chinese, the term "crisis" is described with two signs – "a risk" and "an opportunity". Let's therefore regard the current crisis, which has struck the Czech Republic with full force, not only as an impetus for savings and optimisation measures, but also as an opportunity to critically analyse the direction our business is taking, and its prospects, in the light of the challenges of the 21st century.

I hope you find this issue of Horizons useful!

"A crisis leads to more than just streamlining and cost optimisation. It is also a chance for us to consider new business models, opportunities and global trends."

Working capital management not only in times of financial crisis

Unlike profit, for example, company funds cannot be affected by accounting approaches, or a change in the balance of products, or provisions. A firm can influence cash available by selling assets, issuing securities, cutting costs or freezing investments. However, one particular business area that can be managed as part of internal processes and sources, and can become a significant source of funds, is working capital.

Just as the external conditions of business change, so do perspectives on company financial management. In a situation of decelerating economic growth and a developing financial crisis, companies find themselves under pressure in the form of more difficult access to funds and the subsequent worsening of liquidity and productivity indicators. If opportunities for obtaining external sources of financing are dwindling, the company itself can (or in the end must) find and release funds tied up in its working capital, or other business areas. The aim is to respond flexibly and quickly to the changing market conditions, such as the unpredictability of customer payments, warehouses with excessive inventory levels, stricter rules for granting bank loans, and suppliers demanding shorter due dates.

Shareholders and the executive management of companies are increasingly focusing their attention on working capital management and cash generation, and financial departments must respond accordingly. A KPMG International survey in which over 500 financial directors from all over Europe participated[1] shows that almost one quarter of respondents (24 percent) said that cash management is the main goal of their department. For 61 percent of respondents it is one of the main company goals.

The current economic situation has forced firms to respond very quickly and apply measures with a swift but short-term effect. Companies have started to limit investments, defer payments, tighten credit lines for customers and negotiate longer payment conditions with suppliers. However, for active cash and working capital management, long-term sustainable tools and approaches must be used, such as a system of cash flow prediction and planning, interconnection of cash management with a motivation system or improvement of communication and reporting between individual departments and sections in the company.

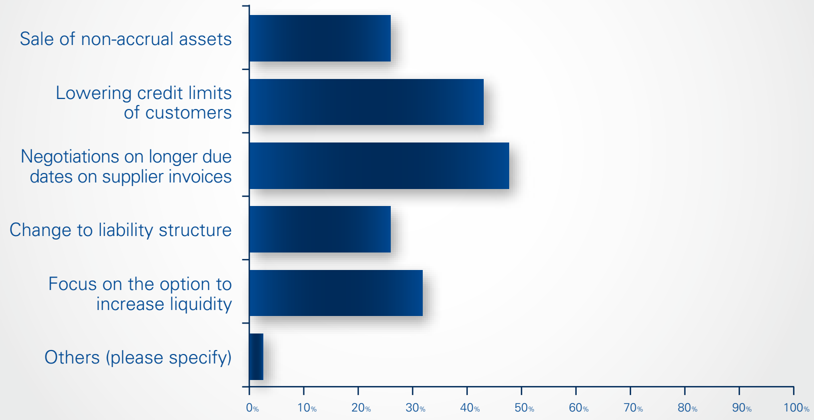
Why should working capital be managed?

The basis for active management of working capital is a comprehensive view of the capital requirements of a company's operation. This enables the identification of weaknesses and resources for achieving

1 The importance of preserving cash in a downturn. Insights from 2008 research into cash and working capital management, organised by CFO Europe Research in cooperation with KPMG International.

"When looking for financial savings in working capital it is important not to neglect process issues, which can often have a stronger impact than strictly financial aspects (such as due dates, interest amount)."

Which of the following steps are you taking to resolve the problems in connection with more difficult conditions on the credit markets?

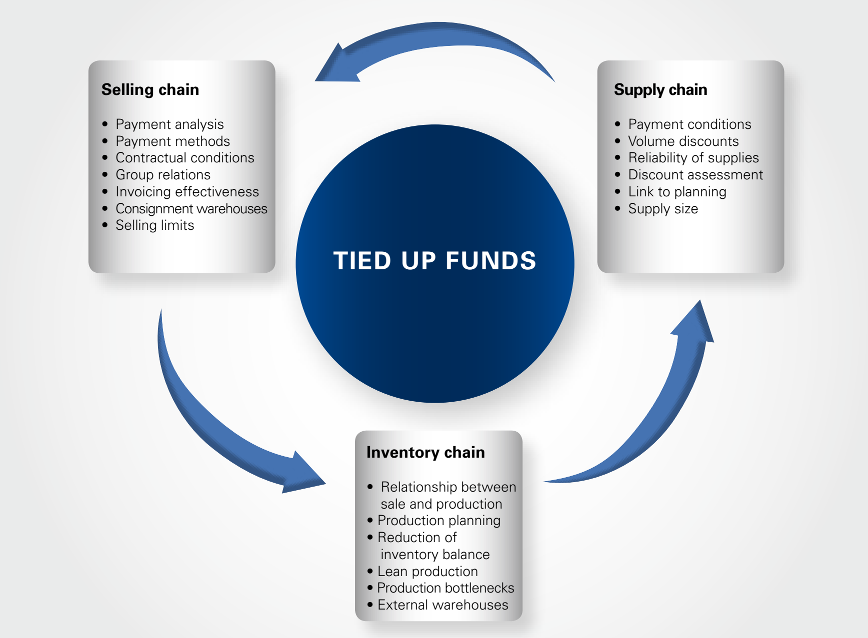


particular financial savings. Working capital management is a procedural financial approach focused on the supply and production chains. It involves the management of necessary financial resources which leads to a balance between the need for resources for operation purposes, fixed capital and effective operation of processes; for the customer, this should not impact on quality or reliability of service delivery. The aim is to release ineffectively tied up funds from current assets.

Individual components of working capital cannot be approached separately. Working capital areas are interconnected, and links between the components, ties between divisions within the company and group relations must be taken into consideration during optimisation. When looking for financial savings in working capital it is important not to neglect process issues, which can often have a stronger impact than strictly financial aspects (such as due dates, interest amount, etc.). Process optimisation can reveal for example unnecessary tie up of funds due to a long and ineffective invoicing process, surplus semi-finished goods inventories due to wrong production flow or insufficient communication and planning in production, high raw material inventories due to large purchasing volumes, etc.

Time aspect of working capital management

Another premise which is not entirely correct is the connection of working capital management with current assets and liabilities. Effective working capital management clearly overlaps with strategic dimensions. These concern set goals and management areas, such as redesign of the supply chain, treasury management and cash forecasting, changes in production



processes, motivation of managers based on financial KPIs and others. Such a level of understanding working capital is only possible with the support of the top management and carries a certain risk, just like every other change in the company. It often involves a change of thinking in certain processes, and it is essential to delegate authority and responsibility when implementing changes and set a necessary budget (time, motivated qualified manager and team).

The approach to working capital is interwoven with profitability management and investment management in many places. This relationship is based on the "what to invest in – whom to sell and for what price – where are the funds tied up" principle. It is important therefore to evaluate investment options correctly, know the profitability (of products, services, customers, logistic channels) and then, even when reporting sufficient profits, release money from current (non-financial) assets.

The benefits of a complex and active approach to working capital management can then be described and measured in a clear way. They include mainly the following:

- increase in liquidity on an absolute scale;
- better control and monitoring of cash flow in the company;
- more exact definition of the need of resources for financing the internal operation of the company;
- identifying particular financial savings in working capital;
- release of financial resources from internal processes and reduced dependence on external financing;
- possibility of maintaining/increasing investment expenditures and potential expansions;
- improvement of the quality of internal processes and productivity.

> **"The approach to working capital is interwoven with profitability management and investment management in many places. This relationship is based on the "what to invest in – whom to sell and for what price – where are the funds tied up" principle."**

Conclusion

It is clear that there has been a change of company attitudes towards liquid asset management, defining financial KPIs and the search for self-financing within firms. As a result, the significance of working capital is growing. Firms which understand the advantages of managing it up to the strategic level will acquire a significant competitive advantage that can be crucial in their fight with the competition and in overcoming a crisis or economic downturn. Modern approaches to working capital management combined with controlling tools must be the basis of effective management of intra-company cash flows and one of the main tasks of a firms' financial management.

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Risk Advisory Services

Lean manufacturing

– surviving the economic downturn and getting into the world class

Management teams are currently facing increasing pressure to maintain and improve business performance. Companies must have a greater competitive edge on a global scale. Manufacturing firms should strive for operational excellence, which can be achieved by implementing the principles of lean manufacturing and continuous improvement.

Pressure to maintain or improve business performance

Manufacturing companies in the engineering, automotive and electrical industries have been recently hit by a sales drop of 20 to 30 percent. The slump also had an impact on related sectors and logistics services. Companies need to respond to this situation flexibly as their owners demand a sustained, and in the long run improved, business performance. Executives are thus under growing pressure to maintain profitability, achieve the planned return on investment and secure an adequate cash flow.

Operations and production are the costliest processes and are therefore usually examined first when looking for opportunities to save. As a result, production managers have to significantly reduce operational costs, scale down or temporarily suspend production, lay off staff, reduce inventory levels and cancel or postpone new projects and major investments.

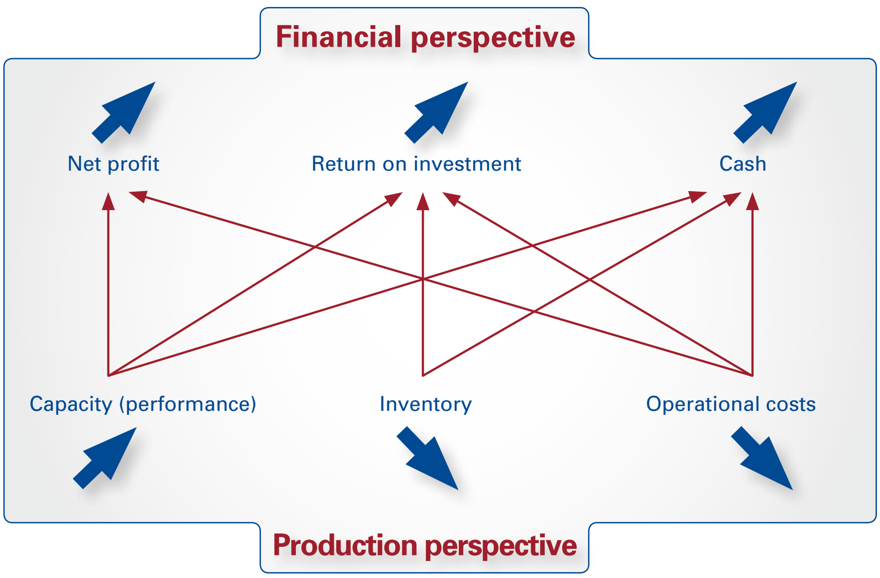
Get into the world class

If managers fail to flexibly and sufficiently respond to these pressures, the company may lose its market share. It would be forced to shut down its less efficient operations or consider moving production to other countries, and, once weakened, would end up being taken over by a competitor.

Yes, this sounds dramatic, but the problem should not be underestimated or viewed as short-term. We should not forget how the credit crunch was covered in the press last year and how surprised we are by its magnitude now. Few will be unfamiliar with the statement made by Miroslav Kalousek, the minister of finance, about “an island of stability”, which sadly has been flooded by the tsunami of the global economic downturn. At the moment, nobody is able to predict how long the recession will last. Do not dwell on short-term forecasts, and implement long-term strategic measures. Consider the risk as if the recession was to last longer than a year, being more severe than you expected.

World-class business excellence and performance is rare. Only 91 of the 500 largest companies by market capitalisation in 1957 were also included in the S&P500 index in 2009.

82-percent failure rate in the last 52 years.



In order to maintain or improve performance during the current recession, companies must focus on:

- radically increasing process efficiency,
- reducing lead times,
- providing perfect quality at the right time and at the right price,
- acquiring new professional competencies,
- fine-tuning the management system,
- redefining business models, ensuring they flexibly respond to customer needs,
- changing the corporate culture and improving employee motivation.
- Lastly, they must constantly improve!

Success is dependent on employees who know what value means and how it is passed on to the customer. If the value stream is interrupted, they know how to fix it. The lean manufacturing concept is the right approach for manufacturing companies seeking to improve their future outlook. To say that the lean principles can be fully implemented under any circumstances would be too much of an oversimplification. However, past experience proves that most of the main principles can be applied to any process found not only in production, but also in administration, healthcare or the public sector.

"Lean manufacturing is based on the world-famous and as yet unsurpassed Toyota Production System."

Lean manufacturing principles

Lean manufacturing is based on the world-famous and as yet unsurpassed Toyota Production System. The concept is built on five main principles: value added from the customer's point of view, identification of value streams and waste elimination, smooth production flow, production pulled by customer demand, and pursuit of perfection.

These five main principles are followed when applying lean manufacturing in practice.

Value added from the customer's point of view

First, there must be an understanding of what constitutes actual value for the end user and what is a process, which activities in the value stream add value and which do not (these are regarded as waste). The lean manufacturing concept defines seven waste categories:

- transport
- inventories
- motion
- defects
- overproduction
- inappropriate processing
- waiting

Identification of value streams and waste elimination

The next step consists of identifying value streams and mapping the value stream within the defined boundaries, whilst monitoring the information flow and the material flow separately. The information flow, its steps and related decision-making are important as they help us understand the current state of the material flow. When examining the information flow, we look at orders from their receipt to the invoice issue, and we enter every step made along the way into the process matrix. The matrix should include a timeline, and the individual steps should be recorded within a timeframe. At the same time, we should be constantly asking ourselves the following questions, noting areas to be addressed in the future:

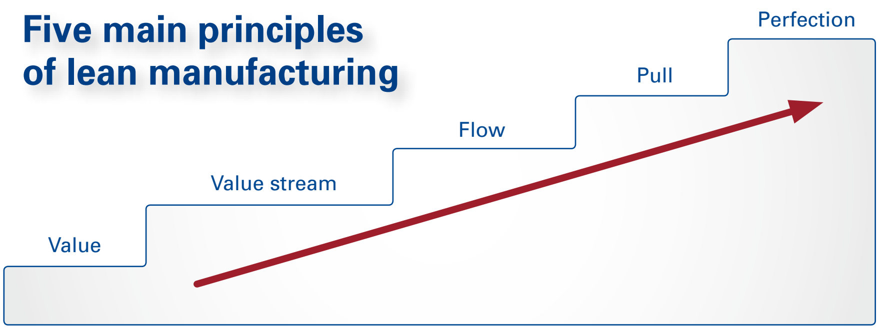
- Has the original ("authentic") customer request been changed in any way?
- How well is the data passed on?
- How efficient is the order and production forecasting system?
- How well is the forecast met?
- To what extent do the production conditions influence sales opportunities?

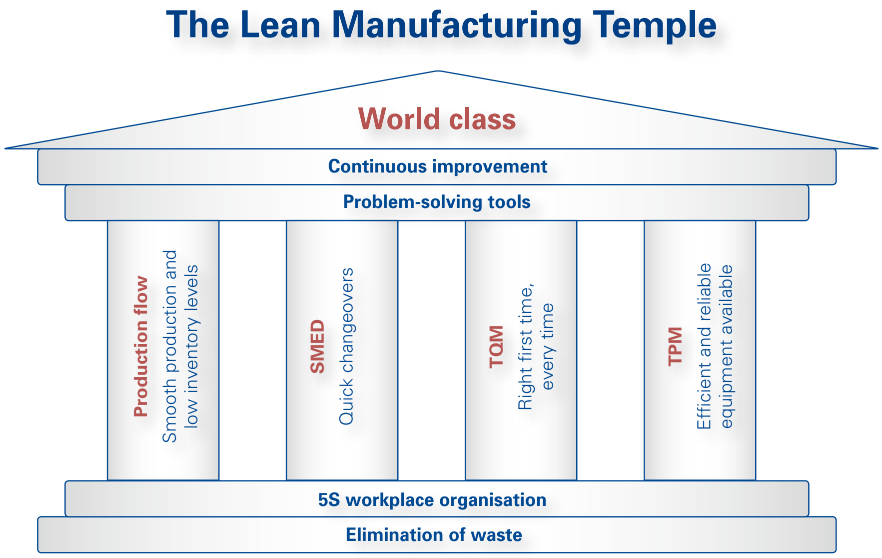
By mapping the material flow, we aim to understand exactly how value is perceived by the customer in terms of quality, costs, deliveries and services. We track the customer's order through production from finish back to start, going through the whole value stream and recording data concerning the individual steps (productive and non-productive cycle times, changeover times, maintenance frequency, number of defects, equipment reliability, batch size, lot size), distances and inventory levels between the individual steps. We note down the occurrence of any of the seven waste categories mentioned above.

Smooth production flow

During the third step, we focus on understanding and creating a production flow. Using a production matrix, we look for product families sharing a common or very similar manufacturing processes and allocate to them equipment, which either is designed specifically for the given value stream or can be shared by multiple streams. We design work cells in a way that ensures that the flow is simple and direct and that only one item, rather than a batch, flows through the production process. As production resources have to be aligned with customer needs, we should design our production system based on the desired lead time. The lead time should be translated into inventory levels, i.e. the maximum amount of inventory, ranging from input materials to the final product, which we can afford to have.

Five main principles of lean manufacturing





We should identify any limiting processes – bottlenecks or obstacles to the flow come usually in the form of production equipment shared by several streams, or very long changeover times. We should try to eliminate these barriers because our main goal is to ensure a smooth flow. We then measure the TAKT time, i.e. the speed at which we need to operate in order to meet the customer requirements. We should distribute the work evenly among workplaces so that each bears roughly the same workload whilst not exceeding the TAKT time.

Production pulled by customer demand

Production schedules should be driven by customer demand. Products should not be manufactured beforehand, but only when they are required. At that point, production should start, ensuring a quick manufacturing process. Tools, such as Kanban or JIT, may be used to achieve this. If a process cannot be fully synchronised (due to different shift arrangements, large distances, low reliability of machinery), supermarkets (buffers with a limited capacity) can be employed and the FIFO (First In, First Out) method can be utilised.

Pursuit of perfection

Pursuit of perfection entails making continuous piecemeal improvements within independent teams. This is facilitated by various tools aimed at:

- quality (checklists, histograms, flow charts, Pareto charts, dot correlation charts, cause-and-effect diagrams),
- maintenance (TPM – Total Preventive Maintenance),
- workplace organisation (5S method),
- problem-solving (Deming PDCA wheel, Six Sigma DMAIC, Eight Disciplines).

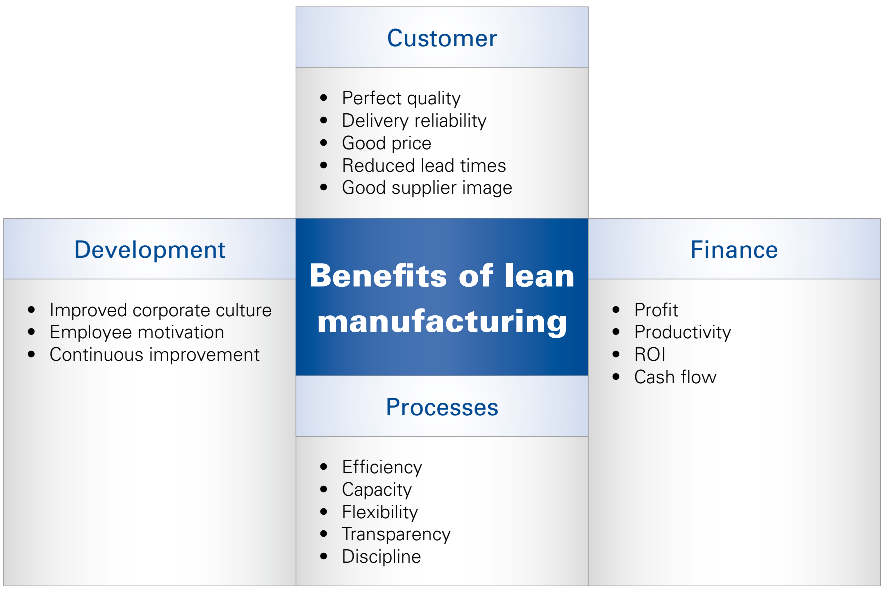
Although the principles of increasing the operational efficiency may seem simple, it is often very difficult to implement them. Companies frequently lack not only the necessary internal capacity, but also specific know-how and experience in adopting these significant process and organisational changes.

Benefits of lean manufacturing

The application of the lean manufacturing principles always highlights problems as it interrupts the process. The Kaizen approach is used to redress the problems as well as to continuously improve a selected area. Lean and Kaizen methods work together. These tools are the building blocks of the Lean Temple, a proven, highly efficient and comprehensive "structure".

Although companies may considerably vary by industry and specific processes, the following results can be observed after the application of the first round of lean projects:

- capacity increased by as much as 50 per cent,
- lead times shortened by approx. 25 per cent,
- distances and production floors reduced by approx. 50 per cent,
- work in progress reduced by 25 to 50 per cent,
- inventory turnover up 10 to 20 per cent,
- headcount reduced by 10 to 20 per cent per process,
- defects per million opportunities (DPMO) down 50 per cent.



Conclusion

The lean production concept can help many manufacturers to improve their efficiency, change their corporate culture and to constantly develop, even when on a tight budget. It brings improvement not only for customers, but also to the financial, process and development spheres. We believe that the energy devoted to this area will be well spent, enabling companies to efficiently weather the current economic downturn. Organisations that have come to understand that "leaner" production is one of the ways to significantly boost operational efficiency will become highly competitive and able to prosper in any phase of the economic cycle.

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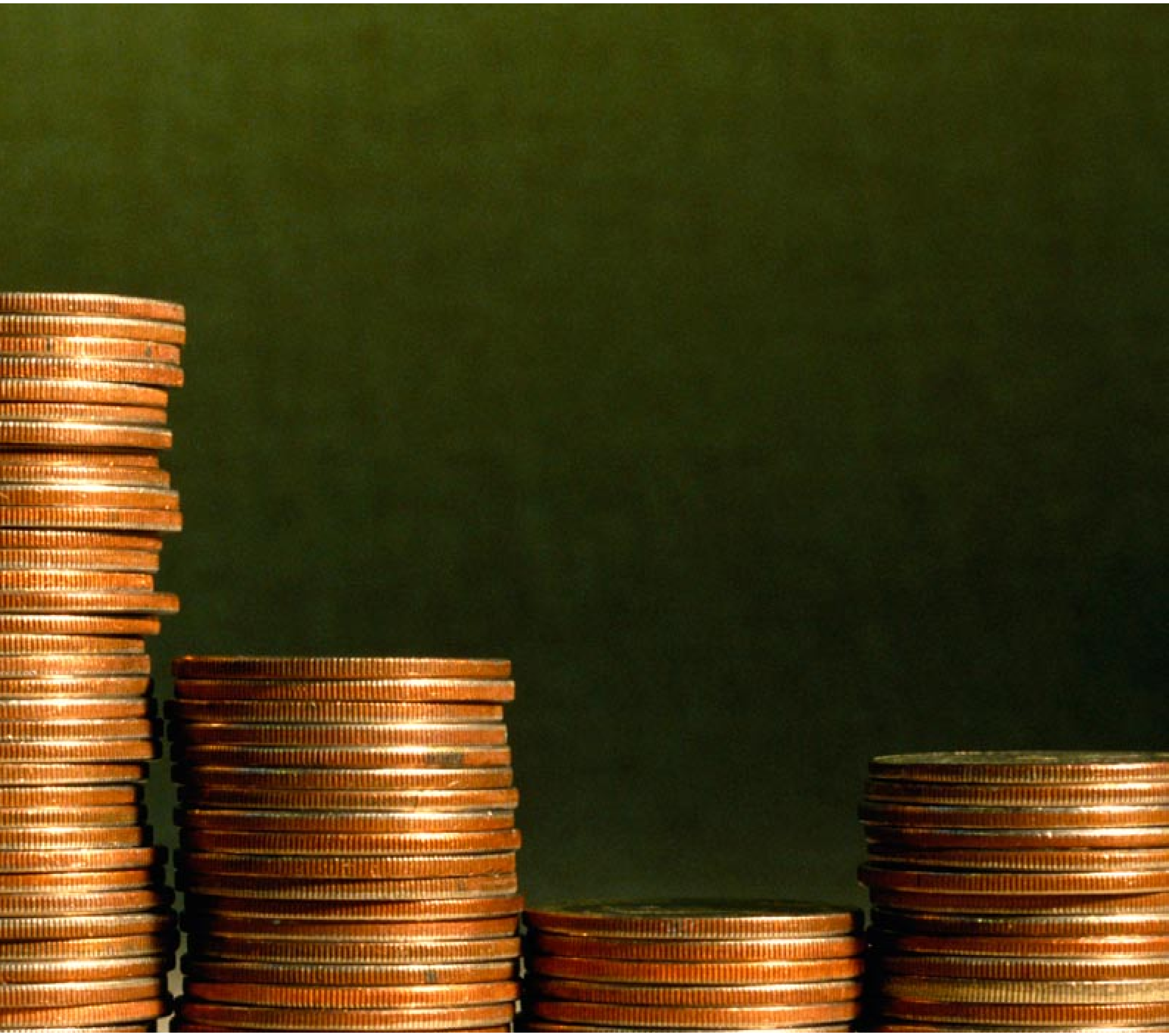
Slashing costs

the opportunity to save on human resources



Dramatic cost cuts that have an immediate impact on financial statements? This is not the mere wishful thinking of top managers under extreme pressure from supervisory boards or parent companies, but rather a result of taking reasonable advantage of the opportunity to realise savings in a key cost area, namely personnel expenses.

During a financial crisis most companies look for opportunities to realise operational, i.e. readily implementable, savings. You do not have to be an advisor to know that such an opportunity should meet at least two conditions. The costs must be of sufficient volume so that the saving is noticeable, and the result must materialise quickly so that the impact on cash flow is immediate.

However, based on our experience, the first condition is often neglected, and companies focus on measures such as "no more biscuits in meeting rooms", which may be a quick and transparent way to save, but does not yield a tangible financial result. Admittedly, large-volume cost areas are more difficult and slower to influence, and changing their structure is more risky. Personnel expenses are one of these areas.

Significant savings that will leave performance unaffected

Most companies meet the first, volume-based, condition. To reduce costs quickly is, however, a tougher challenge. Human resources are one of the most sensitive corporate assets, and making unreasonable changes to them might have a host of negative consequences, such as decreased overall and individual performance, lack of motivation, an increased error rate, fragile customer relations, fraud, departure of key professionals, etc. There is no sense in making savings that lead to lower revenues and higher business risks.

The basic rule of cutting HR costs is to implement methods and procedures which are:

- tested, true and have been used in practice by similar companies (in terms of their size, sector, etc.) – no single method "fits all";
- carried out by individuals with direct experience of reducing personnel expenses – in an area this sensitive, one cannot act on theory or common, albeit managerial, sense;
- based on cross-disciplinary know-how (finance, HR management, business processes), resulting in financial savings in the area of HR whilst maintaining the same level of process performance;
- able to realise savings with an immediate impact on financial statements – the financial and cash flow crisis is NOW.

We apply the following two main approaches when helping our clients address HR savings:

- staffing analysis (HR audit) focusing on a qualified headcount reduction that will maintain (or increase) process performance,
- HR costs reduction not affecting the current headcount.

Staffing analysis

Reflecting the past economic boom and the related tendency to overemploy, the staffing analysis results generated during our projects from the end of 2008 identify the possibility of reducing the headcount by 10 to 30 percent. It should be noted that these are immediately implementable HR savings, not just theoretical calculations.

As part of phases I to III, we combine personnel, process and financial analytical approaches, resulting in an efficient HR staffing model linked to processes and clear financial figures. In phases IV and V, we draw on our knowledge of HR practices adopted by companies (experience of mass layoffs, support programmes for leaving and current employees, etc.), including "soft" factors such as motivation, loyalty and determination.

Therefore, the approach is comprehensive and provides the following key deliverables:

- actual cost savings visible in financial statements,
- preserved or increased business process performance,
- better performing and motivated workforce,
- boosted image of the company as a responsible employer.

Cost reduction, headcount unaffected

Compared to the staffing analysis approach, a cost reduction programme not affecting headcount is a less aggressive method, which may, especially in the case of larger companies, also yield considerable savings. It is suitable primarily for companies that have already undergone a workforce reduction,

I. Objective headcount assessment in view of services provided

II. Proposal for a new personnel structure (in terms of quality and quantity)

III. Quantifying the benefits in the form of a business case (incl. fin. statements)

IV. Action plan for implementing HR measures

V. Hands-on assistance in implementing HR measures, incl. outplacement programmes or which, for various reasons, seek alternative savings opportunities.

The key principle is to curb financial and other remuneration expenses while maintaining the same level of employee motivation and performance. Although this may sound like a utopian fantasy, past KPMG Czech Republic programmes show it can be done.

First of all, it is necessary to identify the financial and non-financial (as well as intangible) remuneration components and evaluate them using a number of criteria, ranging from traditional tools, such as cost analysis and utilisation rate as reported by similar companies (benchmark), to less traditional approaches, such as an ABC analysis of a contribution of each component to employee motivation and performance, a sensitivity analysis of reducing or removing a component, etc.

Secondly, a new model focusing on a selected component has to be developed, ensuring lower cost whilst preventing a drop in motivation. A typical example is the variable pay component, the nature of which changes from across-the-board to strictly performance-related. Many employees will thus earn more and others may increase their remuneration amount depending on e.g. an increase in their departmental revenue. The model is designed to ensure that the total costs are lower (increasing only when turnover or profit increases as well) and that high performance of employees is encouraged.

Last but not least, the change of each component should be accompanied by a communication and motivation campaign. Employee motivation is a 'soft' factor, which tends not to be based on rational aspects. However, simply providing employees with a different perspective on the adopted measures is often the key to success. For example, we were recently helping our client, a company with a turnover of several billion crowns and hundreds of employees, to communicate an unpopular salary-related measure.

The main theme of the campaign was: "At the time of a financial crisis, a stable income is a priority since jobs and salaries are no longer stable, whereas mortgages and repayments continue to be stable". The down-to-earth and open tone of the campaign, supplemented by factsheets, informative meetings with employees, and other tools, helped avert the inherently negative impact of the measure and sustained employee motivation (based on objective measurement).

"Reflecting the past economic boom and the related tendency to overemploy, the staffing analysis results generated during our projects from the end of 2008 identify the possibility of reducing the headcount by 10 to 30 percent. It should be noted that these are immediately implementable HR savings, not just theoretical calculations."

Conclusion

It can be concluded that human resources are very much in the spotlight when looking for opportunities for quick savings. Considering the sensitive nature of this area, cost reductions have to be approached in a professional, methodological and sensitive manner.

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Getting round the financial crisis

using your data

There are many ways of dealing with problems, crises and other unpleasant situations in a company. It would be a waste of time to repeat clichés about greater efficiency and optimising various processes or cost savings. Let's take a look at one approach that a firm can apply to support its growth, using the means it typically has at its disposal. We will look at data or, as the case may be, information.

Why are we focusing on data now?

Why do we have to deal with data at a time when more important issues, such as a firm's very existence or employee numbers, are the issues of the day? Yet it is important precisely because, based on correct reports and forecasts, we can confidently make decisions about the company's future and how many employees it will retain, etc. Indeed, only accurate and up-to-date information is the basis for correct decision-making. Currently, every management meeting starts with a question: "What will the situation be like in a month, in three months, or a year?" How can you answer such questions without up-to-the-minute information about your company's performance, market situation and prospects for the next season?

There is a need for up-to-date, high-quality data, and you have probably been aware of this for months or years. Our experience shows, however, that firms have started actively asking for such information only recently. Acquiring data from external sources is not a major issue – you can "only" buy it from a reputable agency. Obtaining it from internal sources is not a problem either – all you need to do is look through your reports. But can you honestly say that they are reliable?

Recent experience has shown that people in companies are divided into several groups based on their response to the previous question. The first group answers: "Yes, I can. The credibility of my reports is not an issue I have had to deal with." The second group is more sceptical: "I do not trust my reports much, but this is not a serious problem. We have bigger issues to deal with." The third and last group is the most willing to take action: "Our reports are not reliable, and this is such a big problem that we have to something about it – right now."

"Conceptual solutions are not usually effective in the short-term, but short-term steps are not advantageous in the long-term, unless they are seen as part of an overall concept."

Do I/does my process/my department meet my goals or key performance indicators smoothly?	
If not, would I be able to meet my goals better if the supporting information was improved?	
What made the information unsatisfactory, i.e. it was of poor quality, incomplete or unavailable?	
What would happen if these problems were eliminated, and what would be the costs of doing so?	
Do the costs bring real improvement in my business or in terms of meeting regulatory requirements, or are they incurred just to meet legislative requirements?	

Congratulations if you are in the first group! However, you could end up being its sole member or find yourself switching to the other two groups. This has basically been the case in recent years. Why? The answer is simple. Before, business information support primarily focused on the proper operation of information systems and data acquisition. Nobody was concerned about the state (or quality) in which the data is acquired, about whether the data "deteriorates" in information systems over time, or whether it is used properly. Despite this, decisions were made based on such data – for example, on lending money or providing products or services. It soon became clear that not all customers deserve your care and your products, as they are not willing or able to pay for them.

As a result, debt recovery departments and fraud detection sections were established, or existing departments were strengthened. Customer credit rating systems or systems for Revenue Assurance were acquired. However, all of these are only tools which, without proper information, cannot meet the expectations of their users and therefore depend on data, which is a critical factor. Accordingly, companies have recently started to focus on the need to manage data in information systems and to pay attention to data quality, availability, clarity and efficiency.

How do I avoid a dead-end?

There is a time for everything, and a pragmatic approach is currently in favour. It would be unwise to start acting on all advice all at once just because this is a modern trend, because your competitors are doing so (and we can honestly say that they are not doing everything at once but acting only on part of the advice) or you were advised by a consultancy firm to do so. Firstly, not all data needs to be approached immediately, and secondly, data management is a broader field, covering a number of areas and approaches. These days, it is important to seriously consider what an activity brings to a company, either in the short-term or the long-term. Which company targets and processes are critical and whether they need to be improved should also be borne in mind. Taking these factors into account should help you to take the right steps.

What do the results mean? If you find that your data is in such a bad state that improving it or concept management could help and ultimately pay off, then you can roll up your sleeves and get down to work. Did you notice that this test only considers the business point of view? It may seem surprising, but the decision on whether to do something about data should primarily be made by the business department, not the IT department.

What are the specific steps?

Deciding to do something about your data raises a lot of questions. The basic issues are:

- Will we introduce a conceptual solution, short-term steps or both?
- Who will introduce measures to improve data management – the business or IT department?
- What exactly are we managing?

The wise answer is "…a bit of everything", but let's explore the options.

Conceptual versus short-term solution

The decision is clear: conceptual solutions are not usually effective in the short-term, but short-term steps are not advantageous in the long-term, unless they are seen as part of an overall concept. Naturally, the solution is somewhere in between. The ideal solution is to very quickly lay the foundations of the framework, find short-term solutions based on the concept, which will bring an immediate benefit, and adopt a step-by-step approach. The budget for a short-term solution should include a small, additional amount for integrating the short-term step into the overall solution. In data management this involves mostly an internal IT department in cooperation with its suppliers. For the end customer, usually the business department, what is not important is not what the concept solution looks like and how it is developed, but that it exists and is used, as a result of which funds are used effectively.

What does data management focus on?

In practice, there are three areas that you should think about when you want to resolve data management problems:

Company culture, people, business processes (or places where data is usually acquired): It is a fact that acquiring data properly is always cheaper and easier than complicated corrections requiring more human resources and information systems.

Information systems: When gathering data nothing is more dispiriting than a situation where data is acquired correctly but then distorted by the information system.

Existing data: For a number of reasons the existing data is not in the condition required and therefore it is necessary to deal with it on a one-off basis.

What exactly are we managing?

If you decide to manage data in your company, sooner or later you will identify the following areas which should be covered:

- User expectations, their behaviour and access to data, i.e. strategy, policies, KPI, metrics, etc.
- Understanding information or outputs of information systems – all users in a company should understand facts, numbers and reports;
- Data quality – the topic is sufficiently broad and popular;
- How the data is processed in information systems – in the other words – the information systems architecture, data flows between individual components of the IT system and the method of storing and sharing key data.

What are the benefits?

We already have a general idea about why we manage data and when and how to so. In conclusion, here are several practical examples of the specific impacts of data handling on various areas of a company:

- The Federal Emergency Management Agency (FEMA) could have saved more than USD 485 million that were incorrectly paid to the victims of the Katrina and Rita hurricanes due to errors in data and processes, and the inability to identify fraud.
- According to company Gartner, a global telecommunication operator earned approximately USD 800 million through the introduction of a programme aimed at improving the quality of data through both savings and revenues.
- Another Central European bank managed, thanks to better identification of customers in its information systems, to increase the quantity of pre-approved loans by 30 percent and even managed to reduce the risk of unpaid debts by 12 percent.
- Qualified official estimates made by several different Central European banks show that improving the quality of contact data and improving identification of their customers should have a positive effect on the results of marketing campaigns, bringing approximately CZK million 50–80 a year. The banks lose their money mainly due to lost opportunities; to a lesser extent due to direct costs.
- The same banks conclude that a realistically achievable improvement in data quality would have a positive impact of approximately CZK 20 million a year as part of improvement of the enforcement process.
- Another survey shows that financial services companies, insurance companies and telecommunication companies estimate unnecessary expenditure on the operation and development of supporting processes and systems (IT, back-office, etc.) at CZK 90 million a year. These costs were mainly due to the poor quality, unavailability and lack of understanding of the data.

Conclusion

Quality and clear data naturally has a positive influence on or is critically important to the above areas of commerce and marketing, credit risk management and recovery and management of supporting processes. It is equally significant for the management of distribution networks and supplier relations, regulatory reporting and compliance, the controls and financial management of a company, and other areas of risk management and communication with external databases.

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Risk Advisory Services

Preventing the loss of key data

We systematically monitor and evaluate on a worldwide basis security incidents connected with data loss. This article describes the current situation and trends, and looks at how the situation will develop in the near future. It will also describe how to protect sensitive data.

Data loss incidents are increasing in number and significance every year. Such leakages are not only costly but damaging to corporate reputations. The KPMG research KPMG *Data Loss Barometer*[1] focuses on data loss and identifies types of loss, where losses occur, and the impact on victims.

Security incidents as a part of everyday life

Our research showed that the year 2008 was noteworthy. While 200 incidents were recorded from January to June, affecting 20 million people, the number of cases doubled from July to November of that year, and the number of people affected reached 70 million. December 2008 ended with a media report on an incident involving the security of payment cards, relating to US company Heartland. The problem potentially affected the data of up to 100 million card holders.

We could assume that such non-linear development is caused by an emerging crisis that is usually highlighted by the increased activity of internal and external attackers in the security area. The breakdown of incidents also supports this explanation: in the last quarter, the attacks were mainly against data that can be quickly exploited. Despite intensive efforts to secure the data, the number of people affected will, in our opinion, exceed 190 million in 2009.

How big is the data loss problem today?

As members of the public become more aware of identity fraud and threats to their personal information, their concerns grow. Media interest inevitably follows, and as a result reports on security breaches increase. As the reliance and dependency of businesses on technologies increases, new risks, vulnerabilities and threats to data emerge. Data protection thus becomes more diverse and difficult to control.

Incidents of PC theft and hacking are common today. Technical safeguards, such as network security, are essential for guarding against external threats, but internal controls also play an important role. The significance of implementing and adhering to strict internal controls is evidenced by the reported number of internal incidents. In losses reported between 2007 and 2008, 50 per cent were from internal sources and 44 per cent originated from outside the organisation.

Effective risk assessment is essential for identifying the most vulnerable data and the associated internal and external threats to its security. Only by understanding the risks can the correct focus be applied to mitigate them and protect critical data. In addition, to ensure that technical and procedural controls are effective, staff must be fully aware of (and know the importance of) their obligations concerning information security.

"Incidents of PC theft and hacking are common today. Technical safeguards, such as network security, are essential for guarding against external threats, but internal controls also play an important role."

1 Data Loss Barometer 2008 is based solely on publicly known data losses that occurred globally (mainly in the US and UK). Although the cases relate to the period between 2005 and June 2008, the analysis mainly focuses on incidents after January 2007.

The majority of monitored incidents were caused by hackers, loss or theft of removable media or web/network exposure. Hacking is becoming increasingly organised, and incidents connected with it have the most severe impact. Between 2007 and 2008, the activity of hackers potentially affected over 160 million people. Data that is hacked rather than inadvertently lost is most likely to end up in criminal hands.

Where do incidents occur?

Data loss is a major threat in the education and healthcare sectors, where institutions tend to have limited security budgets, making it more difficult to ensure adequate protection. One in every three incidents occurred in one of these sectors. The state sector is also problematic as it accounted for 11 per cent of data loss incidents between 2007 and 2008, which affected relatively large numbers of people. In addition, such agencies attract strong media interest. Given the personal data they store and its importance to the general public, it is essential that government organisations reduce the amount of personal data they keep and ensure that information is stored securely.

Financial services organisations store customer data that is highly valuable to potential attackers. Such firms are often required to comply with strict laws and regulations governing data privacy, but significant lapses show that the industry continues to expose itself to significant risks. An interesting case is the retail services sector, where the number of incidents was relatively low but the number of people affected was the highest in absolute terms. These cases were mostly connected with payment card security.

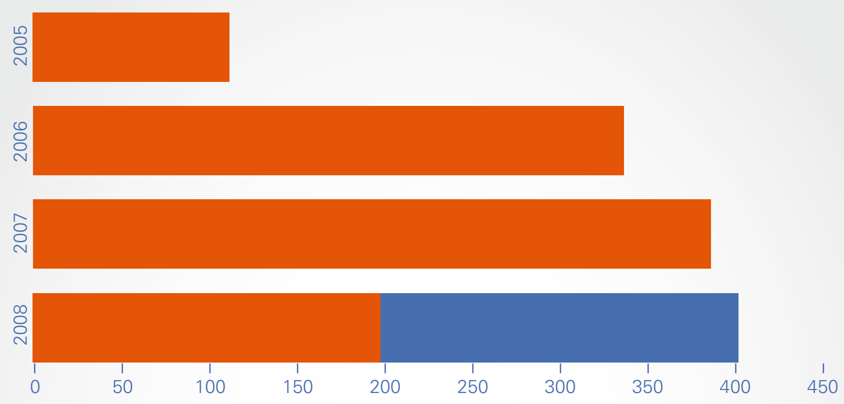
Types of data loss

At 80 per cent, incidents involving the loss of personal details are most common. When lost bank account or card details are combined with other financial information, such as pensions and investment details, we can see that the majority of lost data is finance-related. Between 2007 and 2008, the financial details of 139 million people were wrongly disclosed. Identity fraud is a growing concern, which is costing individuals and businesses millions of pounds each year.

Defence tactics

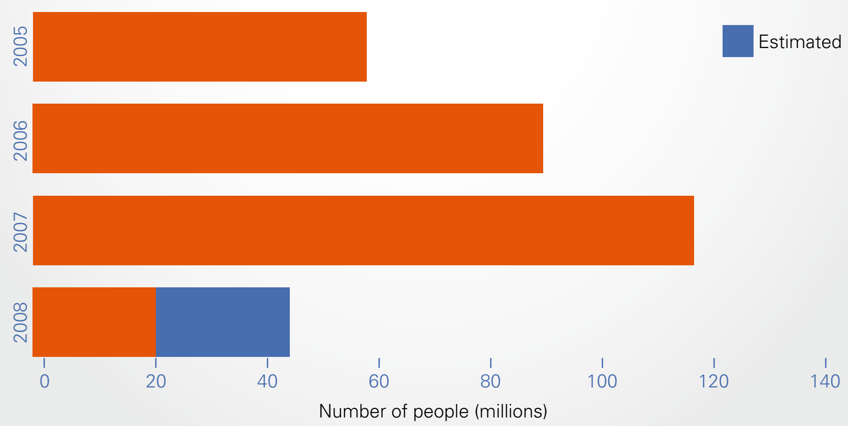
No organisation, regardless of its business sector, is immune to the threat of data leakage, and a growing and widespread reliance on technology suggests that risks are likely to increase in the future. At the moment, tactics focus on prevention, rather than reacting to an incident when it happens.

Data Loss Incidents Vs Year

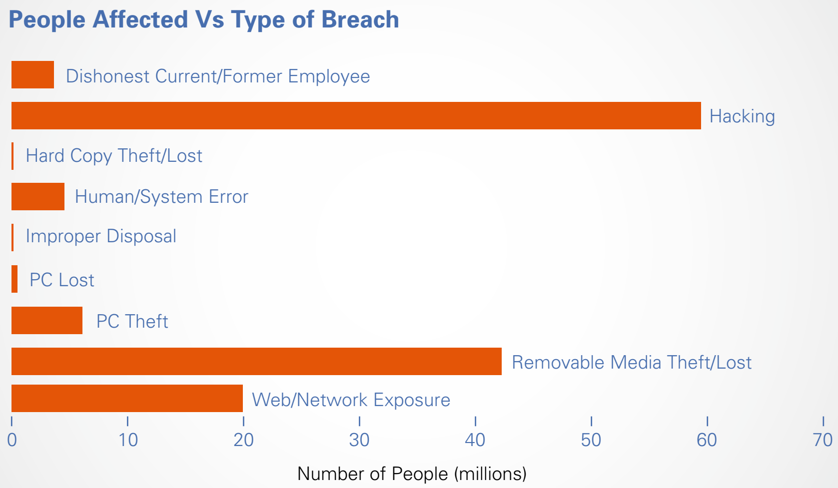


- 1260 data loss cases
- 430 million people potentially affected by data loss
- 25 per cent involving PC theft
- 80 per cent causing loss of personal details
- 51 per cent of losses from an internal source
- 46 per cent of lost data had no protection

People Affected Vs Year



- 80 per cent of incidents result in a loss of personal details
- 69 per cent of incidents result in a loss of government ID numbers
- 77 million people had personal information revealed
- 62 million people had government ID numbers revealed (US)
- 139 million disclosures relate to financial information



- 238 million people potentially affected by data loss since January 2007
- 160 million people potentially affected by hacking
- 42 million people affected by removable media loss
- 62 per cent of all people affected were victims of three incidents
- 6.2 million people affected by PC theft
- 4.6 million people affected by human or system errors
- 3.8 million people affected by dishonest employees

We identify the following four areas as being of key importance in terms of securing data against loss.

Hackers are a persistent danger

Unauthorised access presents a major threat to data protection. The malicious and often organised nature of hacking makes it more likely that the data extracted will be used for criminal and fraudulent purposes. Only consistent risk assessments to identify threats and vulnerabilities, supported by appropriate mitigation, can help protect networks and system resources from hackers. Controls must be continuously monitored and regularly tested so you can have the confidence that they work correctly and continue to meet your needs.

Internal controls are vital

Human or procedural errors account for a significant number of losses. Due to human involvement it almost becomes impossible to eliminate losses – such as a laptop left on a train or a CD that disappears in the post – entirely. Risks of errors are greatly reduced by implementing appropriate and clearly defined procedures for the use and handling of data. Staff needs to understand what is expected of them, using regularly implemented, tested and updated training programmes.

Portable media is highly vulnerable

Mobile devices such as laptops and removable media carry an increased risk of data exposure. To manage the risks, security guidelines must clearly inform all users when, where, how and what data may be transported. They should also define appropriate action if to be taken a portable device is lost or stolen. A lost or stolen device does not necessarily make your information vulnerable. Data protection measures, such as encryption, can prevent your data from falling into the wrong hands.

Correct and fast incident response is key

Reputation is commonly regarded as an organisation's most valuable asset. Loss of reputation means a loss of both customer trust and business. Handled correctly, however, the reputational damage resulting from data loss incidents can be minimised. Security policies must include steps for detecting, escalating and resolving issues and appropriate action to take in the event of an incident, not only in the IT sector but in the company as a whole. This should include providing information about the incident to the public and other parties involved.

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Risk Advisory Services

Finance shared services
– delivering the promise

Over the last fifteen years, finance Shared Services have become an essential part of the finance function for most large European organisations. Having made substantial investments in establishing Shared Service Centres (SSCs), many of them are now looking for ways to maximise the value of their investment and take their SSCs to the next level of performance.

In 2008 KPMG in the UK commissioned CFO Europe Research Services, part of the Economist Group, to conduct research[1] showing that the best performing SSCs are those which have ruthlessly driven process standardisation and formally tracked performance, from business case through continuous improvement and customer satisfaction.

Global businesses will increasingly manage their SSCs as a single globally integrated network, managing processes seamlessly across locations as they continue to move up the finance value chain. Governance will become more complex as operational management extends to outsource providers in addition to traditional 'internal' stakeholders. To succeed in this increasingly complex world businesses and SSC leaders will need to make much greater investments in managing and developing people as talent becomes the next limiting factor for shared services.

Top performing SSCs are distinguished by their senior executive support, providing excellent interaction with the business, driving continuous improvement to service quality and achieving high levels of standardisation. However, despite the increasing popularity of SSCs over the past decade, almost one in five respondents rate the performance of their SSC as "poor" and nearly a third of respondents feel that they have not delivered the promised business benefits. Many organisations have underestimated the scale of change and management effort involved in setting up and maintaining a SSC, with disparate processes brought together in one central location. Those participants with under-performing centres admit to receiving insufficient support from senior management and such neglect can stall momentum. The top-performers, on the other hand, have received the necessary executive sponsorship allowing them to deliver the business case without losing quality.

Key insights from the survey include:

1. Poor processes and lack of standardisation are limiting the benefits case

More than 90 percent of top-performers delivered the business case benefits for their finance SSCs compared with less than 10 percent of under-performers.

1 Finance shared services – Delivering the promise, KPMG in the UK 2008. Based on a survey of 230 senior finance executives from large European organisations, all of which use Shared Service Centres (SSCs).

“Despite the proliferation of European organisations using SSCs, many are struggling to meet their objectives and maintain momentum.“

What’s plaguing the under-performers? They tend to suffer from poor processes combined with a lack of standardisation across their systems. Moreover, processes in general are predominately managed at the local rather than global level or at best regionally – a challenge to the realisation of benefits.

2. Continuous improvement programmes are not fulfilling their potential

Although most of the respondents are running some kind of improvement programme, two thirds of these are achieving annual cost savings of just five percent or less. For many companies, the combination of inadequate processes and a lack of investment in people and technology are restricting efforts to improve performance. Attempts to introduce technology have been limited to activities such as workflow, scanning and optical character recognition, which are unlikely to have a dramatic impact on efficiency. Only a handful of those taking part have committed to more advanced technologies, such as call centres and Customer Relationship Management (for call and skill routing), self service reporting, and electronic trading that can really give their SSC a competitive edge.

3. Most SSCs do not have a strong focus on customer satisfaction

Surprisingly, the majority (59 percent) of those surveyed fail to measure customer satisfaction. Getting regular feedback on service performance and responsiveness is vital if SSCs want to deliver their promised improvements and this is backed up by our findings: those companies that do measure satisfaction have also claimed higher service quality.

4. Top-performing SSCs recognise the potential to move up to higher value processes

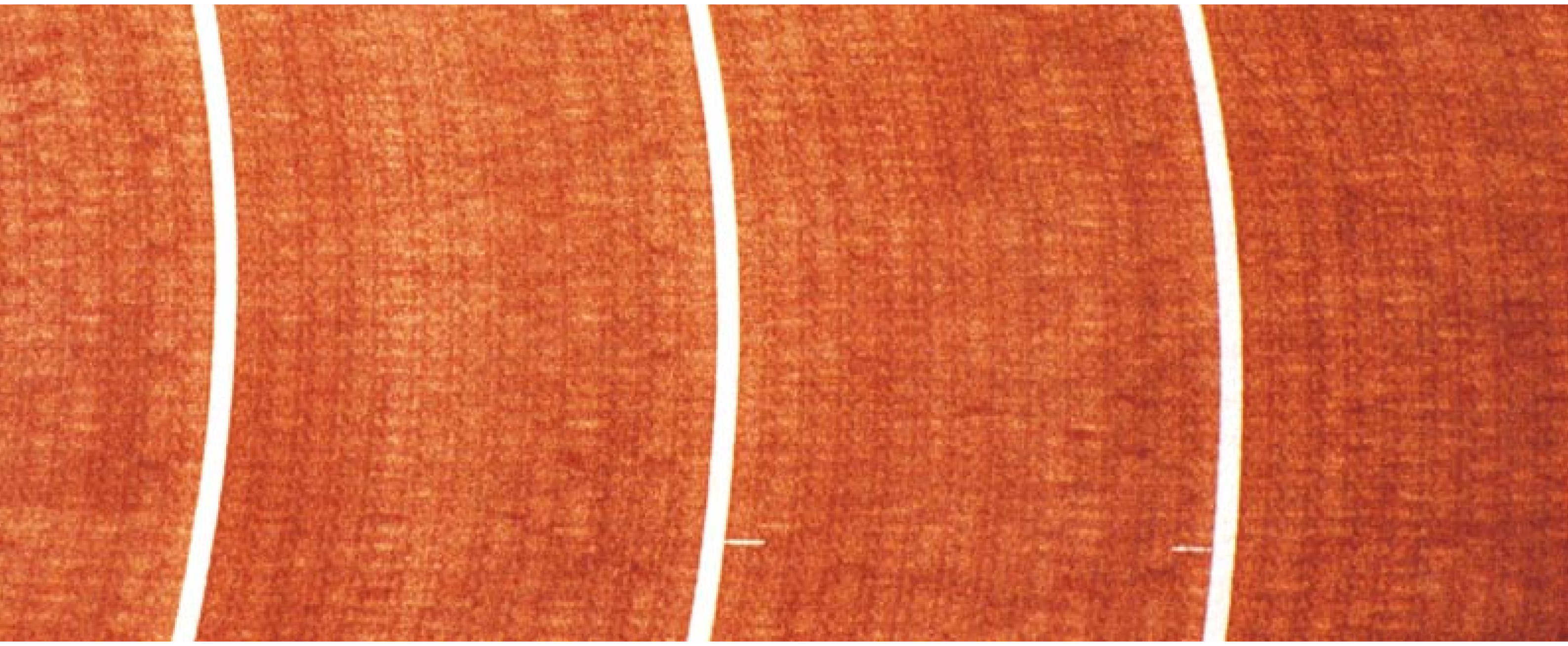
Having enjoyed the benefits of successful shared services, the top performers now have the ambition to take on more complex and sophisticated activities - with 85 percent looking to graduate to higher-value processes such as management information and analysis - and opening the SSC to other back-office functions such as procurement. Such a move will require SSCs to evolve, creating centres of excellence that sit alongside the existing high-volume transaction teams.

5. Start in SSCs suffer from a lack of career opportunities

The career path for those working in finance shared services appears to be limited, with four fifths (81 percent) of all respondents saying that their SSC staff have never worked anywhere else in the business. Such narrow experience can lead to a high turnover of people, as well as making it harder for those in the SSC to build effective relationships across the organisation. Indeed, more than 60 percent of the under-performers in the survey believe that the interaction between the SSC and the rest of the business is poor, which inevitably inhibits the quality of service provided.

Moving forward...

Despite the proliferation of European organisations using SSCs, many are struggling to meet their objectives and maintain momentum. At the same time a harsher economic environment is putting even more pressure on the finance function to reduce costs and provide strategic support to the business. As many of the high-performers will testify, centres are becoming integral to strategy, with no real limits on the range or complexity of services that they can



offer. This is quite a journey from the SSC's earlier incarnation as merely a 'number-crunching' factory. In moving forward, organisations should embrace the following:

- *Maximise scale, standardisation of processes, information and data as far as possible.* This will help ensure that processes are built on a common understanding of good practice across the organisation to maximise efficiency and effectiveness. Common information will deliver faster and more consistent management information.
- *Re-invigorate or introduce continuous improvement programmes.* These must be well led, resourced with trained people and have the right sponsorship to implement change (that may be across functions). Clear plans and a target operating model must be in place to guide these programmes and track their success. A clear on-going understanding of the SSCs customer's perspective is essential.
- *Ensure SSC people are motivated and well trained.* Maximise SSC people's career opportunities by opening roles both inside and outside of the SSC.

And what about those coming late to SSCs?

The current economic downturn is forcing management to seek out cost reduction and efficiency initiatives. For those who have avoided SSCs in the past for a variety of reasons, this is a key opportunity to reduce back office costs. We are seeing an increased number of late arrivals embarking on SSC location analysis in Central and Eastern European (CEE) countries. For several mature CEE locations, the economic conditions are easing previously tight labour markets and the renewed interest in SSCs will be welcome in countries struggling to achieve solid growth for the first time. While the benefits may not be as significant as those realised by the pioneers, there is still the potential to take significant cost out of the business. However, it will be essential to consider the above key insights if savings are to be maximised as quickly as possible.

- Once core processes are working well, begin looking at other areasacross the organisation where the SSC may deliver more value creating, running, growing and optimising. SSCs requires considerable investment and management attention, but as the top-performers will testify, SSCs have the potential to improve efficiency, cut costs and bring real value to the business.

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Risk Advisory Services

The operation of multi-purpose facilities and arenas **could be more efficient**

In our latest study, we describe the provision of multi-purpose facilities, arenas and ice sports facilities in the Czech Republic. One of the first studies in the Czech Republic to focus on this issue, it analyses the current situation regarding the management, operation and efficiency of Czech sports and cultural facilities in terms of practice. It also considers similar facilities abroad.

Sixteen Czech and 20 foreign multi-purpose arenas, ice sports facilities and sports centres were included in the analysis. An important criterion for selecting the Czech cities was whether extra league ice hockey was played in them. The primary focus of the study was whether the facilities were owned/operated by the public or private sector. The study also focused on time allocation and activities emphasised in operating the facilities.

Sports facility owners and managers

The study results showed that the majority (i.e. 14) of the total 16 analysed ice sports facilities and multi-purpose arenas in the Czech Republic are owned by the public sector, i.e. cities or municipalities where the facilities are located. If the facility is publicly owned in most cases it is run by the city/municipal authority. The next most frequent ownership type is the joint-stock company, followed by the limited liability company, public body receiving government support, and civic association.

The operation of multi-purpose arenas and ice sports facilities in the Czech Republic is rather inconsistent and it is therefore very difficult to reach a clear conclusion on how to improve

Facilities in the study				
Name	**City**	**Type**	**Year opened (roofing)**	**Capacity**
O2 Aréna (previously Sazka Arena)	Praha	Multi-purpose arena	2004	16 800
ČEZ Aréna	Ostrava	Multi-purpose arena	1986	9 800
ČEZ Aréna	Pardubice	Multi-purpose arena	1957	8 980
TipSport Aréna	Liberec	Multi-purpose arena	2005	8 200
Tesla Aréna	Praha	Ice sports facility	1962	12 950
ČEZ Aréna	Plzeň	Ice sports facility	1950	8 210
Zimní stadion	Kladno	Ice sports facility	1957	8 000
Zimní stadion Ivana Hlinky	Litvínov	Ice sports facility	1955	7 500
Zimní stadion	Hradec Králové	Ice sports facility	1978	7 500
Hala Rondo	Brno	Ice sports facility	1982	7 450
Zimní stadion Luďka Čejky	Zlín	Ice sports facility	1962	6 970
Zlatopramen Aréna	Ústí nad Labem	Ice sports facility	1958	6 500
Budvar Aréna	České Budějovice	Ice sports facility	1946	6 420
Hostan Aréna	Znojmo	Ice sports facility	1977	5 500
Werk Aréna	Třinec	Ice sports facility	1976	5 200
Zlatopramen Aréna	Mladá Boleslav	Ice sports facility	1956	2 500

the efficiency of the overall operation. If the cities held a public tender for the facilities to be run by commercial operators, efficiency could be raised.

Subsidies

Based on the information gained from research carried out by KPMG Czech Republic, 11 facilities are subsidised by the city/municipality. The average subsidy for 2007 totalled CZK 15 944 300. The lowest amount was approximately CZK nine million; the highest totalled almost CZK 55 million. The sports centres in Prague received the minimum subsidy or no subsidies at all. There is a very specific situation in Třinec, although the situation there results from the overall historical context of the arena ownership.

The city/municipality provides a subsidy to hockey clubs in 87 per cent of the cases. The average annual amount of this subsidy varies, at around CZK 8 332 143. The minimum contribution in 2007/2008 totalled CZK 200 000; the maximum amounted to CZK 32 million.

Relationship of arenas/ ice sports facilities to hockey clubs

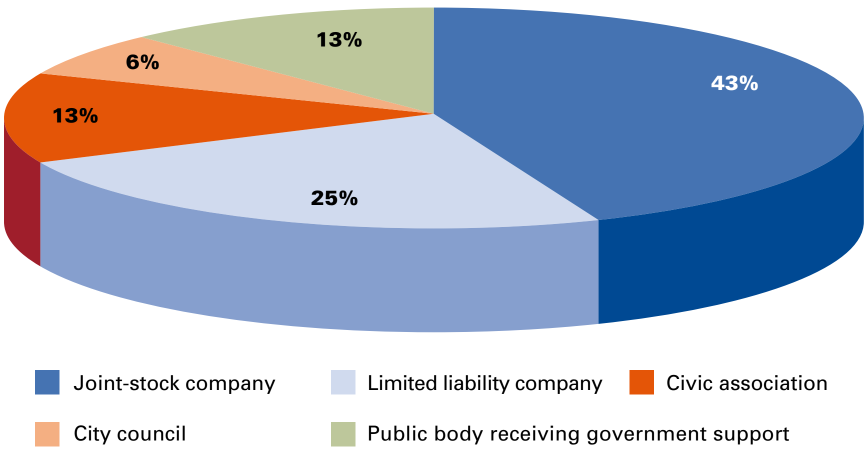
Regarding ice sports facilities, hockey clubs hire the ice rink at an hourly rate. The amount varies, depending whether the rink is used for training sessions or a competition matches. The average rate for leasing the ice rink and spectator areas for competition matches totals CZK 3 313 and CZK 2 358 for training sessions. At the same time, the hockey club pays separately for other leased facilities, such as dressing rooms or offices. There were only two cases where the hockey club leases the whole ice sports facility and therefore operates it. The hourly rate for third-party lease in 2007 was CZK 2 982.

Another option is leasing the ice rink and the other facilities on a lump sum basis, under a long-term lease agreement. The average cost for the period of one year totalled CZK 12.4 million in the 2007/2008 ice hockey season.

"Attendance at extra league and first league matches is not directly proportion to the number of residents of the town in which they are played, and it does not relate to the average salary in the region in question. Attendance and willingness to pay for a ticket depends on two factors – success of the hockey team plus other services offered, and entertainment during the match."

Arena operator company type

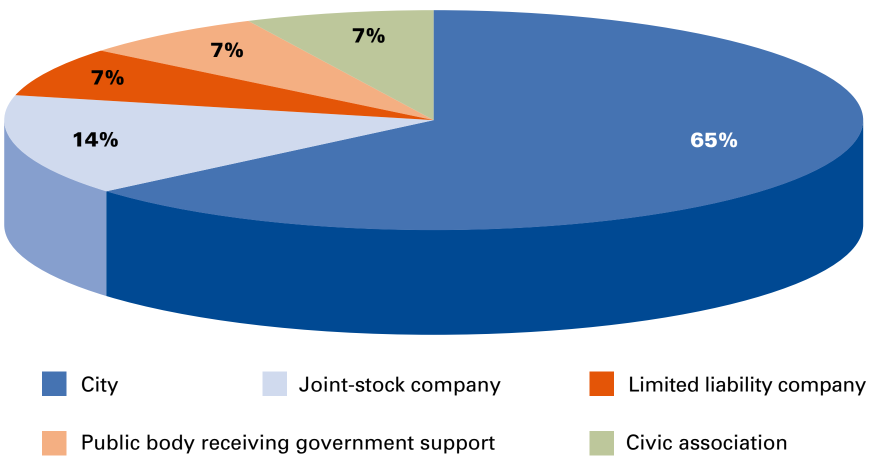
Number of respondents N=16



Ownership type

(if the owner is a municipality – city)

Number of respondents N=14



Attendance and ticket prices

The average price of tickets in 2007/2008 was CZK 124. The analysis has revealed that hockey clubs with the highest ticket price have the highest attendance. In most cases, such arenas were new or had been completely reconstructed and offer additional services and entertainment in addition to ice hockey events. If the visitors receive a quality product for their money and it is sufficiently entertaining and varied, they are willing to pay more for it.

Attendance at extra league and first league matches is not directly proportion to the number of residents of the town in which they are played, and it does not relate to the average salary in the region in question. Attendance and willingness to pay for a ticket depends on two factors – success of the hockey team plus other services offered, and entertainment during the match. This is shown by the example of Pardubice, or the stadium in České Budějovice, where the ticket prices are comparatively high but based on the overall atmosphere and high-level quality of services. The capacity of both halls is therefore used more frequently than average. The hockey clubs that do not accept any subsidies from the public sector should set a higher ticket price, which motivates them towards a greater focus on customers, i.e. spectators.

They therefore have a very elaborate marketing strategy that helps them gain and retain their customers.

If we add up the average value of subsidies for the facility, arena and hockey club operation and admission revenues the amount totals CZK 37.1 million.

Use of facilities and arenas

Out of all 16 monitored facilities, four ice sports facilities focus only on ice hockey and do not use their premises for other commercial events. The other 12 centres use their premises outside the season for cultural and social events. Most of the non-sports events are organised by external suppliers and stadia rarely organise them themselves. The reason why a larger number of non-sports events are not held at the facilities and arenas is that many cities (municipalities) have more suitable facilities for such events. On average, there are less than 20 events per year in the two/three centres that organise commercial events.

Of the sports that make up "efficient time", i.e. when the facility is being used, hockey is the most frequently played in the multi-purpose facilities and ice sports facilities in the Czech Republic, at 38 per cent. In 26 per cent of cases the facility is used for commercial purposes, e.g. for tournaments and "hobby teams". Facilities focus on cultural events only in three per cent of the cases under study. Of the total time resources, more than 70 per cent of the ice area of the arenas is used. The concrete surface is used only rarely. If only the active part of the day is taken into consideration, more than 60 per cent of this area is left unused. Only two per cent of the time relates to sports activities such as in-line hockey.

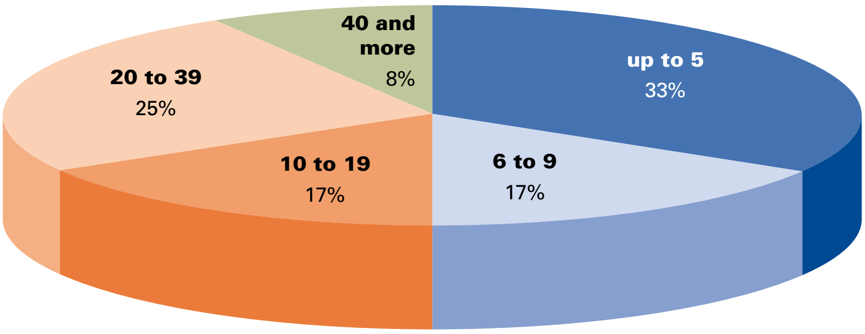
Comparison with other countries

The majority of foreign arenas located in other European countries (Germany, Austria, France or Netherlands) are used differently than arenas and ice sports facilities in the Czech Republic. All of these countries distinguish between facilities where competitions are held and training centres, which is not typical in the Czech Republic. Due to the different focus of ice sports facilities and arenas in other countries, it is almost impossible to compare them with similar facilities in the Czech Republic. The majority of analysed foreign facilities are owned by the public sector, as in the Czech Republic. Unlike the centres in the Czech Republic, 83 per cent of foreign arenas and stadiums have private owners.

From the perspective of operating efficiency and utilisation, the ČEZ arena in Pardubice had the best results according to the study carried out by KPMG Czech Republic. As the operation of multi-purpose arenas and facilities in the Czech Republic varies widely in terms of its basic features, the authors of the study were unable to recommend one way of making the management of multi-purpose centres and arenas generally more efficient. However, the study shows that there is still great room for improvement in all the mentioned facilities regarding efficient use.

Number of non-sports events per year

Number of respondents N=12



Conclusion

Although the facility is publicly owned, a private entity based on the principles of public and private sector partnership appears to be the most suitable facility operator. City councils are not among the entities with the ability to run such a facility rationally and efficiently. They usually do not have the necessary HR and other support (e.g. to ensure provision of business and marketing activities). The fact that the management of the city council changes approximately every four years and the municipalities almost never have the necessary specialists could also pose problems. A private entity that would be chosen by a transparent tender with strict conditions would not conclude disadvantageous agreements e.g. for service outsourcing or leasing facilities. Its focus on most efficient operation would be clear. However, the conditions could be set in a manner that prevents the operator from limiting the public interest and focusing solely on commercial activities.

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Risk Advisory Services

Corporate social responsibility is on the rise and companies are becoming more open

Corporate Social Responsibility (CSR) is one of the factors having an increasing influence on the success of business operations. It is becoming an important indicator of financial and non-financial performance, but it also has a positive impact on increasing shareholder value. Implementing CSR principles in business processes increases competitiveness and the shareholder value of the company, makes business risk management more effective, strengthens image and helps to maintain social consensus, and other performance factors.

The main reasons for the growing interest in CSR in the Czech Republic are ethical and economic factors. In other words, the CSR principle is becoming the key to success in extremely competitive markets. A highly developed CSR programme helps increase employee satisfaction and loyalty, supports relationships with business partners, mainly suppliers, and is often seen as an investment that is valued by the general public. These changes lead to the strengthened position of the company on the financial markets, and increased shareholder value. It is therefore important to involve both the firm's employees and the top management in the CSR programme. The role of top management is indispensable. With their approach and decisions, top managers can influence the behaviour of hundreds or thousands of employees, as well as guide business operations towards sustainable development principles, which should be a key watchword when doing business today.

The most recent KPMG International Survey of Corporate Responsibility Reporting[1] focused on the method used by the world's biggest companies to report on their activities and their behaviour as part of their corporate social responsibility remit. Our analysts used only information available in the public domain, such as websites, corporate responsibility reports and financial reports. They gathered information for more than 50 data points connected with corporate responsibility reporting, its standards, processes and drivers. The research sample included companies in the Global Fortune 250 Group (GF250) and the 100 largest companies by revenue from each of the 22 countries included in the survey.[2]

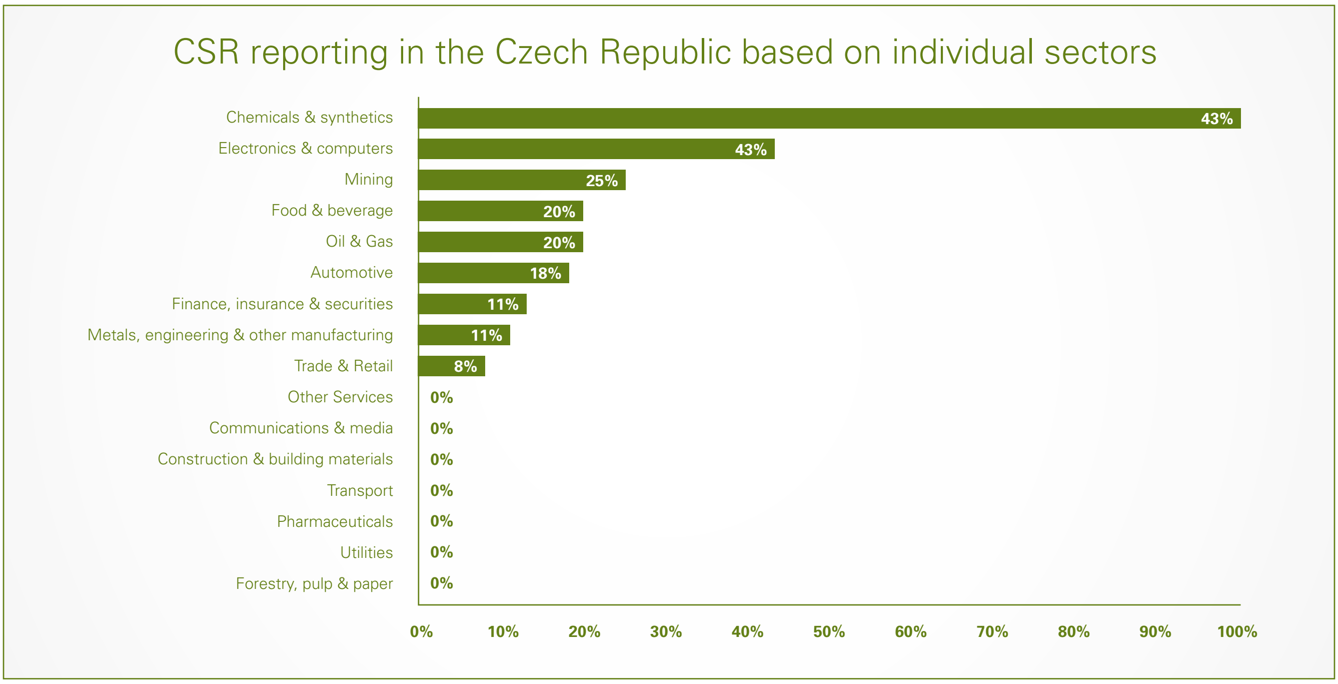
CSR reporting

At present, more than 80 percent of the research sample companies report information relating to CSR in stand-alone reports or as a part of their annual reports. There has been an increase of almost 30 percent since 2005, when the survey was last carried out (from 52 percent to 79 percent). In addition, four percent of companies do not issue a stand-alone report but include the CSR information in their annual reports. Companies which are actively involved in CSR and reporting on it are most often recruited from the financial services sector, heavy industries, and the electronics and automotive industries. However, the numbers may vary significantly according to individual countries. In Mexico or the Czech Republic, for example, fewer than 20 percent of companies issue reports in relation to their activities in the CSR sector. In Japan or Great Britain more than 90 percent of companies do so.

Most firms use either a document in pdf format or a separate website to provide information about their CSR activities. Although 92 percent of the GF250 companies disclose information about their code of conduct and ethics, only 59 percent of them report on non-compliance with the code. Over 90 percent of GF250 firms have their own supply chain code of conduct, but only half disclose details of how it is implemented or monitored. Ethical and economic considerations, brand recognition and innovations are some of the most important drivers for CSR reporting. The biggest growth was recorded in innovations and impact on brand; in contrast, risk management dropped by more than 12 percent in comparison with the 2005 figures.

Formal assurance

The number of companies which have their CSR information and data formally assured increased significantly, from 30 percent in 2005 to 40 percent of the GF 250 companies today. Large accounting and audit companies have the largest share of the assurance market. The two most important reasons for data



assurance mentioned by the companies in the survey are improvement of the quality of reported information and reinforcement of credibility among the key persons involved. The survey also showed that the standards for CSR management are used more frequently, and ISO 14001 is still by far the most widely used system. More than 70 percent of the firms comply with the Global Reporting Initiative (GRI), which is the most frequently used reporting standard.

Situation in the Czech Republic

Although it may seem that corporate responsibility issues have not been a priority for companies in the Czech Republic, awareness of the importance of corporate responsibility and real interest in its implementation in business processes are growing. Heavy industries, financial service companies and electronics firms are in the lead. Reporting on the environmental or social impacts of a company's business activities is not a statutory requirement in the Czech Republic.

The main reasons for CSR reporting are a company's effort to set itself apart from its competitors and to create a credible and positive image of the company in the eyes of the public and its business partners. Sixty seven percent of companies in the Czech Republic do not provide information about their CSR activities at all; neither in stand-alone annual reports, nor as a part of annual reports. Firms that officially report on these issues often do so in a separate section of their annual report. On the whole, 14 percent of companies issue a corporate responsibility report, of which almost 30 percent include formally assured data in their CSR reports.

[1] KPMG International Survey of Corporate Responsibility Reporting 2008, in: http://www.kpmg.cz/czech/images/but/2008_Corporate-responsibility-survey.pdf

[2] 22 member firms of the worldwide KPMG network participated in this survey – Australia, Brazil, Canada, Czech Republic, Denmark, Finland, France, Hungary, Italy, Japan, Mexico, Norway, Portugal, Romania, South Africa, Southern Korea, Spain, Sweden, Switzerland, the Netherlands, Great Britain and USA.

Conclusion

A company that implements CSR principles becomes a responsible partner in the sustainable development sector of all key interest groups in the business environment. It is able to assert this responsibility by means of annual standardised reporting. Companies are moving to the more strategic approach to management and reporting of CSR data. In a number of them business management and CSR reporting are fully interconnected, and CSR is completely integrated into the firm-wide strategy.

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The way forward for a trading company

What is happening in the market?	The way forward
Consumer demand is falling.	Find additional means to encourage and maintain demand.
Pressure to cut costs is mounting.	Search for savings and strengthen cash flow.
Orders are falling and revenue is decreasing.	Optimise working capital and apply lean management methods.
Organising delivery, transport and logistics systems is becoming increasingly demanding.	Focus on the supplier chain.
Property management is a significant cost item.	But there are also hidden savings in property management.
Quality data is a key competitive advantage.	Systems and data must be effectively secured, used and managed.
Personnel costs do not correspond to sales.	Reduce the headcount or HR costs.

The way forward with the professionals from KPMG Czech Republic

AUDIT ▪ TAX ▪ ADVISORY

KPMG

What is happening in the market?

The way forward

Falling consumer demand

- A drop in demand, particularly for non-essential goods, is expected;
- Retailers will invest to encourage and maintain demand, and will take special measures to boost sales;
- Pressure will continue for supplier bonuses and discounts;
- New sales methods will be introduced;
- The promotion of card systems, vouchers and other activities to boost loyalty will continue.

How we can help you:

- We can assess from the VAT perspective the tax aspects of marketing and other activities. We also consider the VAT impact of provided and received bonuses and discounts;
- Analysis of opportunities to save VAT on vouchers and discount cards.

Mounting pressure to reduce costs

- Functions are being integrated, and services such as loan provision and the centralisation of financial activities are being provided as part of the activities of business groups;
- Pressure on cash flow is increasing;
- Companies are looking for ways to save human resources and other costs;
- Managerial reporting is becoming increasingly demanding.

How we can help you:

- We can verify whether low capitalisation conditions have been met. We can also verify risks in relation to tax deductions for royalties;
- We analyse existing standards, and opportunities to make savings relating to shortages and losses;
- We offer corporate management services to increase business performance (cost management, strategic evaluation, corporate governance, improving processes).

Organising delivery, transport and logistics systems is becoming increasingly demanding.

- Goods deliveries are being globalised and optimised;
- The customs and tax issues relating to transport and logistics are becoming more complex.

How we can help you:

- We offer advisory services in the area of supply chain management;
- For imports, our advisory services can be linked to customs/VAT optimisation.

Property management is a significant cost item.

- Repairs, maintenance and property leasing are significant cost items;
- This area offers an opportunity to strengthen cash flow through sale and leaseback.

How we can help you:

- Optimisation of tax write-offs and evaluation of contracts relating to property management, including sale and leaseback, from the tax perspective.

Quality data is a key competitive advantage.

- Demand is increasing for effective security and efficient use of data in internal information systems;
- In terms of internal management processes, the optimum structure, accessibility and reliability of data is necessary for successful management.

How we can help you:

- We can assist you in ensuring the accuracy and integrity of data, and the availability of information systems;
- We provide information technology management services;
- We also evaluate the efficiency of your information technology management services and data migration;
- We audit the security of operating systems, databases, networks and EDI.

Orders are falling, revenue is falling and cash flow is threatened.

- Fewer clients, falling orders and an overall reduction in planned orders lead to a rapid fall in revenues, directly threatening cash flow. This can be addressed through short-term loans and overdrafts – but these options are expensive and inefficient. An alternative is to slash costs quickly, but doing so can also bring significant operational risks.

How we can help you:

- We apply "working capital optimisation", specifically designed for times of financial crisis;
- This involves the swift, standardised analysis of working capital, identifying areas for improvement, including a calculation of the financial benefits, and applying measures in selected areas (liabilities, inventory, receivables and processes).

Personnel costs do not correspond to sales.

- Inefficiency in relation to human resources is particularly visible when sales fall and overall personnel costs become a major burden on operating expenditure.

How we can help you:

- We can suggest a range of methods for reducing the headcount or reducing personnel costs, while keeping the same number of employees;
- All the procedures have been tried and tested by a number of clients and enable the reduction of personnel costs, while ensuring the full effectiveness of related processes.

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If you would like to obtain more information concerning these services, please contact our professionals or visit our website at: **www.kpmg.cz**.

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