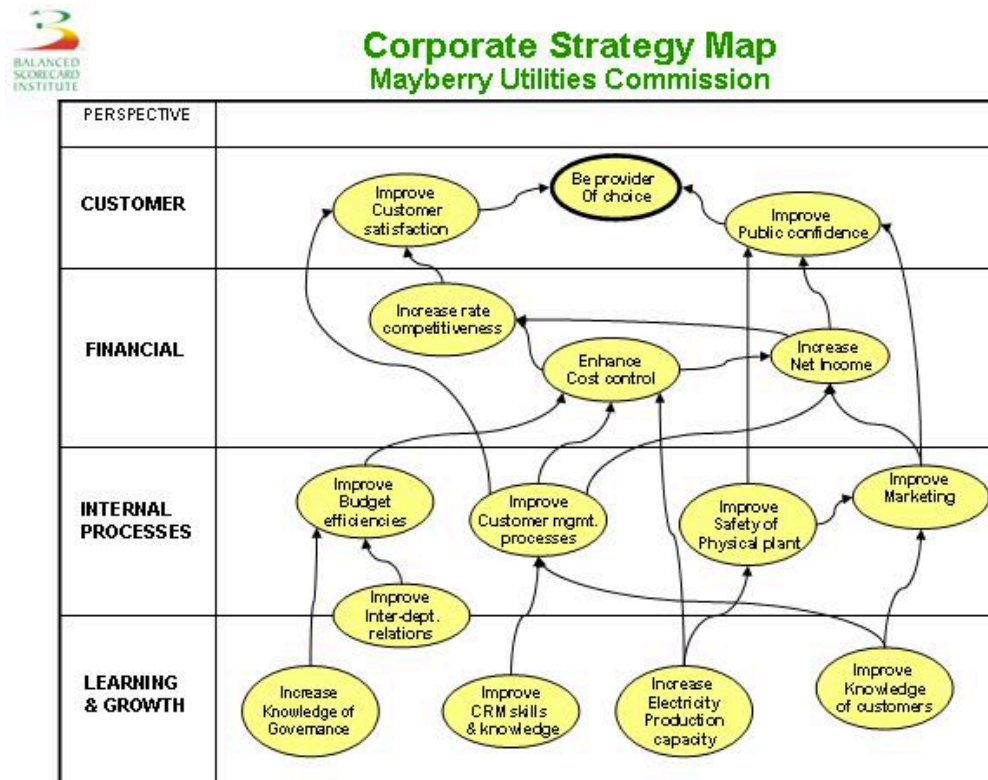

Corporate Strategy and its Use in Solving Issues in the Accounting Field of the Financial Services Industry

KPMG

This report was written and presented by Lisa Clark to meet the requirements of the Sally McDonald Barksdale Honors College at the University of Mississippi on April 16th, 2014.

Explain the concept of corporate strategy. Identify strategy models and include a full description and a cost/benefit analysis of each model. Which models work best for which industries, for-profit versus not-for-profit enterprises, and the optimal strategy per life cycle stage of the entity?

All companies have a corporate strategy, whether formally publicized or not. Their strategy is defined by the choices they make. A strategy is a plan of action designed to achieve a specific goal. Strategy is about gaining an advantage over competition or best exploiting emerging opportunities. Because of the forward-looking nature of strategies, there is always an element of uncertainty about the future; strategy is about determining and prioritizing a set of options rather than creating a fixed plan. Yet many of the corporate strategies in place today were built on the requirements of the past: on a world of closed national economies, not open global markets¹. Five common types of corporate strategies include growth, consolidation, global, cooperative, and e-business strategies. The following image is an example of a corporation’s strategy:



¹ Ducoff, Nick. "What Is a Strategy?" *Boundless*. TED, n.d. Web. 07 Apr. 2014. <<https://www.boundless.com/management/strategic-management/strategic-management/what-is-a-strategy/>>.

Growth Strategy

Strategic growth platforms are generally long-term initiatives lasting from three to six years and are implemented to fuel revenue and earnings growth. Examples of common growth strategic platforms include pursuing new product areas or entering into new product channels. There are numerous ways a company can achieve the goal of growth. If a company is profitable in pursuing the new products or new markets (greater sales volume), it has achieved diversification. A *Market Development Strategy* details the plans of a corporation expanding into new potential markets while *New Product Development* (NPD) is the overall process of bringing a new product into the market. *Horizontal Integration* occurs when a firm is being acquired by, or merged with, another company in the same industry and in the same stage of production. The goal of *Horizontal Integration* is to consolidate similar companies and dominate an industry. *Vertically Integrated* companies in a supply chain are united because of a common owner. Each member of the supply chain produces a different product or service, which combine to satisfy a common need and goal².

A growth strategy would be beneficial for public and privately-held companies, and has often been used in privately-held companies to reach a size in which they decide it is appropriate to go public. Growth strategies are used industry-wide, especially at times when the industry is booming. Growth strategies are most often used in the introduction and expansion stages of a company's life cycle.

Consolidation Strategy

A consolidation strategy refers to the merger and acquisition of smaller companies into larger ones for economic benefit. When consolidation occurs and two companies combine into a new entity, neither of the previous companies survives independently. Mergers and acquisitions, an aspect of corporate strategy, deal with the buying, selling, dividing and combining of companies which provide benefits that can help a

² Ducoff, Nick. "Growth Strategy." *Boundless*. TED, n.d. Web. 07 Apr. 2014. <<https://www.boundless.com/management/strategic-management/common-types-of-corporate-strategies/growth-strategy/>>.

corporation grow rapidly in its sector and improve financial performance. However, studies show that on average, mergers and acquisitions do not improve financial performance³.

Global Strategy

A global strategy is incorporated in industries where firms are faced with strong pressures for cost reduction but with weak pressures for local responsiveness (involvement in the community) . Globalization allows these firms to sell a standardized product worldwide. Global strategies require firms to tightly coordinate their product and pricing strategies across international markets and locations; therefore, firms that pursue a global strategy are typically highly centralized. Fixed costs (capital equipment), depending on the industry, can be substantial. Nevertheless, these firms are able to take advantage economies of scale and experience curve effects (exponential results on profit), because they are able to mass-produce a standard product that can be exported (providing that demand is greater than or justifies the costs involved). International business includes all commercial transactions (private sales, investments, logistics, and transportation) that take place between two or more regions, countries, and markets beyond their political boundaries. Private companies undertake such transactions for profit. These business transactions involve economic resources, such as capital, natural, and human resources used for international production of physical goods and services, such as finance, banking, insurance, construction, and other productive activities⁴.

Increased costs for transportation may occur in a global strategy, however there is also the opportunity to outsource if the company is engaged in a strategic alliance. A private or public company can engage in a global strategy, but because the initial outlay of money to enter into the global market is large, it may be much easier for public companies. Natural resources (oil and gas) is an industry in which, because of product necessity and limitedness, corporations have usually implemented global strategies.

³ Ducoff, Nick. "Consolidation Strategy." *Boundless*. TED, n.d. Web. 07 Apr. 2014. <<https://www.boundless.com/management/strategic-management/common-types-of-corporate-strategies/consolidation-strategy/>>.

⁴ Ducoff, Nick. "Global Strategy." *Boundless*. TED, n.d. Web. 07 Apr. 2014. <<https://www.boundless.com/management/strategic-management/common-types-of-corporate-strategies/global-strategy/>>.

A strategic alliance is a cooperative strategy where two or more parties pursue a set of agreed upon goals to meet a critical business need while remaining independent organizations. Partners in a strategic alliance may provide each other with resources such as products, distribution channels, project funding, capital equipment, knowledge, or intellectual property. These alliances allow each party to concentrate on their strongest capabilities, learn and develop other competencies, and assure adequate suitability of resources and competencies. Benefits of a strategic alliance include building credibility with customers, allowing each partner to concentrate on activities that best match its capabilities, learning from partners and developing new competencies that may also be more widely exploited elsewhere, and ensuring the resources and competencies for an organization to survive⁵.

E-Business Strategy

In our global economy today, e-business is an increasingly important component of business strategy. The benefits of e-business and the integration of information and communications technology (ICT) include: enhanced global relationships among organizations and individuals, enhanced productivity, greater customer participation, the expansion of mass customization, and reduced costs. Electronic business methods allow companies to link their internal and external data processing systems more efficiently and flexibly, to work more closely with suppliers and partners, and to better satisfy the needs and expectations of their customers. E-business involves business processes that cover the entire value chain: electronic purchasing and supply chain management, processing orders electronically, processing customer transactions, handling customer service, and cooperating with business partners⁶.

⁵ Ducoff, Nick. "Cooperative Strategy." *Boundless*. TED, n.d. Web. 07 Apr. 2014. <<https://www.boundless.com/management/strategic-management/common-types-of-corporate-strategies/cooperative-strategy/>>.

⁶ Ducoff, Nick. "E-Business Strategy." *Boundless*. TED, n.d. Web. 07 Apr. 2014. <<https://www.boundless.com/management/strategic-management/common-types-of-corporate-strategies/e-business-strategy/>>.

Describe the role of all functional areas within a corporation with respect to strategy. How can each department contribute to the strategic plan and does each department's role differ based on the chosen strategy?

Sales and Marketing

Sales and marketing has the overall role of growing revenues, market share, and contributing to company growth and profitability. The marketing department or manager has the job of setting sales and marketing strategy, which must be in line with the overall strategy and objective of the corporation. One key responsibility of the marketing department is market research; this enables the corporation identify market opportunities and gain an understanding of customer needs and trends, as well as understanding competitor strengths and weaknesses. The department gathers data on the sales of existing products and identifies gaps in the product range where there may be opportunities for the company. Marketing employees provide development teams with information on customer needs and preferences to help them identify the features or improvements to incorporate in new products. Depending on their budgets, marketing departments can plan campaigns and develop communications material (advertising) to promote products and services to customers and prospects⁷.

Research and Development

A corporation's research and development team plays an essential role in the life cycle of a product. A thorough study must be conducted to support each project within the corporation; this includes a research phase in which product specifications are determined as well as production costs and a production time line. The research department also must work with the sales team to evaluate the need for the product before the design begins, in order to ensure it is a product that customers want to use. The department should regularly evaluate existing products to ensure that they are still functional⁸. The team helps direct the future of the company based on the information it provides and products it creates, and is able to research and analyze the

⁷ Linton, Ian. "Responsibilities of Marketing Department." *Small Business*. Chron, n.d. Web. 28 Mar. 2014.

⁸ Frost, Shelley. "Function Descriptions of the Research & Development Department." *Small Business*. Demand Media, n.d. Web. 28 Mar. 2014.

products other businesses are creating, as well as the new trends within the industry. All of this is aligned to achieve the corporation's goal of profitability.

Production

The production operations department of a corporation is in charge of making products that the company sells. It has to produce designs for the products and plan for the production of the specified quantities. It has to purchase the raw materials, manufacture the products, test and ship them. The operations department has employees, facilities and capacity constraints that it must address in a way to best use all the resources⁹. Production is the heart of the business because it controls how much and what is made, in order to spur growth, profitability, reach global markets and achieve whatever the corporation's strategic goal may be.

Finance

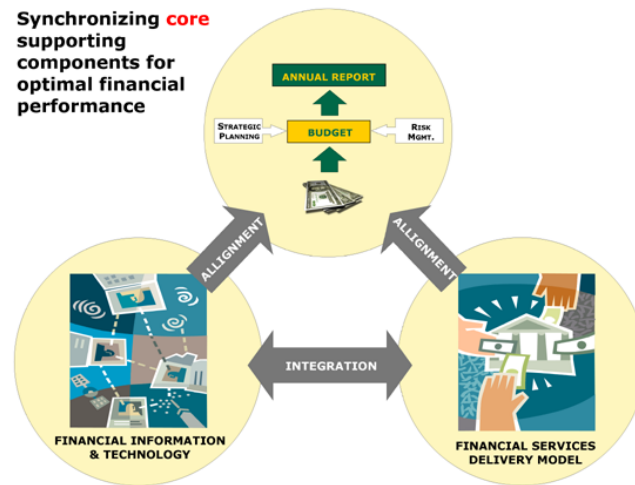
Business support service, cost efficiency and effective control of the financial environment are three goals of the finance department. Corporate finance forms the backbone of a corporation, and through financial monitoring and statements provides information on how the corporation as a whole is performing, as well as each department. Financial statement information is also important to shareholders and the finance team has the task of presenting financial results to investors and the general public¹⁰. The department manages cash flow of the corporation, and is directly involved with each department planning and monitoring the budgets necessary to reach corporate goals.

Another critical function of the finance department is tax management and planning. The objective is to maximize tax efficiency (minimize taxes) and ensure compliance with all tax regulations/laws. Tax planning requires the finance area to be involved in all phases of corporate strategic planning, to give proper weight to future tax consequences. As with the legal department, the size of the company may dictate the structure of

⁹ Markgraf, Bert. "What Happens in the Operations Department of a Manufacturing Company?" *Small Business*. Demand Media, n.d. Web. 28 Mar. 2014.

¹⁰ Griffin, Dana. "Role of Finance in a Business." *Small Business*. Demand Media, n.d. Web. 28 Mar. 2014.

this area and the scale of use of outside firms. Most large companies need much involvement and advice from professional tax firms, such as KPMG, to provide the cross-jurisdictional expertise in a field of practice that is complex with constant changes.



Supply Chain Management

Supply chain management involves optimizing your operations to maximize both speed and efficiency. The supply chain team must balance speed, costs, and quality. Top companies accomplish this by using logistics tools that choose optimal routes for product shipping, and large company databases that allow distant employees to pool order information and coordinate their efforts in real time¹¹. Supply chain management saves costs by eliminating redundant steps and increases negotiating power by forming strong relationships with suppliers.

Facilities Management

Facilities managers are responsible for the management of services and processes that support the core business of an organization. They ensure that an organization has the most suitable working environment for its employees and their activities. The key objectives of facilities management are generally

¹¹ Mack, Stan. "Explain the Term "Supply Chain" and Its Importance to Cost Management." *Small Business*. Demand Media, n.d. Web. 28 Mar. 2014.

to reduce costs and increase productivity, and they work with production and human resources as well as connecting all other areas of a corporation to ensure functionality¹².

Human Resources

The human resource management team decides how to manage people as business resources: managing recruiting and hiring of employees, coordinating employee benefits, and suggesting training and development strategies. By aiding managers in allocating employees to different roles based on each person's skills, human resource management helps the corporation adapt to its environment and shift employees to different functions based on business needs¹³. By strategically managing people, human resource professionals can advise managers on employee-related issues and allocate positions to help the corporation achieve its goals. A human resources team helps a business develop a competitive advantage, by building the capacity of the company so it can offer a unique set of goods or services to its customers. More than just hiring talent, human resources is about keeping people, and helping them grow and stay committed to the corporation.

Information Technology

Information Technology (IT) is a key component of businesses because it is the primary means of communication between employees, suppliers, and customers. When it comes to managing inventory, organizations need to maintain enough stock to meet demand without investing in more than they require. Inventory management systems track the quantity of each item a company maintains, triggering an order of additional stock when the quantities fall below a pre-determined amount. Companies are using IT to improve the way they design and manage customer relationships. Customer Relationship Management (CRM) systems can capture every interaction a company has with a customer, so that better information and a more enriching experience is possible. Today, most companies store digital versions of documents on servers and storage

¹² Alder, Steve. "Disaster and Recovery Planning: A Guide for Facility Managers." *Security Management*. June 2005.

¹³ Bianca, Audra. "The Role of Human Resource Management in Organizations." *Small Business*. Demand Media, n.d. Web. 28 Mar. 2014.

devices. These documents can become instantly available to all departments of the company, regardless of their geographical location. Companies are able to store and maintain a tremendous amount of historical data economically, and employees benefit from immediate access to the documents they need. Progressive companies use that data as part of their strategic planning process as well as the tactical execution of that strategy. Management Information Systems (MIS) enable companies to track sales data, expenses and productivity levels. The information can be used to track profitability over time, maximize return on investment and identify areas in need of improvement¹⁴.

Legal

Law and ethics also play a large role in governing how organizations may treat their customers as well as the way organizations may treat those who work for them. Both ethical and legal concerns deal with when employees can be hired and fired, how management may treat them and pay them and what kind of work environment they can expect. How a corporation handles customers, employees, scandals, and day-to-day functions has a large affect on the corporation's image in their industry and market¹⁵. Financial service companies, such as banks, are heavily regulated because of their financial and fiduciary duties to their customers and shareholders. Depending upon the size of the company, legal and regulatory compliance may be handled internally by a legal department, or out-sourced to lawyers or law firms. The legal/regulatory compliance function may include litigation management, regulatory compliance review, oversight of outside law firms working for the company, as well as training of employees in other departments on the legal/regulatory requirements related to their respective work areas. By keeping within legal regulations, corporations can avoid the high costs and negative publicity of noncompliance and legal mistakes. Legal compliance helps companies keep their market share and keep up profitability.

Each department has a different department-centered goal that is a piece of the corporation's strategic goal. In order for a corporation to be successful, all of the pieces have to fit and work together. Some areas' strategic goals will play a bigger part in the overall corporate goal (such as Finance in the

¹⁴ MacKechnie, Chris. "Information Technology & Its Role in the Modern Organization." *Small Business*. Demand Media, n.d. Web. 28 Mar. 2014.

¹⁵ Morley, Miranda. "Roles That Ethics & Laws Play in an Organization." *Small Business*. Demand Media, n.d. Web. 28 Mar. 2014.

Financial Services industry) and the key is for each corporation to find its perfect balance and keep up with changes in the economic environment.

Identify the four greatest issues currently facing the financial services industry. For each of these four major issues, design an advisory/attestation/taxation solution.

Through research into the financial services industry, I have identified four issues that are prevalent for banks, specifically, and these are interrelated. These issues include restoring public confidence in the financial industry, incorporating mobile banking as a regular delivery channel, developing a strategy around social media, and enriching/increasing the business value of customer relationships, at a time when customer behavior and expectations are more demanding¹⁶.

Restoring Trust

Restoring public confidence is a primary issue currently facing the entire financial industry. In order to combat this, the industry as a whole must build and gain back trust from its customers. This is a broad topic, and one firm cannot fix the entire industry's issues, but each financial institution must prove their integrity, ethics, and customer-relationship based plans for the future, in order to continue steps to becoming a more trustworthy industry.

In order for a financial institution to behave with integrity, an essential foundation for building trust, it needs to develop and publicize a statement of its mission showing the corporation's ethical principles. This mission must be backed up with core values, business principles, and codes of conduct. These foundations need to be built and reinforced, true to the principles, in order to earn the trust of stakeholders. Financial service corporations are increasingly commissioning a cultural audit alongside the financial audit, and although these foundations and principles are difficult to measure, there are tools available that can identify critical indicators of truth. Once the foundations are in place, there are seven critical cultural dimensions that

¹⁶ Kidder, Lee. "Top Challenges Facing Financial Services in 2013." *Bank Systems and Technology*. CCG Catalyst, 27 Dec. 2012. Web. 07 Apr. 2014. <<http://www.banktech.com/management-strategies/top-challenges-facing-financial-services/240144973>>.

differentiate a good from poor organization, and “soft controls” that can influence organizational behavior and performance.

In the advisory area, KPMG can help a company restore trust by increasing communication and increasing the scope of the audit report to include more business and risk assessment. KPMG believes it is important to explain accounting’s role to the marketplace and society as a whole, so that everyone knows what audit professionals can and cannot do from risk reporting or fraud perspectives. In the recent economic recession, one criticism of the accounting profession was that it was the “watch dog that did not bark;” it is important for all information that comes from an audit report, financial and nonfinancial, be expressed to the business itself and be analyzed with and compared to trends in the industry as a whole¹⁷. It is essential that when we issue our findings from a financial audit, we are not giving an assurance to the market on the viability of the whole business. This table represents the values and standards that KPMG holds each of their employees to¹⁸:

<p>1. Clarity. People at all levels need to be clear what is expected of them, and what norms and values govern desirable and undesirable behavior. In the same way as football players not only need to know the rules of the game but how they are going to be enforced by the referee and how the coach wants them to play the game, employees have to learn the difference between what is acceptable and what is not as it applies in their specific organization, and understand the consequences of failure. The more clearly this is understood, the more likely – although this is not alone sufficient – people are to do the right thing.</p>
<p>2. Role-modeling. The right tone needs to start from the top, and be cascaded down through management and immediate supervisors. If senior executives set the right example, people will tend to follow suit and behave properly. Conversely, just one or two indications of hypocrisy or double standards at the top can be deeply corrosive, creating cynicism and deliberately transgressive action. Effective role-modeling is also the foundation for mutual respect between manager and managed.</p>
<p>3. Openness. People at all levels need to feel free to discuss issues and dilemmas which naturally arise in any business. However clear the guiding principles, there are always grey areas in practice. Coming to a consensus view on what is acceptable and correct behavior reinforces the culture and shares responsibility.</p>
<p>4. Achievability. The goals and targets which an organization sets for itself, and for specific departments, teams and individuals, need to be realistic and achievable. ‘Stretch’ targets are fine. But unrealistic objectives and targets stimulate cynicism and resistance or – worse – a culture of breaking the rules to achieve them.</p>
<p>5. Commitment. The organization needs to stimulate commitment on the part of its managers and employees. Do people feel trusted and involved? Do they feel that their views are taken into account?</p>
<p>6. Transparency. Behavior needs to be transparent and open, so that each individual understands the impact of his or her actions on others, and can correctly judge the actions of others. Behavior can only be effectively evaluated against core principles. Transparency also has a pro-active impact because what is expected will allow staff to properly make decision and act according to the core principles of the firm.</p>
<p>7. Enforcement (and reinforcement). The systems of reward and punishment need to be clear, explicit and directly related to the guiding principles and desired behavior. This sounds simple and obvious. But in many organizations rewards and sanctions are out of alignment with core values and avowed norms. Employees see immediately when this is the case. The behavior which is rewarded (and misbehavior which is tolerated) rapidly becomes the norm, destroying integrity at its root.</p>

¹⁷ "How Can We Restore Trust in the Audit Report?" *YouTube*. KPMG, 21 Mar. 2014. Web. 02 Apr. 2014.

¹⁸ "The Hard Side of Soft Controls: The 7 Elements of Building a Foundation of Trust from the inside out." *Frontiers in Finance*. KPMG, n.d. Web. 31 Mar. 2014.

From an attestation point of view, strengthening internal controls is key to trust. In the recent major incident dealing with Target's information breach of security, the financial industry (notably banks) were made aware of how the data they held was vulnerable and accessible. This accessibility poses a direct threat to every cardholder of any bank, and must be addressed. KPMG has IT professionals and forensic accountants who build and test from all angles (internal and external threats) the controls that will tighten security for financial services corporations. By keeping up-to-date controls necessary for the internet and information that is saved or shared over the internet, financial services customers will be at ease and overcome fear of using their cards.

As noted above, KPMG can help banks solve problems, ideally preemptively, by increasing the scope of the audit report to include more areas for risk assessment. In the credit card area, a bank can be exposed to severe regulatory liability and negative press if its product marketing overstates what the bank is actually delivering. For example, Bank of America was recently fined \$ 772 million by regulators for misleading customers by charging for credit card products and services not received.

From the standpoint of restoring trust once its been damaged, there are creative ways to help banks take steps toward improving their image. KPMG can assist banks to improve their public image as well as decrease their tax liability by giving back to the public and taking charitable contribution deductions of up to ten percent of the banks income¹⁹. For example, we could suggest the bank pledge to donate up to ten percent to Grant One Child A Wish Foundation in Dallas, TX for a minimum of five years. Assuming your bank is similar in size to Bank of America, whose net income was \$ 11.4 billion, \$ 1.14 of income would be deductible because of this charitable donation, leaving a taxable income of \$ 10.26. This would be appealing to shareholders because a charitable donation to Grant One Child A Wish Foundation would lower taxable income (i.e. less money given to the government) and shows the bank's commitment to the betterment of the Dallas community.

¹⁹ "Publication 542 (03/2012), Corporations." *Publication 542 (03/2012), Corporations*. IRS, n.d. Web. 07 Apr. 2014. <http://www.irs.gov/publications/p542/ar02.html#en_US_2011_publink1000257846>.

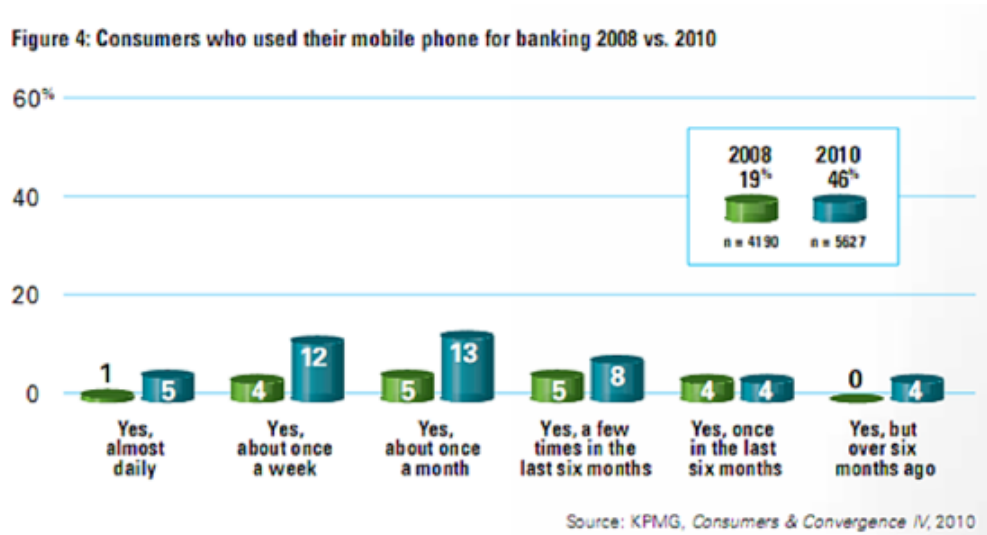
Mobile Banking

A second issue currently facing many banks is the difficulty arising from incorporating mobile banking as a regular delivery channel. Although website technicians do the actual building of mobile banking, KPMG professionals can help a financial institution keep and build its integrity, again, through audit reports and the nonfinancial information to which they will have access. Each auditor will gain full knowledge of the institution's online systems, and will be able to perform efficient audits and note user trends, as well as other nonfinancial data that may be useful to the financial institution moving forward. These auditors will also work with technicians to create quick and automated ways to develop scattered information from customer's use of online banking, into financial data and to show trends along with the financial institution's standings within the industry. Bill presentation (e-billing) is a specific area where there is much room for growth that our auditors are eager to improve on.

The obvious necessity in incorporating mobile banking as a regular delivery channel is control. As referenced above in the Target information breach, the internet is providing many new opportunities to the financial industry as well as very serious threats. Customers will only invest in or use the services of a financial institution if they *trust* that the corporation has implemented strong, complete, internal and external controls. Strengthening, continuously testing, and finding new ways to protect data within a financial institution has been and will be an ongoing process necessary for business, and KPMG's professionals are dedicated to providing the best control and IT services available.

KPMG is working to help banks use current trends in the market to lower taxable income as much as possible. For mobile banking, our approach is to develop new mobile banking technology, which qualify the financial institution for the Research and Development tax credit. R&D for tax purposes are reasonable costs incurred in trade or business for specific activities. These activities are intended to provide information to help eliminate uncertainty about the development or improvement of a product. It is important for the bank to allow KPMG to help implement this method for the first taxable year in which such expenditures are incurred, otherwise the R&D tax credit cannot be implemented unless you obtain the consent of the

Commissioner. R&D expenditures generally include all expenditures incident to the development or improvement of a product (in this case our “product” qualifies as an invention)²⁰.



21

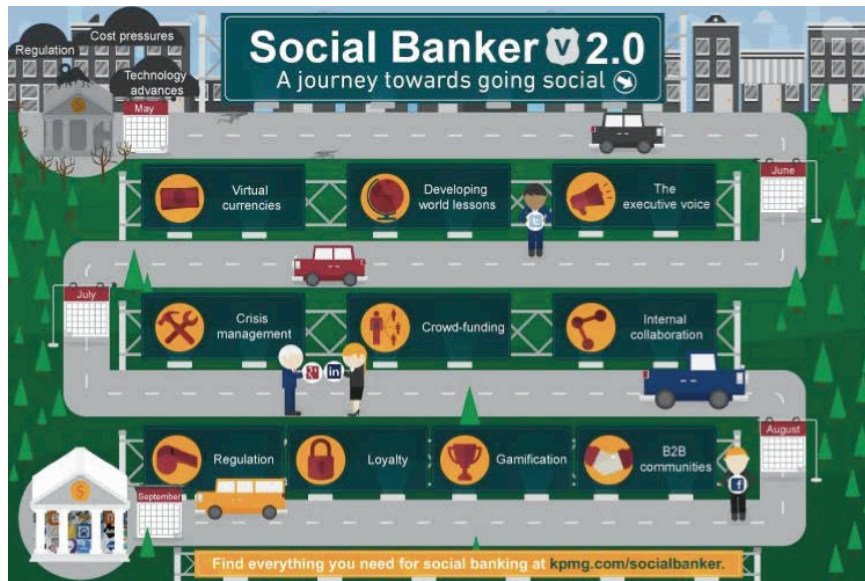
Social Media

Social media and its incorporation is a topic that industries across the globe are beginning to deal with. In this report, “social” is understood to mean any activities where electronic media are used to connect entities, people, communities, and activities. KPMG has been a leader in the use of social media to provide access to capital markets through our ICICIdirect social media campaign. The ICICIdirect Centre for Financial Learning was created a few years ago to help improve financial literacy for anyone interested in investing, regardless of age or level of experience. Having this groundbreaking technology and range of users shows the steps that KPMG is taking as a firm to educate people, connect them, and cause an increase in the number of investors in the financial market. By being a client of KPMG, a financial institution gains improved perception because of their connection to KPMG’s financial advancements. Because KPMG has taken steps to incorporate social media into business in an educational way, from an advisory standpoint, KPMG’s employees are regarded as efficient, technologically-rounded professionals who not only provide

²⁰ "Current-year Deduction of Research & Development Expenditures." *Irs.gov*. IRS, 13 Mar. 2014. Web. 8 Apr. 2014.

²¹ "KPMG Study: Mobile Banking Becoming More Common." *Money Watch: UK Personal Finance Blog*. N.p., 26 July 2010. Web. 2 Apr. 2014.

excellent audit services, but also promote the financial institutions because of the accounting firm they work for. KPMG will also provide the institution with information on the best practices and trends that the incoming target market (young customers, educated through ICICIdirect) is bringing to the industry, and will highlight this information in the audit reports²². With this information, our professionals can provide aid in marketing to the customers entering the market.



Social media has low overhead, which is generally not beneficial for overall tax deductions in most states. These expenses will include investing in updated technology for blogs, Twitter and Facebook. The average cost for a Facebook and Twitter audit is between \$2000 and \$10,000; because financial corporations do not pay a corporate income tax in Texas, some of the money that would go for state taxes can be put towards these costs²³.

Customer Relationships

Lastly, banks are faced with the issue of building and maintaining customer relationships at a time when customer behavior and expectations are more demanding. In the market today, there is less face-to-face interaction because of the internet. Accordingly, financial institutions need to work even harder to build

²² *Social Banker V2.0: Social Media Lessons from Banking Insiders*. N.p.: KPMG, Dec. 2013. PDF.

²³ "How Much Does Social Media Marketing Cost?" *The Content Factory*. N.p., n.d. Web. 07 Apr. 2014. <<http://www.contentfac.com/how-much-does-social-media-marketing-cost/>>.

relationships with customers in order to keep them in the long-term. For example, customers have to feel safe and comfortable with the financial institution before they are willing to deposit their money in the banks. This has much to do with trust in the entire financial services market, but one firm can increase the number and strength of their customer-relationships by having their CEOs, CFOs, and other employees more accessible. By doing so, the financial company will be able to show its company-wide culture, willingness to communicate, and openness to conversation. Social media is key in achieving this goal. KPMG has found ways to manipulate social media to connect with customers and potential customers, while also showing the executive voice of the firm. Through the use of blogs, new opportunities to advocate on key issues as well as communicate directly with stakeholders will unfold. Blogs offer a chance to build trust and enhance transparency about the work done in a financial institution. Challenges as well as successes that the company has forced and achieved will be discussed, and because it is a personal voice, the blogger and company-culture will remain authentic.

KPMG employee's are selectively hired because of their hard work, quick-learning abilities, flexibility, and dedicated, loyal personalities. Networking and relationship building are as much a part of performing an audit as the actual inventory and financial work. KPMG takes pride in its employee's personal skills, and believes it has been such a successful firm because of the strong relationships built through employee-client bonding. If hired, a financial institution can count on the fact that KPMG auditors are easy to get along with and will get the job done with great communication skills. By providing the company with the best services, customer satisfaction will increase, along with customer loyalty and trust. KPMG auditors will be in touch with the company's bloggers, providing information on things the financial institution is doing well, admitting mistakes, and noting problems that will be addressed immediately. Admitting faults, as well as providing information on the company's plan of action to correct each fault, is critical to trust and customer-relationships.

Communication skills in the accounting world and financial services industry are essential; not only from an audit perspective does KPMG excel in this, but in attestation as well. As noted multiple times, faith in a financial institution's safety is essential in retaining customers. The opportunity to build customer trust

requires a two-way street: customers need to be able to express their likes and dislikes on the practices of a financial institution, and the financial institution must respond by showing what they have done to better serve their customers. For customers of a bank, knowing that strong internal controls have been implemented and are being continuously improved is fundamental in building long-term trust, and therefore long-term relationships. The improvement of internal controls is a topic that can be addressed in the blog, and KPMG's employees will know what information to share with the readers while protecting some information to further the safety of customers' data and money.

Finally, it is apparent that social media and improved and easy-to-use technology are key factors that the customer market is looking for in a bank. Customers need to see that a bank is putting customer-needs first, for them to be interested in joining. That is why it is essential from a tax planning point of view that a bank does research and development for mobile banking and uses the R&D tax credit, donates to local charities for the betterment of society, and expenses the costs to incorporate social media. All of this is done to prove the banks commitment to customer wants and needs, which will attract more customers and open long-term relationship-building opportunities for the bank and their new market. The four issues dealt with in this report are currently challenging the financial market because bank customers have expressed a desire for their solutions. Addressing these issues that customers have voiced is the first step in enriching customer-relationships.

SWOT Analysis

SWOT analysis is a business tool to identify the strengths, weaknesses, opportunities, and threats to a business in light of a particular business event. An indirect result of the strength of KPMG's plan to begin restoring faith in financial institutions is the improved stability of the economy to a more stable place. Having more money invested in the economy, from investors who trust the institutions to use the money wisely and safely, helps get the economic cycle moving and will generate revenue for the institutions, investors, and stakeholders. However, the weakness related to this plan is time. It will take time to get people to see the good intentions of the financial institution and invest. In light of the current state of the economy, there is a

huge opportunity for the financial industry: because the entire market has not been performing at desired levels, all industries will be willing to work together to get the economy back on track. Technology is also providing opportunities for corporations to excel and become leaders in the market, but only if the corporations keep up with the fast-moving technological age. This is where technology may also pose a threat: if a corporation does not keep up with the fast-paced technological advances, competitors who do will gain advantages. Lastly, it is impossible to foresee the future of all business-world transaction types, but KPMG professionals are working to use financial and nonfinancial information to see trends in the market and how technology is shaping and altering the daily business world.

Mobile banking is a relatively new area in the banking business world. Mobile banking has become wildly popular because it provides quick delivery of information for users, involves less intermediaries and therefore less room for fraud and error. Lastly, because mobile banking is used through the internet, it is inexpensive for customers. One weakness, however, is the effect mobile banking can have on jobs: because banking can be done any place and time where internet is available, fewer employees are necessary for teller jobs, while more jobs will be opening for IT and internet security level people. The beginning of this mobile banking age provides opportunity for companies to improve their technologies, since mobile banking is relatively new, and become leaders in the field. Mobile banking is the main platform for emerging markets (i.e. Africa, India); investments in mobile banking will ready the business to expand beyond the U.S. market. Because of the nature of the internet, however, there are continuous threats for online safety of information and finances and the liabilities that banks will be subject to, which may give rise to more customers who avoid traditional banks.

Social media is opening numerous doors and challenges for financial institutions across the globe. The internet has created so many opportunities for the quick, inexpensive delivery of information to a wider market than has ever been reached, but these opportunities come with chances for fraud and breaches of security. Through increased use of social media, face-to-face interaction has decreased, causing a threat to personal relationships between customers and banks. This threat may lead customers to avoid traditional

banks. Financial institutions must be quick in taking advantage of social media, because if one begins to lag behind, other companies who have become more involved in social media faster will overpower them.

In this age of the internet, there is a threat to customer-service because people are often able to find information they need on their own. Companies need to find ways, such as blogs, to reach customers on a personal level and by doing so the company will be more valued; if they are unable to do so, the company will have exposed a weakness and is subject to the threat of losing tech-savvy customers to other companies. It is also very important that financial institutions use this opportunity to hire specialized employees who are well versed in the technical business world, as well as having strong personable skills.

Requisite staff to Work on the Engagement

Confidence in the financial industry was lost in part because the corporations were slow to recognize/realize their risks and losses. In order to restore public confidence, each company must be honest at every stage and every reporting period. The KPMG employees to be put to use on this topic would include professionals (partners) who need to reach individual clients and work on a personal relationship; public relations and marketing (associates who coordinate with marketing at the bank).

The objective of the auditor is to supervise the work of engagement team members so that the work is performed as directed and supports the conclusions reached. The engagement partner is responsible for the work of engagement team members and compliance with accounting standards. If the auditor deems specialized skills are needed in performing the audit, he/she will seek assistance of a professional possessing such skills (whether on the auditor's staff or an outside professional). A bank audit will take a varying amount of time depending on the size of the bank. Large banks will take up to a year to audit between quarterly reviews, planning, control test work, substantive test work, and subsidiary/other audits. Regional banks will take less time, primarily in the spring/summer months. Total hours to audit the largest banks may range from 80,000 – 150,000 hours with 4-5 audit partners, 6-8 audit managers, along with 8-10 audit seniors and 15-20 audit staff. An audit for a regional bank will range from 10,000 – 25,000 hours with at least 1-2 audit partners, 2-4 audit managers, 3-5 audit seniors, and 4-8 audit staff.

Strategic Analysis

Implementing e-business strategies will be extremely beneficial for banks as well as their customers. E-business will enhance customer-relationships because of the greater customer participation involved. E-business and this integration of information communications technology allows banks to link their internal and external processing systems, connecting executives with all levels of their work force, to better satisfy the needs and expectations of their customers. For the banks, e-business and these technological advances in social media, mobile banking, and enhanced internal controls, will enhance productivity and reduce costs²⁴.

Global strategies can be beneficial to some banks, depending on their size and corporate goals. Typically, larger banks and financial industries will work with global strategies to achieve international trade and reach new customer markets²⁵.

In terms of cost/benefit analysis, this report assumes your bank's financial structure is similar to that of Bank of America. Bank of America had revenues of \$ 101.7 billion for 2013 and a net income of \$ 11.4 billion, which shows a profit margin of 11.24%. From the suggested solutions to increase the market of your bank, if there were a 4% increase in customers, revenue would increase by \$ 4.1 billion (4% of 2013 revenue) and the 2014 total revenue would be \$ 105.8 billion.

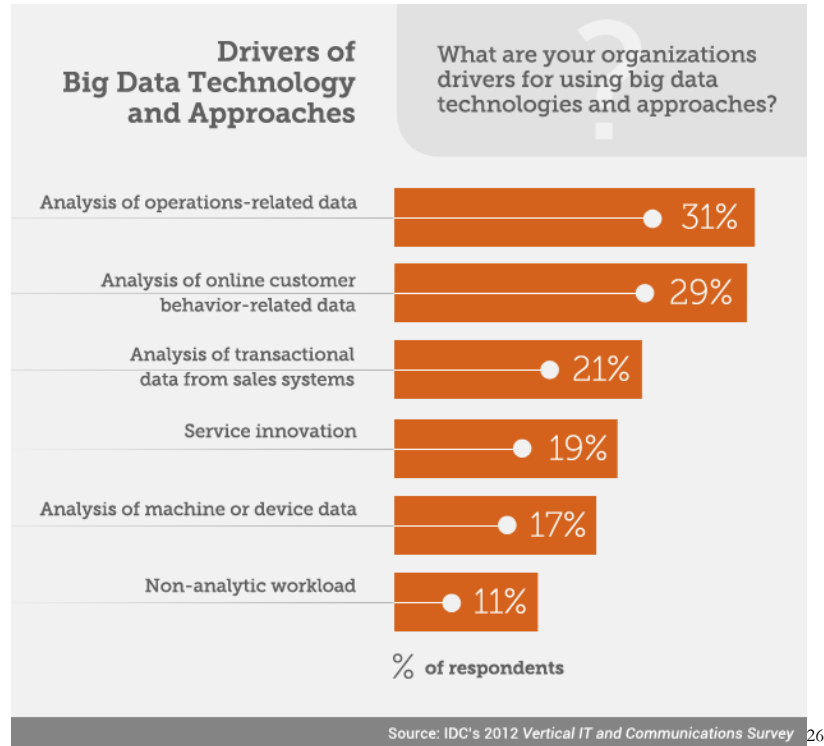
Big Data

Financial services firms and money management executives have the opportunity to proactively manage risk, improve customer experience and identify market opportunities through the use of "big data", termed to represent extremely large data sets. Big data unlocks significant value for firms because of its ability to find ways to capitalize on the massive amounts of stored transactional data as well as the exponential growth in data shared via social media and the internet. The information that customers share via survey feedback, social media, and other online sources is available to create highly individualized and accurate customer profiles. These profiles hold the potential to dramatically improve customer experience. In order to

²⁴ Ducoff, Nick. "E-Business Strategy." *Boundless*. TED, n.d. Web. 07 Apr. 2014. <<https://www.boundless.com/management/strategic-management/common-types-of-corporate-strategies/e-business-strategy/>>.

²⁵ Ducoff, Nick. "Global Strategy." *Boundless*. TED, n.d. Web. 07 Apr. 2014. <<https://www.boundless.com/management/strategic-management/common-types-of-corporate-strategies/global-strategy/>>.

manage this information, solutions are needed to enable each organization to easily access all relevant data, that may be collected by different functional areas of a corporation, and aggregate these multiple, disparate data streams.



By implementing big data, financial organizations can design a customer communication management program to achieve four organizational objectives. First, customer experience will improve with the use of personal information. Targeted messages that will help customers better understand the banks available financial products as well as their bills and statements will be included on statements; customized data with regard to layout, graphical workflow, color management, content collaboration will allow for easy-to-understand statements; and business users will be enabled to access existing customer data, extract it, reformat and recompose it with other targeted data to create highly personalized color communications with images, marketing messages, dynamic graphs and more. Eliminating the need to produce separate communications, as well as decreasing the time required to get to the market with new programs and services, will reduce production costs.

²⁶ "Unlocking Big Data." *Industry Descriptions : : Business Value, Drivers, and Challenges*. IBM, n.d. Web. 02 Apr. 2014.

Secondly, delivery preferences will be met. Big data provides an important way to determine and follow individual communication preferences, whether by paper mail, electronic (email, internet, social media), mobile devices, or a combination of these channels. Thirdly, this new “environment” in businesses should enable management of the processes, users and roles, interfaces, and updating methods for a variety of communications channels. The fourth objective achieved by the use of big data is enhanced time-to-market with new offerings. Financial institutions will be able to repurpose existing customer data and quickly tailor communications to take advantage of new market opportunities or introduce new product offerings. These opportunities may expose a significant risk for business leaders who ignore it, as it will provide competition with an unparalleled ability to identify trends, make better decisions, and improve product offerings and customer relationships²⁷.

Current Economic and Regulatory Environments.

The economy has slowly improved since the recession that began in 2008. Currently, the market is in a relatively good state, which is providing room for growth for banking in social media and mobile banking. Customers, however, are still weary from the most recent recession and the belief that banks should have recognized the risks earlier and warned customers better. In 2013, the financial services industry was the least trusted sector according to the Edelman Global Trust survey of 2013. In order to alter this, banks must find new ways to add value or reduce risk for customers and enterprises that will generate extraordinary profits. According to Steve Denning, a contributor to *Forbes*, “those that don’t won’t survive. Banks need to learn from these organizations in all these different sectors, like Apple, Costco, and Whole Foods. All of these organizations are totally focused on adding value to customers and driving that throughout the organization.”²⁸ By implementing social media and mobile banking into corporate strategy, banks will be responding to their customers and adding value to their company. They will foster new ways to reach

²⁷ Watts, Michael. "Big Data in Financial Services Industry: Market Trends, Challenges, and Prospects 2013 - 2018." *PRNewswire*. Mind Commerce, 24 Feb. 2014. Web. 09 Apr. 2014.

²⁸ Denning, Steve. "How Can Bankers Recover Our Trust?" *Forbes*. Forbes Magazine, 06 Feb. 2013. Web. 08 Apr. 2014.

customers and be able to better serve them. This will allow customers the chance to see the goals and character of the bank, and begin to see which bank will be committed to its community and customers.

In the regulatory environment, executives of banks are being challenged to balance compliance demands with profitability goals. The biggest challenge: raised workloads. The staffing services firm, Robert Half International, conducted a survey in which executives from Canada, France, Germany, Hong Kong, Singapore, the UK, and the United States participated. The survey found that one in three executives said they will be increasing their staff to handle the additional work, two-thirds believed that integrated governance, risk and compliance programs have been effective for their businesses, and that big data is helping alleviate risk across organizations by providing timely information that aids firm management in making decisions quickly and effectively²⁹. Because of the larger workforce, more employees jobs will be used to specifically aid customers and build customer-relationships as well as the technicians who will deal with usability for customers and mobile banking and the social media pages of the bank. Accordingly, banks must be aware of the possible effects of the recently passed Affordable Health Care Act that has the potential to raise minimum wage.

US and Global Differences

In the US, a bank operating in multiple states will have to manage operational, staffing/workforce, and taxation differences and considerations from state to state, but federal rules and regulations will generally control. It is important, especially when dealing with social media reaching outside of state borders, that tax professionals within the firm and financial institution are aware of nexus and the possible liability for taxes in other states. Regardless of U.S. location, a national banks' primary regulator will be the Office of the Comptroller of the Currency (OCC) and financial reporting for most banks will be regulated by the Securities and Exchange Commission (SEC).

A bank operating globally has to plan around more cultural, legal and taxation differences. A U.S. national bank in other countries will still have the OCC and SEC as its regulators, but it will pick up new

²⁹ Tysiac, Ken. "How Regulatory Challenges Are Affecting Financial Services Industry." *How Regulatory Challenges Are Affecting Financial Services Industry*. AICPA, 9 July 2013. Web. 08 Apr. 2014.

layers of regulation and financial reporting in cross-border operations. Taxation will require even more jurisdictional expertise; consideration of repatriation of profits, tax treatment of certain costs and transactions may drive key decisions, such as location of certain operations. Staffing/workforce laws and the resulting flexibility to grow or shrink staff will have significant impact on costs. Cultural differences in consumer behavior and laws regulating products/services will shape the bank's market targets and strategies. All of the above requires strong advisory services by firms already operating in the various markets, like the kind of comprehensive approach KPMG offers.

Bibliography

- "Current-year Deduction of Research & Development Expenditures." *Irs.gov*. IRS, 13 Mar. 2014. Web. 8 Apr. 2014.
- "How Can We Restore Trust in the Audit Report?" *YouTube*. KPMG, 21 Mar. 2014. Web. 02 Apr. 2014.
- "How Much Does Social Media Marketing Cost?" *The Content Factory*. N.p., n.d. Web. 07 Apr. 2014.
<<http://www.contentfac.com/how-much-does-social-media-marketing-cost/>>.
- "Publication 542 (03/2012), Corporations." *Publication 542 (03/2012), Corporations*. IRS, n.d. Web. 07 Apr. 2014.
<http://www.irs.gov/publications/p542/ar02.html#en_US_2011_publink1000257846>.
- "The Hard Side of Soft Controls: The 7 Elements of Building a Foundation of Trust from the inside out." *Frontiers in Finance*. KPMG, n.d. Web. 31 Mar. 2014.
- Alder, Steve. "Disaster and Recovery Planning: A Guide for Facility Managers." *Security Management*. June 2005.
- Bianca, Audra. "The Role of Human Resource Management in Organizations." *Small Business*. Demand Media, n.d. Web. 28 Mar. 2014.
- Denning, Steve. "How Can Bankers Recover Our Trust?" *Forbes*. Forbes Magazine, 06 Feb. 2013. Web. 08 Apr. 2014.
- Ducoff, Nick. "Consolidation Strategy." *Boundless*. TED, n.d. Web. 07 Apr. 2014.
<<https://www.boundless.com/management/strategic-management/common-types-of-corporate-strategies/consolidation-strategy/>>.
- Ducoff, Nick. "Cooperative Strategy." *Boundless*. TED, n.d. Web. 07 Apr. 2014.
<<https://www.boundless.com/management/strategic-management/common-types-of-corporate-strategies/cooperative-strategy/>>.
- Ducoff, Nick. "E-Business Strategy." *Boundless*. TED, n.d. Web. 07 Apr. 2014.
<<https://www.boundless.com/management/strategic-management/common-types-of-corporate-strategies/e-business-strategy/>>.
- Ducoff, Nick. "Global Strategy." *Boundless*. TED, n.d. Web. 07 Apr. 2014.
<<https://www.boundless.com/management/strategic-management/common-types-of-corporate-strategies/global-strategy/>>.
- Ducoff, Nick. "Growth Strategy." *Boundless*. TED, n.d. Web. 07 Apr. 2014.
<<https://www.boundless.com/management/strategic-management/common-types-of-corporate-strategies/growth-strategy/>>.

- Ducoff, Nick. "What Is a Strategy?" *Boundless*. TED, n.d. Web. 07 Apr. 2014.
<<https://www.boundless.com/management/strategic-management/strategic-management/what-is-a-strategy/>>.
- Frost, Shelley. "Function Descriptions of the Research & Development Department." *Small Business*. Demand Media, n.d. Web. 28 Mar. 2014.
- Griffin, Dana. "Role of Finance in a Business." *Small Business*. Demand Media, n.d. Web. 28 Mar. 2014.
- Kidder, Lee. "Top Challenges Facing Financial Services in 2013." *Bank Systems and Technology*. CCG Catalyst, 27 Dec. 2012. Web. 07 Apr. 2014. <<http://www.banktech.com/management-strategies/top-challenges-facing-financial-services/240144973>>.
- "KPMG Study: Mobile Banking Becoming More Common." *Money Watch: UK Personal Finance Blog*. N.p., 26 July 2010. Web. 2 Apr. 2014.
- Linton, Ian. "Responsibilities of Marketing Department." *Small Business*. Chron, n.d. Web. 28 Mar. 2014.
- Mack, Stan. "Explain the Term "Supply Chain" and Its Importance to Cost Management." *Small Business*. Demand Media, n.d. Web. 28 Mar. 2014.
- MacKechnie, Chris. "Information Technology & Its Role in the Modern Organization." *Small Business*. Demand Media, n.d. Web. 28 Mar. 2014.
- Markgraf, Bert. "What Happens in the Operations Department of a Manufacturing Company?" *Small Business*. Demand Media, n.d. Web. 28 Mar. 2014.
- Morley, Miranda. "Roles That Ethics & Laws Play in an Organization." *Small Business*. Demand Media, n.d. Web. 28 Mar. 2014.
- Social Banker V2.0: Social Media Lessons from Banking Insiders*. N.p.: KPMG, Dec. 2013. PDF.
- Tysiac, Ken. "How Regulatory Challenges Are Affecting Financial Services Industry." *How Regulatory Challenges Are Affecting Financial Services Industry*. AICPA, 9 July 2013. Web. 08 Apr. 2014.
- "Unlocking Big Data." *Industry Descriptions : : Business Value, Drivers, and Challenges*. IBM, n.d. Web. 02 Apr. 2014.
- Watts, Michael. "Big Data in Financial Services Industry: Market Trends, Challenges, and Prospects 2013 - 2018." *PRNewswire*. Mind Commerce, 24 Feb. 2014. Web. 09 Apr. 2014.