Models, Methods, Engineering of Competitive Intelligence

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What are we discussing?

Figures and numbers in and out.

A reverse engineering approach to financial information.

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Key words:

Financial analysis, financial information, financial communication, finance intelligence, semantic analysis, cognitive mapping, analysis paralysis, intelligence analysis, ontology, corporate culture, corporate mindset, semantic indexing, deciphered data
Selon une étude scientifique récente*, 4 Français sur 3 ont des problèmes avec les fractions.

* [www.factstats.com](http://www.factstats.com) (consulté le 27 octobre 2009)
Finance intelligence is a field which is often described as being one of unknown or undefined practices. People often confused it with actions based on ciphered or unpublished data. In order to explain the concept several key ideas are discussed here.
Listed companies have to report and disclose their activity primarily to investors and security market regulators.

Even though the same accounting system is not used worldwide, there are basically two major accounting and finance standards providers. IASB for IFRS standards and FASB for US GAAP standards.
Generally speaking, the midterm objective of issuers is to reach a convergence of standards within a 10 years period in order to get a single worldwide framework.
The concept

The structure of financial information follows a single pattern in which the reader will find key figures for the past and current situation and an activity forecast for the coming 3 to 5 years.
There are pros and cons to using a single framework of reference.

The pros are numerous and among them are:

- Understandability
- Reliability
- Comparability
An annual report is a publication that public corporations must provide to shareholders to describe their operations and financial conditions.

A 10k report is a comprehensive summary report of a company's performance that must be submitted annually to the SEC. It contains more details than the annual report (company history, organizational structure, financial data).

Quite often the two types of reports are confused and lead to incorrect interpretation.
Limits

Standardizing information reporting is a tremendous progress. On the one hand it gives a uniform structure to the reader for better understanding, but on the other hand it gives information ready to be processed and analyzed immediately and automatically by intelligent robots.
Some examples

In the past it was difficult to compare an operating income from a German company with one from a Spanish company.

Research and Development costs were not always recorded in the same way. Costs could have been capitalized or expensed giving a misleading picture of the company’s growth policy.
Example (2)

Goodwill, which measures the price a company overpaid in order to acquire another one, is a great indicator of picturing future strategy.

Unfortunately, once again depending on GAAP choice, goodwill was not recorded coherently.

The biased understanding generated inappropriate comments and a distorted perception of the company.
To get a clear picture of a given situation, you need to have a pretty solid methodology.

The current information system is potentially biased.

The idea is to think out the box.
The three stage hybrid model

Stage one: technical approach

Stage two: semantic approach

Stage three: conjunction of figures and words
The model - Stage one

Technical approach

- Identifying cosmetically driven/displayed cash flows
- Identifying sources of wealth creation
- Spotting abnormal items
- Computing asymmetrical sources of cash
- Identifying the long term and solid financial feeders of the company
- Eliminating noise from financial statements
- Focusing on recurring cash sources unaltered

Finally redesigning the “true” financial statements of the entity
Stages and process of building a Finance Intelligence score board.

This is the first stage to building a corporate mapping.

10K report

- Noise free data
- Adjusted figures

- cosmetics
  - wealth creation
  - abnormal items
  - solid feeders
  - recurring cash sources

Ratio analysis
structure analysis
benchmarking
Semantic approach

The semantic analysis system consists of tracking variable and function declarations. It is a structured process of relating words, sentences, paragraphs to a specific environment.

Semantic structure analysis is used for representing the logical connections and relationships between words.
Tracking variable and function declarations

Semantic analysis system

Executive declaration → Semantic analysis → Context semantic database

Operating income
Sub primes
EPS
Debt ratios
Monkey currency

Deciphered data
The model - Stage three

Conjunction of figures and words

This stage represents the analysis of the group based on a blended application using hybrid parameters.

Thanks to the multi dimensional analysis, the investigated areas are not biased by misinterpretations or implicit declarations.
Thinking out of the box

To see differently,

Figures and numbers in and out or up-side down?
Warning

Companies with a negative income have to be carefully investigated

Companies with a huge positive income too

If you can’t measure it, don’t do it.
Whatever the situation

If it is a strategic project

You will always have a flow of money

- Defensive strategy: tracking foreign investments

- Offensive strategy: sovereign funds …
Les valeurs se divulguent aisément

But keep in mind that:

Pour évaluer une situation, elle doit être lisible

Pour être lisible, il faut être visible
How do we achieve it?

Finance Intelligence is, above all, a matter of corporate culture. Educating people in that direction is a major issue for companies and countries.
CONCLUSION

Numbers can be viewed as quantities but numbers can also be interpreted as indicators of performance and strategy.

Words can be viewed as items of sentences or an indirect expression of an expected future situation.

In fact, conjunction of figures and words provides a deciphered picture of the company business.
If you think education is expensive, try ignorance

That’s all Folks

Remerciements et réponses à vos interrogations

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