Forming Financial backups through Intelligence Systems

Prof. Dr. Hussain Ali Bekhet
Graduate Business School
College of Graduate Studies
Universiti Tenaga Nasional, Malaysia
profhussain@uniten.edu.my, drbekhet1953@@hotmail.com

International Conference on Business Intelligence and Knowledge Economy

Al Zaytoonah University of Jordan, Faculty of Economics and Administrative Sciences
23-26 (April 2012)
Amman Jordan
Abstract:
Financial intelligence is often regarded as a hedge against economic crises. Evidence of this can be seen from the perspective of the world financial crisis of the year 2010 which alerted the world of the risks involved in NOT regarding financial intelligence as an invaluable business asset. Major global organizations have succeeded to escape the dangers and miseries of the world financial crisis only because they used a set of financial intelligence systems in the form of knowledge, skills, and best business practices. The current research aims at showing how financial intelligence can enable leading organizations to improve their financial results, increase employee morale, and reduce employee turnover. It is apparent that although financial intelligence is concerned with financial issues, it is nevertheless an excellent tool that ensures the survival and growth of organizations, when such organizations build in such intelligence in other organizational functions, and culture. The paper shows that an effective financial intelligence system will enable the organization to comprehend its financial achievements within the framework of the big picture. In this sense, this kind of system, which is used by leading world organizations, is viewed as tool for improvement, as it is actually geared to making each employee capable of understanding and appreciating the role that financial intelligence plays in making sound decisions at all organizational levels. Efforts are being exerted by leading enterprises to ensure everyone in the company is financially intelligent.

Keywords: Financial intelligence; business intelligence; financial crisis; decision-making; intelligence systems.

Introduction:
Financial intelligence systems are built around the knowledge and skills gained from understanding finance and accounting principles in the business world. Although a fairly new term, financial intelligence has its roots in organizational development research (Lawler, 1985). Indeed, financial intelligence has emerged as a best business practice and core competency in many organisations. This practice has led to tremendous improvements in the financial performance of the organisations that have been able to employ it in their operations (Lawler, 1986). The objective of this descriptive research is to show how financial intelligence has enabled leading organisations to improve their financial results, increase employee moral and reduce employee turnover. The paper will show that financial intelligence has its roots mostly in the field of employee participation and empowerment. Therefore, the current study advocates the notion that financial intelligence is not an innate skill; rather it is a learned set of skills that can be developed at all levels. As such, the study will review cases where financial intelligence systems have contributed to the survival and growth of organizations in the fiercest situations of competition, and to show how financial intelligence assumes an added value and extra power of transformation when integrated with other organisational functions, and cultures.

Domains of the study:
The current study covers a number of domains, namely;
1. All financial departments in large and small organizations that value the process of learning in competitive and turbulent environments.
2. All financial institutions, including central banks that view the concept of intelligence as an ethical and legal right to protect people and nation’s wealth.
3. All virtual organisations that depend on their intelligence system to remain competitive in a world that is both “invisible” and “scary”.

From the domains of the study as expressed above, it becomes evidently clear that financial intelligence is a tool needed by all types of organisations, and that its advantages and fruits are shared by all stakeholders (i.e. organisations, customers, suppliers, society, etc, etc.).

Financial Intelligence (FI) Defined:
There are numerous definitions for financial intelligence, although these definitions do not differ from each other. Bermah (1997) presents a number of definitions as follows:
- A systematic tool that makes available to decision makers knowledge that aids in the decision-making process.
- A safeguard against ill and dubious practices.
- A source of financial know-how you need to assess the health and potential of your company, identify and steer around common financial bubbles, and improve business overall performance.
- A powerful input that impacts a state of certainly in the fabrics of firm’s departments.
A salvation tool that helps organizations plan a head relying on the power of truthful intelligence that is financially valid.
A training tool that enables enterprises to build a stable and powerful financial staff.
A bird’s eye review of these various definitions reveals that financial intelligence is all of the followings:
- A financial auditing tool.
- A management auditing tool.
- An accounting auditing tool.
- A planning tool.
- Knowledge and information device.
- Attaining tool.
- A sound decision-making tool.
- An instrument for organization’s growth and survival if properly implemented.
- Best business practice.

Mechanisms of financial intelligence:
According to Delezalek (2006), the mechanisms of financial intelligence can be summarized as follows:
- The scrutinizing of a large volume of transactional data, usually provided by banks as part of regulatory requirements.
- The investigation of transactions made by certain individuals or entities.
- The control of the financial sector by the government, the central banks, etc.
- Controlling the world financial scene by leading organizations such as the IMF, World Bank, etc.
- Using data mining or data matching techniques to identify persons/organisations potentially engaged in a particular activity.

In this respect, it seems quite evident that financial intelligence outlines finance for managers to give them the knowledge and power required to make solid business decisions, critically evaluate options, and create a strong balanced organization (http://www.business-literacy.com/)

Financial intelligence in organizations:
Many companies throughout the world consider financial intelligence a core competency or best practice. These enterprises are involved in the “goods” as well as the “services” sectors of their respective economies. For example, several universities, including Harvard business school, Wharton and Stanford have special programmes targeted at the corporate world, mostly at the leadership level, to increase financial intelligence in organisations, including classroom training, webinar training, and business simulations (http://www.marshall.usc.edu/ceo/).

Proponents of financial intelligence in organizations believe that employees, managers and leaders understand financial information and how financial success is measured; they will take decisions and take actions based on an understanding of the financial impact of those decisions. If everyone knows the financial goal of the company, for example, or knows how to make decisions that support those financial goals, then the company is going to be more financially successful (Dolezalek, 2006).

According to a report published by the South Africa Financial Intelligence Centre (2009), competency in financial intelligence requires the followings:
- Understanding the foundation, such as income statement, balance sheet, cash flow statement, differences between profit and cash, why the balance sheet balance, and so on.
- Understanding the art. It should be stated that finance and accounting are an art as well as a science. The two disciplines must try to quantify what can’t always be quantified, and so must rely on rules, estimates, and assumptions. Also, there should be the ability to turn down figures into shining results
- Understanding analysis, such as using information to analyse the numbers in greater depth. The professionals often use analysis to inform their decisions, and make better decisions. Furthermore, analysis requires tremendous skills.
- Understanding the big picture. As numbers can’t and don’t tell the whole story, results must always be understood in context-that is within the framework of the big picture. Factors such as the economy, the competitive environment, regulations, changing customers’ needs and expectations, and new technologies all affect how numbers are interpreted and what decisions should be made.
Impact FI on business performance:

Business performance is a wide term used to refer to the influence of input on output (Brocke & Rosemann, 2010). The impact of FI on business performance was studied by Boston Consulting Group (BCG) in 2010, which evaluated the impact of FI on the performance of 3010 SMES as well as large organisations in different sectors. Major findings are as follows (BCG, 2010):

1. Noticeable improvement in the performance of sales force (20-38% improvement in sales).
2. Noticeable reduction in human resource (HR) expenditure (almost $20 billion were saved due to the empowerment of staff).
3. 36-65% reduction in marketing expenditure.
4. Much lower labour turnover (a reduction by almost 65%).
5. Better long-term planning, implementation and control.
7. Less monitoring and fellow-up efforts, and hence less expenditure.

Conclusion:

Greater financial intelligence, not only focuses everyone on how to contribute to the company’s financial success, it also helps people feel more involved and committed to their organization and their work. Financially intelligent managers are able to read financial results, analyse business decisions, and identifying artful aspects of finance.

Financial intelligence doesn’t stop with book learning. Like most disciplines and skill sets, finance for managers must be practiced and applied in the real world. This is necessary if one is to be able to reap the fruits of effective financial intelligence. Indeed, financial intelligence is the gathering of information about the financial affairs of entities of interest, to understand their nature and capabilities, and predict their intentions. Efforts are often exerted by leading organisations to ensure everyone in the company is financially intelligent.

References:


