INTELLIGENCE AND INSIGHT FOR ICAEW MEMBERS

economia

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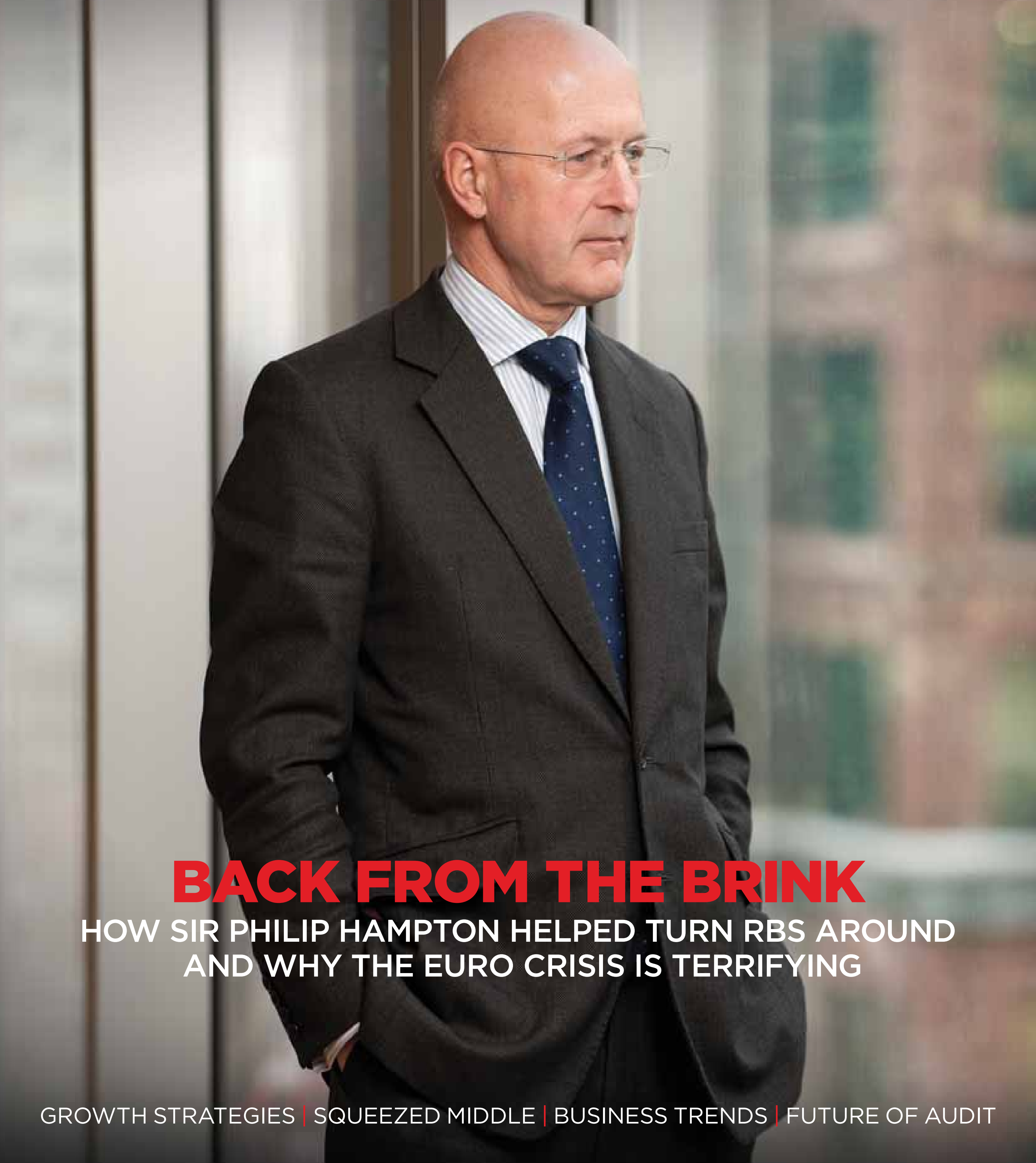

BACK FROM THE BRINK

HOW SIR PHILIP HAMPTON HELPED TURN RBS AROUND AND WHY THE EURO CRISIS IS TERRIFYING

GROWTH STRATEGIES | SQUEEZED MIDDLE | BUSINESS TRENDS | FUTURE OF AUDIT

We will talk with authority and provide intelligent insight on the issues that matter

These are times of unprecedented economic storm. In such conditions everyone seeks guidance and direction; financial and fiscal discipline; and clear and accurate measurement to help understand where they are. The finance and accountancy profession must step up to the challenge. In all directions it is possible to discern signs of systemic strain. A number of indicators, including ICAEW's Business Confidence Monitor, suggest we are about to enter the second major wave of a recession that started in 2008. A few commentators referred to events in 2008 and 2009 as the Great Recession. But for American investor George Soros, things are getting worse than that. Last autumn he claimed "financial markets are driving us towards a second Great Depression". Little has improved since then and the only hopeful glimmer amid the gloom, unemployment and inflation is that interest rates remain rock bottom. Had the cost of borrowing been higher, we would have seen more business failures and household defaults. In this fog of uncertainty, it is difficult to determine a clear path to better, happier times.

And it is into this difficult climate that we launch *economia*. Ever since 1881, when the new Institute of Chartered Accountants in England and Wales was granted its coat of arms by the College of Heralds, the figure of Economia – variously described as a "venerable dame" or a "matron of serious aspect" – has watched over ICAEW. More widely known as "the Institute's lady", she first appeared in a book of allegorical figures published in 1603 by Cesare Ripa. In 1671 she was used to illustrate the frontispiece of Onofrio Pugliesi's *Prattica Economica Numerale*, an early work on bookkeeping.

Despite a number of different graphical interpretations in the intervening centuries, the essential visual elements of Ripa's allegory have remained. Her rod denotes discipline and authority, her rudder guidance and prudence, her dividers clear measurement and good financial management. In offering authoritative guidance and financial prudence, it is clear why Economia remains the perfect figure for our times. When it came to settling on a direction and purpose for the new ICAEW member magazine, she was the obvious inspiration for the title.

Launching magazines is never easy and with market conditions as they are, it has been doubly difficult on this occasion. But the entire team at *economia* is dedicated to making sure everything we publish is guided by the three simple tenets presented to us by Economia. We will aim at all times to talk with authority and to find the most authoritative commentators to provide the most intelligent insight into the relevant issues of the day. We will seek to offer content that helps members run their businesses better and also helps them to advise their clients on how to best run theirs. And at all times we will aim to promote best practice and good financial management.

In offering authoritative guidance and financial prudence, it is clear why Economia is the perfect figure for our times

With her blend of authority, guidance and prudence, Economia offers a simple explanation for why even difficult times present opportunities for accountants.

ICAEW and *economia* aim to help put their perspective at the very heart of politics, economics and business. It is our intention at *economia* to tell that story and support ICAEW and its members in their quest to do the best thing for their businesses, their clients and to help drive economic recovery.

GOVERNMENT MUST BE BIG ENOUGH TO EMBRACE GROWTH

There is little that economists agree on. Indeed two economists in a room is the very definition of an argument. Perhaps we should have learnt to treat their forecasts with scepticism, but when they are informing government policy the claims seem more convincing. It was alarming to read how the economy has underperformed even the coalition's modest predictions. By embarking on a severe programme of cuts, George Osborne initially boosted bond market confidence and was partly responsible for keeping what WPP boss Sir Martin Sorrell dubbed the "bond vigilantes" quiet. But there comes a time when the focus has to shift from cuts to growth; when the logic of cuts is undermined by the need for action. That time is now. It may never again be acceptable to promote a fiscal policy that results in the sort of deficits run up over the last decade, and those bond markets will remain vigilant, but there are things that can and must be done to get the economy growing. Only growth can reduce the deficit meaningfully. This may not be the time for big government, but it is time for a government big enough to listen. In this issue, our experts have produced a powerful 10-point plan for growth and we are delighted to recommend it to Mr Osborne.

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February 2012

CHARLIE BEST

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Some of the influential voices you'll find in this issue

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"The numbers don't lie… but I wouldn't bet my house on them"
David Wheldon, page 47

"Cameron and Clegg may be in a shotgun marriage, but it will last the distance"
Jason Cowley, page 28

"I'm keen for HMRC to be as open as possible, but its role is not to be a regulator"
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"Each generation of auditors has a duty of stewardship to renew our mandate with shareholders and other stakeholders"
David Herbinet, page 15

INTELLIGENCE AND INSIGHT FOR ICAEW MEMBERS

economia

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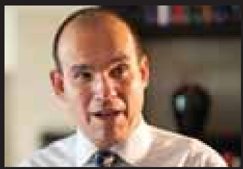
The *economia* website will provide the same high level of insight and analysis as in print, along with constantly updated news and daily content. Additional material will include multimedia reports, blogs and the opportunity for readers to comment and get directly involved in debates

Coming this month only online...

ALISTAIR DARLING
The former Chancellor talks about the role of the UK's medium-sized businesses and his predictions for 2012



MICHAEL WOODFORD
The former Olympus chief discusses the firm's Japanese accountancy scandal and becoming a whistleblower

If you have strong opinions about the content you would like to see in *economia*, get involved via our members' panel. For further details and to join the panel, visit **icaew.com/economia/memberspanel**

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GETTY IMAGES, MARK HARRISSON

In the next issue…

ANDY HALFORD
The chief financial officer of Vodafone Group on the reputation of big business, driving revenue growth and sticking to his guns

THE BUDGET WISHLIST
We speak to senior politicians and business leaders to find out what they want from this year's Budget and how they overcame their biggest financial challenges

THE LEGAL SERVICES ACT
Following changes to the regulation of the UK's legal system, we investigate what impact alternative business structures might have on accountants, consumers and regulators

THE SQUEEZED MIDDLE
We profile profitable medium-sized business Hotel Chocolat, which is prospering in an age of austerity and confidently expanding into Europe

ALTERNATIVE INVESTMENTS
We ask fine wine merchants Justerini & Brookes how to blend passion with profit and build a great wine portfolio

In review

The stories that matter most from the month just gone

Euro crisis

Amid debt fears in the eurozone, the euro plunged to its lowest level for 15 months. Sharp swings on Hungarian financial markets saw the forint plunge and borrowing costs soar. Exposure to Hungary drove up bond insurance costs in Austria. Billionaire investor **George Soros** (above) warned that a collapse of the euro and EU break-up would have a catastrophic effect on the global financial system. He said the eurozone crisis is "more serious and more threatening than the crash of 2008".

"We will make fine-tuning and modest adjustments at the appropriate time and under the right conditions"

Chinese Premier **Wen Jiabao** says his government will shift its monetary policy to be more supportive of growth

Brave Scotland

The euro may yet become the currency north of the border, (assuming it survives the crisis), as UK prime minister David Cameron attempted to force an early referendum on Scottish independence. SNP leader Alex Salmond, keen for a vote in 2014 (which marks the 700th anniversary of the battle of Bannockburn) called his intervention "almost Thatcheresque", while former Liberal Democrat leader Sir Menzies Campbell quipped that "independence is not just for Christmas".

Political opinion

A combatative Cameron was also out for a fight with big business, saying he wanted to give shareholders more power over pay packets as part of a crackdown on bonuses and excessive executive pay. Promising shareholders a "binding vote" he said there had been a "market failure" with some bosses getting huge rises despite firms not improving their performance.

Global business

Talking of tainted executives, Olympus Corp announced it is going to sue 19 former and current executives for damages, over a massive cover-up of investment losses. Coming out with his reputation intact, Michael Woodford, the ousted British chief executive who blew the whistle on the $1.7bn accounting fraud, dropped his campaign to be reinstated and instructed lawyers in the UK to begin action for unfair dismissal.

Regulation update

It was also a tough month for PwC as the Big Four firm was fined a record £1.4m by the Accountancy and Actuarial Discipline Board (AADB) for failures relating to the segregation of client money at JP Morgan Securities. The AADB severely reprimanded the accountancy firm after a tribunal found that while it was auditor for JP Morgan between 2002 and 2008 it failed to notice that as much as £23bn of client money had not been ring-fenced. The AADB reduced the fine from £2m in recognition of PwC's full cooperation and its acceptance that its conduct had "fallen short" of the expected standards.

The month in numbers

63% The percentage of CFOs who plan to add temporary and/or interim staff to their finance teams this year

5.1 million The record number of VW cars sold worldwide in 2011

€75bn (£6.2bn) The amount Italy's UniCredit tapped shareholders for in a cut-price rights issue

£6.7m The amount the British Council allegedly spent on its credit cards in two years, including £2m on hotel bills

45,000 The number of Facebook log-in details stolen by a computer worm

50% The percentage by which fraud against business has increased

45 The age at which our brains start deteriorating – more than a decade earlier than had been thought

200,000 The number of jobs added to the US economy in December, beating expectations; the unemployment rate fell to 8.5%

468 The number of lies a year a woman tells about what and how much she has eaten and drunk

Source: Robert Half UK, The Taxpayers' Alliance, Timex, The Wall Street Journal, BDO

> "Ethical, I don't quite know what the word means"

Media tycoon **Richard Desmond** then went on to tell the Leveson Inquiry that there's a fine line between what is and is not ethical

People in 2012

An impressive number of businesspeople were rewarded for their achievements in the New Year Honours List including:

Rona Fairhead, chairman and chief executive, Financial Times Group. **CBE**

Denise Coates, founder and chief executive, bet365. **CBE**

Ruby McGregor-Smith, chief executive, MITIE Group. **CBE**

Andrew Witty, chief executive, Glaxo SmithKline. **Knighthood**

Helena Morrissey, chief executive, Newton Investment Management and founder of 30% Club. **CBE**

Peter Winslow, chief executive of Compare the Market, owner, BGL Group. **CBE**

Gerald Archer, vice chairman, Motability and president, Young Epilepsy. **CBE**

For a full list of ICAEW members honoured, see icaew.com/economia

GADGET OF THE MONTH
Pantech Element

This year's Consumer Electronics Show (CES) attracted its usual line-up of stellar names to help launch the gadgets (Justin Timberlake, Kelly Clarkson and Will Smith were on hand), but the real excitement was all mobile.

If the technology giants are right, we seem to be moving closer to the moment where laptops are replaced by tablets and smartphones.

Pantech unveiled the first waterproof tablet. The Element was pulled out of a

fishtank for the demo, and is capable of surviving for up to half an hour in a metre of water. So it might not cut it as a diving accessory, but it's likely to come into its own on the beach, by the pool or in the bath.

For the time being the 8-inch Android tablet ships with the Honeycomb operating system, but is upgradeable to the Ice Cream Sandwich OS. It sports a 1.5GHz dual-core processor and offers 16GB of storage. In the US it costs $300 on AT&T, and UK prices are expected to be in the same range.

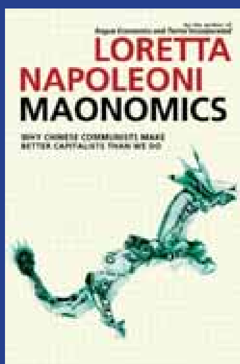
The Element tablet is a handy size: small enough to comfortably hold in one hand, but large enough to play games, watch films and browse the Web.

The graph
Efficiency = £1.6bn loss

As cars become more efficient – and we learn to drive more economically – petrol sales will continue to fall. This may be good news for the environment, but it is potentially disastrous for the Treasury, which faces a loss in tax receipts estimated at over £1.5bn

SOURCE: AA AND SMMT

BOOK REVIEW
Maonomics
By Loretta Napoleoni



While not as zeitgeist-catching a title as *Maonomics*, a more appropriate name for Loretta Napoleoni's new book might be *Dengonomics*. Napoleoni, the bestselling author of *Rogue Economics*, centres her study of the Chinese economic miracle in the wake of Deng Xiaoping's open-door policy, a reform that introduced a market economy and far-reaching economic change to the world's most populous nation. Napoleoni relates a convincing argument that China has adapted to globalisation much better than Western democracies have since Deng opened up China. She cites how Chinese average standards of living have radically improved while in the territories of the former Soviet Europe (where, lest we forget, Western-style democracy won the day), poverty and illiteracy are on the rise.

According to Napoleoni, the Chinese have created a form of communism that works economically, and evolves, "one that guarantees progress and well-being more than other systems". From 2009 to 2010, she reminds us that the "average Chinese per capita income increased in real terms, and the GDP rose by 9% during a period of high unemployment and zero growth in Western democracies."

The closing sections on globalisation, crime and sociocultural espionage in particular are excellent; bursting with engaging and often surprising anecdotes that bring the cultural divides to life. Napoleoni is always an erudite and entertaining writer, if a little Panglossian in her outlook – she somewhat generalises that China is "on the right track" in addressing its human rights record because it has "taken giant steps toward an ever-greater respect for the individual." Try telling that to Ai Weiwei.

Democracy might be, as Churchill once described it, "the worst form of government, except for all those other forms that have been tried". Napoleoni's point is that in order for the West to save its democracy, it must look to the East to a nation still to attain it. It's a compelling argument and Napoleoni, as always, is a voice worth listening to. ***Michael Jones***

View from the top

Clive Parritt
ICAEW President

Two months ago, the OECD issued some startling statistics: income inequality has risen faster in the UK than in any other OECD country since 1975. Not only is it now well above the OECD average, but the annual average income of the top 10%, at £55,000, is almost 12 times higher than that of the bottom 10% (£4,700). At the same time, social mobility has slowed down dramatically.

Improving social mobility is a campaign that is close to our hearts at ICAEW. We see it not just as fundamental to social fairness but of huge benefit to business, the profession and the economy. Indeed the Social Mobility Foundation (SBF) has suggested that if the UK achieved the social mobility of a country like Finland, it could see growth in output of between 1.6% to 3.9% by 2050.

We have always opposed the idea of graduate-only entry to chartered accountancy. Some 20% of our members have arrived through a non-graduate route, which ensures that we have the pick of talented people from all walks of life.

In fact, the cost of a degree is likely to discourage many bright youngsters from joining the profession through universities. And yet education is key to improving social mobility. This is why we run BASE, our game for schools that introduces pupils (more than 1,000 last year) to chartered accountancy and teaches them business skills. We've been working with universities and accountancy firms to help school leavers study accountancy – for example, our scheme with KPMG and Durham University offers students a salary, degree, the ACA, a job and no debt.

We have also been promoting fair internships that are advertised, paid and properly structured. We contributed to the internship best practice code and recently won a bid from BIS to create 1,500 apprenticeships with PwC.

There's still a lot to do – an SBF online survey that asks which of 10 target professions has furthest to go to improve social mobility, rates us as fifth. But I have high hopes that when Alan Milburn, the government's independent reviewer on social mobility and child poverty, presents his first annual report on the professions and social mobility in May, our efforts so far will be recognised.

If you have any views on the issues raised in this letter, please get in touch by emailing president@icaew.com

EVENTS TO LOOK OUT FOR

FEBRUARY 15
The Cardiff Business School Public Lecture Series continues with Baroness Hogg, chair of the Financial Reporting Council. She is also senior independent director of BG Group, lead independent director of HM Treasury, and a director of the John Lewis Partnership.
To book a place, email carbs-conference@cf.ac.uk

MARCH 2
Deadline for nominations for the FDs' Excellence Awards 2012. Presented in association with ICAEW, these awards recognise the best-performing FDs from quoted and privately-owned companies in the UK, as well as the service providers that support the UK finance community.
fdx.realbusiness.co.uk

MARCH 21
The chancellor is expected to confirm many of the changes already outlined in the draft legislation of the Finance Bill 2012 and will reinforce measures outlined in the Autumn Statement.

APRIL 21
Winners are announced for the Queen's Awards for Enterprise for outstanding achievement by UK businesses in the categories of Innovation, International Trade and Sustainable Development.

MAY 10
Speakers at the Bellweather Europe: How to prosper in a zero-growth decade conference include Lord Adair Turner, Alan Stewart, CFO at Marks and Spencer and Sharon Bowles, chair of the Economic and Monetary Affairs Committee.
economistconferences.co.uk

MARK SANDS

If I ruled the world

Every month, we ask prominent figures how they'd handle the biggest job of all

Duncan Cheatle

"I'd start where everything starts, with our children. As a creative nation, the UK is well placed to thrive as the global economy changes. But we need to encourage that creativity and innovation early on. I would reduce the number of rules we impose on children and instil them with values. Creativity starts with questioning the status quo. To do that they need to experience more than they can at school. I'd invest in providing young people with experiences outside the classroom. This would build confidence and innovation. I would have every child in primary school work in a team with a mentor to create a product or service and sell or market it. It's a great way to learn about numbers and to encourage creative thinking.

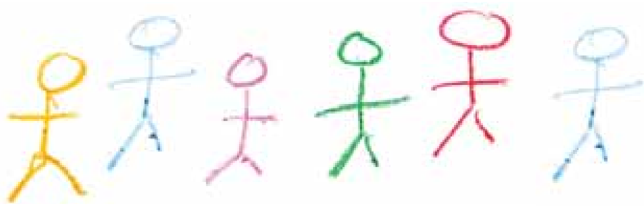
I would scrap a lot of regulation and red tape. We now try to legislate for everything, which takes away responsibility and cripples confidence. This turns entrepreneurs into villains, when entrepreneurs create wealth and jobs. We need to overhaul employment legislation. It is rigged against employers. There's an assumption that the employer is trying to get one over on his staff. I'd like to see a similar approach here to the accounting principle of "substance over form". This would apply to employment tribunals as well as health and safety regulations. I would also make sure new rules were only introduced with sunset clauses. I'd scrap the UK's participation in the Social Chapter – it has been a disastrous hindrance to business and employment.

Greater recognition for some of society's unsung heroes (in terms of people who stand out in whatever they do) is something else I would change. This goes back to our schools.

I have asked around 700 people whether they had an inspiring teacher at school. About half say yes, but over 90% of them have never thanked that amazing individual. I'd like one day a year where people say a heartfelt public thank you to someone who has done something for them or their community. This is the idea behind **www.thanksto.com**

In short, I'd try to free people to realise their potential, then make sure we did more to thank those who helped.

Duncan Cheatle is founder of the Prelude Group and the Supper Club and the co-founder of Start-up Britain



THE BIG IDEA

Clayton Christensen

Disruptive innovation

ALAMY, EVAN KAFKA

Who is he? The best-selling author and Harvard Business School professor, recently voted the world's most important guru.

Who voted? *Harvard Business Review*.

So it was a fix? Not really. Professor Christensen's seen as the "father of disruption", his ideas on innovation and how companies have to adapt to changing markets have had a huge influence on current business thinking. He's also received the Global Business Book Award and no less than five McKinsey Awards.

So what's his big idea? In the *Innovator's Dilemma: When New Technologies Cause Great Firms to Fail* he examined the idea that firms often fail because they are doing things right.

How does that work? Christensen's thesis is that powerful new products or services (disruptions) take root in simple, low-level applications at the bottom of a market. Existing businesses fail to spot them before they've moved into the mainstream, by which time they've taken customers from the established players.

Any examples? Think how Henry Ford ultimately destroyed the market for horse-drawn transport. More recently, the way the internet shot the music industry to pieces, or mobile phones undermined the market for fixed-line phones (a market itself disrupted by services such as Skype), plus how medium-sized, established shopkeepers lost out to the big supermarkets.

Will we ever learn? That's Christensen's point entirely. Businesses that are doing well tend to focus on their existing business model, usually to maintain profitability to invest in the "sustaining innovation" that helps them compete in the existing market.

So how can you spot disruption? A disruptive innovation makes a product or service cheaper or easier, so it attracts consumers who previously couldn't afford it or didn't have the skills to do it. Disruptive companies shake things up by accepting lower profits (or none) or finding an undiscovered customer niche. Products are often simpler and look unattractive compared to existing services. As a result margins in the new sector are low. Even if existing companies are aware of the disruptive technology they are unable to engage because it could destroy their profitability.

Talking point

How will the EU proposals for reform of statutory audit affect accountants?

Richard Sexton

There are many lessons to be learnt from the financial crisis, but knee-jerk reactions can be as dangerous as inaction. There have been significant reforms in recent years, including strengthening the role of audit committees, the establishment of independent audit regulators and increased transparency around the appointment and activity of auditors.

We are an important part of a system that provides reliable information to the capital markets. The debate about reform should therefore be about how the market can be served with higher quality audit services rather than for some to seek a competitive advantage through regulatory intervention.

PwC supports reforms that would enhance audit quality and remove artificial barriers to competition, such as restrictive auditor appointment clauses in contracts. Plans to ease the mobility of auditors through the creation of an EU auditor passport should improve the availability of quality resources. Relaxing audit firm ownership restrictions will also give those who wish to compete to audit the largest companies better access to the significant funds that need to be invested to build sustainable quality and a network to support such activities.

Improving dialogue between the regulators and auditors will help address concerns around independence. However, many of the measures proposed by the European Commission threaten to raise costs for businesses and with no demonstrable improvement in audit quality. They risk putting European business at a competitive disadvantage.

The Commission's consultation process has not supported proposals such as audit-only firms, mandatory audit firm rotation and further restrictions in the already heavily regulated space of non-audit services. The criticism from representative bodies including Business for Europe, the CBI, the Hundred Group of Finance Directors and the Institute of Directors is compelling evidence of how business feels about these proposals. We're determined to keep the debate focused on supplying services in competitive markets where buyers can choose freely on the basis of quality and price.

Richard Sexton
Head of reputation and policy, PwC

David Herbinet
Head of corporate and public interest markets, Mazars

We look at the future of audit in more depth on page 76

David Herbinet

As audit professionals we must never forget that we do not have an inalienable right to undertake statutory audits. Each generation has a duty of stewardship to renew our mandate with shareholders and other stakeholders if we are to pass on a thriving profession to our successors.

Although their voices have not been the loudest in recent debates sparked by the release of the proposed EU audit reforms, a number of leading institutional investors have been expressing unhappiness with the current model for some time. Their concerns need addressing; merely lecturing them on the benefits of the status quo is not a constructive way forward.

We need to debate the big issues. These include: how to avoid unduly long audit tenures (of more than 100 years in some instances); how to organise regular and fair tendering; the merits and practicalities of joint audit; the non-audit services it is reasonable for auditors to provide, and whether there should be a cap on the market share of companies so that no one is too big to fail.

We must challenge the myth that size means quality. Companies do not need to be the size of a Big Four firm to undertake most FTSE 100 audits. Moreover, there are risks associated with substantial economic power. We should discuss how best to report audit findings; the form that dialogue between auditors, audit committees and investors should take; and the scope of the audit itself – for example the treatment of risk management processes. Investors will not be persuaded, though, by firms advocating reforms that only generate new fees.

We must seize this opportunity for change or we will have failed ourselves, our key stakeholders and the next generation of auditors.

Tales from the front line

Real stories from the cutting edge of business and finance

Christine Hodgson
Chairman, Capgemini UK

I got into accountancy by default. I started a banking course at Loughborough University, but I found the lectures dry, especially for someone with no banking experience. Accountancy was the only course I could switch to without wasting my first year.

For my third year I did a placement at Coopers and Lybrand (now PwC). I loved the company, but detested being an auditor. Back then there was no technology, and I was in the bowels of a building with a pencil and an A3 sheet ticking off invoices. The day I qualified I transferred to corporate finance, which was starting to get interesting. For five years I followed the market. I worked on contested takeovers with a partner called Richard North who worked for people like Jimmy Goldsmith on all these exciting deals. When the market dipped I did a stint working in corporate recovery, which was also a fantastic experience.

When I started in the City in 1985 women were in the minority. But now there is a huge pool of female talent, a lot of it buried. We're all guilty of talking about women on boards as if we're a novelty. It can feel tokenistic. But until we address the issue of getting more women into the management pipeline, it will be tough to change.

In 1993 I was working in M&A, specialising in PLCs and shell companies, when an entrepreneur who had floated and sold a business and wanted to do it again approached us. I helped him find a shell and then we reversed two businesses into it and took the whole thing onto the full market. It meant they had three businesses but no central management. The chairman asked me to join as company secretary. The next step for me at Coopers was partner, so I was reluctant to leave. But I went on a secondment and loved working as a principal rather than an advisor. We were buying and selling companies and the banks were queuing up to lend us money. Then the City took against mini-conglomerates, so we restructured into an operating company around the old lighter brand Ronson.

We did that in January 1996 and 21 days later a fire destroyed the business. As we were a lighter brand you can imagine the headlines. A factory in Newcastle went up in flames taking out all our stock. We had planned to turn Ronson into an aspirational brand. We were putting the name on all sorts of products. But we had no stock, no accounting system and then the bank put us under best endeavours to repay immediately all the money we had been due to repay over seven years.

Talk about a steep learning curve. We had no money and couldn't wait two years to settle the insurance, so we took a thumping hit to settle quickly. Even a heavily discounted rescue rights didn't yield enough, so we also brought in an investor. That was the beginning of the end because we didn't get on with the investor. The 18 months after the fire were tough. The finance director left and I found myself having to do daily cashflow and bank flow. The dream we had for the brand was shattered. We had to say goodbye to it.

Frazzled by that experience, I had decided to join Ernst & Young when Capgemini offered me a dull-sounding job as company secretary and director of administration. I met the CEO, Tony Robinson, who asked why I'd applied. I told him I wasn't going to accept so he offered me a different role. That was 14 years ago. Six months later I became finance director. After a couple of other senior roles, I became chairman of the UK business in January last year. I am executive chairman overall, but CEO of the outsourced applications division, the biggest part of the business.

It will be tough for the next couple of years. Many companies in the UK have a lot of business in the public sector. They are shifting their portfolio to the private sector, which means fierce competition and that affects margins. You have to be careful that you don't price things in such a way that it isn't beneficial for you or the client.

HMRC is our biggest client. We manage most of its IT estate, it accounts for 45% of our business. We lead an ecosystem at HMRC. Behind us are 140 suppliers, from the small to large subcontractors like Fujitsu. This model allows us to access niche skills, while small companies benefit from our ability to take on liability and complexity.

At HMRC it is critical that the IT works, otherwise it's front-page news. Our reputation is at stake. And now, thanks to Twitter, everything is totally transparent. You have to be obsessed with delivery and quality.

Being an accountant is a good basis for a business career. Look at how many people in senior positions have a financial background. When I do talks at schools I always tell the pupils that they are probably not going to be Sir Richard Branson or win the lottery or *X-Factor*. If you want to earn a decent whack, do a professional qualification. It's the only way for near-guaranteed financial security.

We've just launched a junior apprenticeship, for young people aged between 16 and 18. They get five years of work experience and come out with a full degree, but without any loans to pay off. Education will increasingly be funded in this way, and employers and universities will work together to produce graduates fit for the workplace.

“At HMRC it’s critical that the IT works, otherwise it’s front-page news. And it’s critical for us, because our reputation is at stake”

CHARLOTTE PLAYER

As I see it

PETER SEARLE

Lord Bilimoria, founder and chairman of Cobra Beer

Karan Bilimoria knows what it's like to succeed, fail and then rebuild a business. A former ICAEW Outstanding Achievement Award winner, he saw his company fall from grace in 2009 before recovering to pre-tax profits of £4.9m. He tells **Steve Coomber** about his childhood ambitions, how to get things done and steering Cobra back from the brink

What was your childhood ambition? To join the army like my father. But aged 16, I had to decide between that or university. I chose university.

What was your first senior role? My first senior role in title was when I was an audit senior at Arthur Young, now Ernst & Young. My first senior role in practice was running my own company.

What makes a good chairman? The chairman is about leading, inspiring and being visionary. It is also important to be a mentor to, and sounding board for, the chief executive, as well as being an ambassador and figurehead for the whole organisation.

What issues are on your mind? To me, the big issue currently is that the future of the global economy is very precarious.

What motivates you? I'm motivated by constantly taking things further; always trying to achieve more in everything that I'm doing. And being able to make a difference and initiate things that haven't been done before, whether that is coming up with the idea for the Prime Minster of India's Global Advisory Council, or Cobra Beer.

Who do you admire most and why? In personal terms, my great-grandfather, DD Italia. He was an entrepreneur and true philanthropist. He served on several social and public bodies, including in the Indian upper house - the Rajya Sabha - the equivalent of the House of Lords. And he really looked after his family. He has been one of my greatest inspirations.

What do you enjoy most about your job? What I love is leading a multi-dimensional life, where no two days are the same... being involved with Cobra Beer and the global joint venture with Molson Coors, India, the House of Lords and my charitable work. It is the variety of things that I do that I absolutely love, and it is on a global basis. I'm lucky. It is challenging, but very rewarding.

What would you change about the past? In 2007 I was worried there might be an oncoming recession, but nearly everyone I spoke to seemed to dismiss the idea. I should have followed my gut instinct, consolidated Cobra, slowed our rapid growth and banked some serious profits.

What's the best way to get things done? This is one of life's great contradictions: where people say, "If you want things done ask a busy person". The best way to get things done is to have a great team. With a great team and clear, frank communication you can get a lot done.

When do you get your best ideas? While shaving and when I'm in the shower, like Archimedes! I have to then remember them and write them down straight afterwards.

What advice would you give to someone who wants to reach the top of an organisation? You have to be able to do a great job, and be able to manage the organisational politics.

And to someone who wants to found their own business? Ideally they need big goals, a mission and a vision, and then to work their way towards those goals against all the odds, and to have the guts to stick with it, even when everyone else thinks they will fail. And to build a great team around you, in terms of both employees and advisors.

What is the biggest lesson you have learnt? Good judgement comes from experience, and experience comes from bad judgement.

Career path

Best advice: never do a job just for the money; and plan backwards

Mark Freebairn

The best piece of advice I have ever had about my career is also the worst piece of advice. It was offered to me in my very first interview. The owner of the recruitment company I wanted to join asked me why I wanted to work in recruitment. "Because I really like the idea of helping nice people to get really good jobs," I replied.

OK, I accept the answer was a bit trite and naive. But in my defence I was young and I genuinely felt it. Importantly, I still do. But on this occasion it turned out to be the wrong answer. "What rubbish," my interviewer chided me. "Don't ever say that again. The only reason for wanting to work in recruitment is to earn money."

This may shock you, but this is not an uncommon opinion, as a long career in recruitment has shown me. But that sentence also taught me the most valuable lesson I have ever had; never, ever do a job just for the money. It's the fastest way to find unhappiness. The size of your pay cheque tends to diminish over a horribly short time and it never truly makes you happy.

"Never do a job just for money. It's the fastest way to end up unhappy"

The best piece of career advice I've offered to someone else is: think about your career backwards. It may not be up there with the best quotes of all time and doesn't have the ring of "float like a butterfly, sting like a bee", but that's not much use in finance.

One of the joys of the finance career path is that it is possible to build the experience you need for the next role. So if you know exactly what your end goal is (FTSE 100 CFO, FTSE 250 CFO, NED, chair, CEO) it is perfectly possible to understand what experience you need and what roles you should take to gain that experience. This will allow you to take control of your career path to reach your destination.

Now that's what I call empowerment and liberation for all CFOs. Who says we should be doing this for the money? Pah!

Partner and head of financial management practice at recruitment consultancy Odgers Berndtson

AUDIT UNCOVERED
New website gives non-specialists the inside story on auditing

ICAEW has launched a website to help explain the purpose and process of audit to a general, non-specialist audience.

The site, trueandfair.org.uk, aims to clarify the role, conduct, value and function of audit for anyone not familiar with the profession. It provides answers to a series of the most commonly asked questions to give the man or woman in the street a better grasp of audit, who regulates the function, how it works within a business and what auditors do. This is more important than ever as the profession moves into a period of immense and potentially high-profile change.

ICAEW Audit and Assurance Faculty head Henry Irving said, "Because audit can be technical it is seen as something only accountants are interested in. But investors, customers, suppliers and many other stakeholders are all affected by changes to the audit market. The underlying concepts surrounding audit are easy to explain. The website has been created to ensure anyone with an interest in audit has easy access to that information."

He continued, "Many of those engaging in the debate on audit are relatively new to the topic. This website is intended to provide unbiased, objective information in layman's language to help inform them and improve their understanding."

Good news bad news

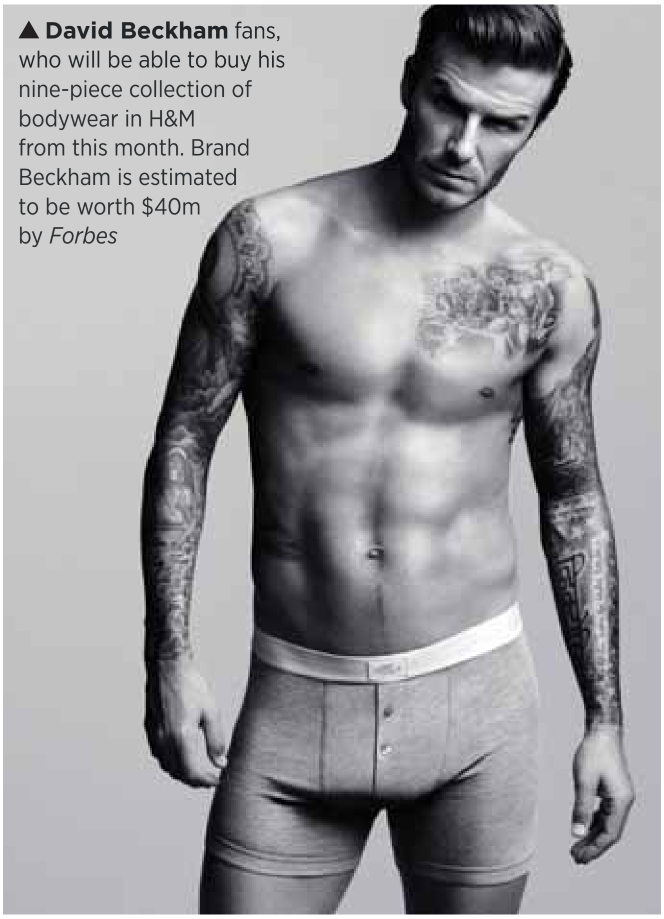
▲ **Nissan**, whose Sunderland plant produced 480,485 cars in 2011, beating the previous record of 423,262, which the plant set in 2010 when it became the first ever UK car plant to make more than 400,000 cars

▲ **ParkatmyHouse**, the spare parking space and driver-matching business that's expanding to three major cities in the US with backing from BMW i Ventures

▲ **Scott Thompson**, former PayPal chief who saw off strong competition to win the top role at Yahoo!, where his brief is to drive growth

▲ **Alison Nimmo**, new chief executive of the organisation that manages the Queen's property portfolio but also the first woman to lead the Crown Estate

▲ **David Beckham** fans, who will be able to buy his nine-piece collection of bodywear in H&M from this month. Brand Beckham is estimated to be worth $40m by *Forbes*



▼ Already beleaguered retailer **Comet**, which is being sued by software giant Microsoft for allegedly producing fake recovery disks for Windows

▼ Tesco chief executive, **Philip Clarke** witnessed a big price flop after cheap Christmas offerings failed to lure the expected volume of UK sales, with growth down 2.3% from last year. The group predicts a sluggish 2012 for UK sales.

▼ The directors at **Blackburn Rovers FC**, whose protesting fans want to remove first-team manager Steve Kean, club owner Venky's and now its board

▼ **Kodak**, which has filed for Chapter 11 bankruptcy protection after failing to raise funds by selling lucrative patents

▼ **Croydon**, because its biggest tenant, Nestlé, is relocating to offices near Gatwick airport

GETTY IMAGES, REUTERS PICTURES


File dormant accounts online and feel the speed.
Switch to online filing of accounts and save time and money every time you file. It's quick and easy, and you'll soon start reaping the benefits of reduced admin, stationery and postage costs for every single submission. Visit our web site now to learn from other accountants that have already made the changeover. Start today and don't get left in the starting blocks:
www.companieshouse.gov.uk/dca1
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File dormant accounts online and feel the speed.
BIS Department for Business Innovation & Skills
A BIS SERVICE

Opinion matters

Welcome to the first issue of your new members' magazine. It's aimed at all ICAEW members, covering the essential issues relevant to those in business, finance and accountancy. There is still plenty of technical accountancy content, but it's also packed with a broader range of material covering business, economics, management and finance. We hope that regardless of your role you will find the information, inspiration and entertainment here relevant and engaging. Hopefully we've succeeded in interpreting the requirements you expressed in a thorough membership research exercise last year, and we look forward to receiving your input into future issues. You can write to us or email us with a contribution for these pages, comment on articles online (many of which will be unique to the website) or join the discussion via social media and at icaew.com/economia.

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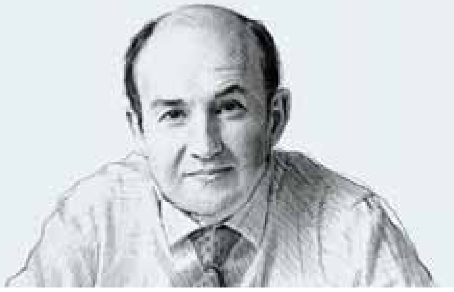
Michael Izza



Leading by example

There's a buzz phrase you might have come across recently – responsible capitalism – which is about businesses like ours doing good in the world. Indeed, it formed the basis of our discussions at the World Economic Forum in Davos last month.

The packaging may be new but the underlying concept is an old one, and one that is integral to our profession as chartered accountants. We are taught from the start to understand the role that ethics and integrity play in our daily working lives. That ability to say "no" when necessary helps to promote confidence and trust, both in the profession and in the businesses we serve.

Instilling ethics in organisations is something we have been looking at, not least because of its knock-on impact on the economy as a whole. Recent research from US business intelligence unit Corporate Executive Board shows that corporate culture has a direct impact on a company's financial performance. Companies with more open and transparent cultures are more successful, better at adapting to change and they have systems that are self-correcting. And the strongest factor in terms of creating long-term shareholder value is the ability of employees to raise the concerns they have without feeling threatened.

At ICAEW we are strong believers in leadership by example. Instilling a good corporate culture throughout the business has to come from the top. Drawing up a code is simply not enough. It requires serious application.

What does responsible capitalism look like? I see it as sustainable, not damaging the environment or society and good for the long-term reputation of the business. It invests in people and results in a net-positive impact. To that end, we are contributing to several initiatives, including international integrated reporting and measuring the real cost of business to the environment and society. This will not only change the face of financial reporting but in the long term help businesses to act in a more ethical and sustainable way.

That's what I said at Davos last month and will be saying to politicians this year. Responsible capitalism makes good business sense and is something chartered accountants support.

Michael Izza
ICAEW chief executive

George Coelho

Make your own luck

Residential solar in the UK is booming despite the tariff cuts, and it's booming in the US, especially in California. Ways of managing energy from a utility standpoint – dubbed the smart grid – are really developing in the US, especially given the huge amount of dollar stimulus.

Sustainability is sweeping the world in various ways and a lot is happening in the energy sector. A couple of our companies, including US smart grid technology business Tendril, can't hire engineers fast enough. I've joined sustainability impact investor Quadia in Geneva as a board member – the company invests in businesses that have a social as well as financial impact. And if you're in healthcare, energy or emerging markets, it's exciting. I'm on the board of the George Washington University. We started the School of Nursing there three years ago and it's sold out. With people living longer and more productive lives, you'll need nurses forever.

> "People complain about the cut in solar tariff but I think beyond the existing market. Get over yourself, move on, do something you can influence rather than wait for someone to change something for your business to work"

PORTRAITS: DAN MURRELL

Even money managers are thinking: how do we have more stable portfolios? Where do we invest? What do our clients want, given that yield is so difficult today? What impact will I have with my money as well as get a return? Is that company sustainable? Does it use fair trade? Or child labour? Is it good for the environment?

A Chinese investor turned up and took on the whole last round of funding for one of my companies, solar cell business Xjet, in Israel. It's amazing what's happening in the emerging markets. Of course they're slowing, as the Western markets have slowed, but there is still a great amount of business going on. For the first time I've had other venture capitalists calling me saying, "George, how do we get these big financiers from China?".

We're debating whether to do deals in Mexico. Things are booming in east and southern Africa. The growth rates in Tanzania are quite high – we're not investing there at the moment although I might do through Quadia. I follow up on all the things I see. I like basic businesses. Greening the world will take 50 years – it's a long-term trend.

I have a couple of funds in India. One of my investments is bringing Western fashions to India. Another is doing microfinance. Another is doing Indian wine (there's a growing middle class there). Then there are medium-sized hotels... There's always another bubble forming somewhere.

The government asks what it can do to foster entrepreneurship and I probably have a radical view: stay out of it. The tax structure is OK for entrepreneurs; the government tries to make things positive. I don't think the government is needed that much.

People complain about the cut in the solar tariff but I think beyond the existing market. Get over yourself, move on and do something that you can influence rather than wait for someone to change something for your business to work. I've always looked for new frontiers without obsessing about what it used to be like. Making yesterday last is not a very good business plan.

When a taxi driver asks me what I do for a living, I say I finance clean energy and green projects – and it's like they've met the Messiah. You can be proud of that. People love that and you can engage in conversation: "I've got a south-facing roof, George, what about solar panels, electric vehicles?" I'm in a subset that's actually quite positive.

I have no sympathy with investment bankers. You make great money in the great times and you get laid off in the bad times. But you have to pick your job or your métier. I have no schadenfreude. Nothing booms forever. Banking was going to collapse and there were a lot of things wrong in taking risks and getting bailed out by government. But I don't worry about that much.

George Coelho is managing director of Good Energies

Robert Rowthorn

Prudent policies for difficult times

These are perilous times for the UK. The financial crisis that began in 2007 has led to an economic collapse followed by near stagnation and high unemployment. It also damaged the country's long-term growth prospects, although by how much is a matter of dispute. The eurozone countries have just agreed to a fiscal union that could harm the UK's economy. In the longer term this agreement could lead to measures that discriminate against UK exports and harm the City of London. In the short term, it will do little to resolve the present debt and payments problems of the eurozone, which are holding back economic recovery and may erupt into a full-scale economic crisis. Although we are not in the eurozone, our economy would feel the backwash of such a crisis.

What should our economic policy be under these conditions? Critics of chancellor George Osborne argue that the present austerity programme should be abandoned and fiscal measures used to increase demand. As a Keynesian, I have some sympathy with this view.

The UK economy is currently operating below full capacity. The Office for Budget Responsibility estimates that output is about 2.5% below what could comfortably be produced using existing capacity.

Other economists, such as Bill Martin (who is a research associate at Cambridge University's Centre for Business Research), argue that the gap is considerably larger than 2.5%.

The reason for this gap is a shortage of demand. If this could be increased in some way, businesses would produce more output and generate additional jobs. This would also encourage private companies to invest more for the future, thereby increasing the longer-term growth rate of the economy.

This is the Keynesian case for government measures to stimulate demand, such as tax cuts or higher government expenditure. In its own terms, it is a valid argument. However, it ignores the implications of Keynesian policies for the public debt.

To finance large-scale tax cuts or extra expenditure, the government would have to borrow a large amount of additional funds, causing the public debt to increase much faster than it is now. This could be problematic at the best of times, but under present conditions it would be foolhardy. If the crisis in the eurozone gets worse, it would have a damaging effect on our banking system and on the rest of our economy. National output will fall and as a result of this tax revenues will shrink. Our banks will also require a fresh injection of capital to keep them afloat.

If revenues outweigh the cost of borrowing, the UK's finances will strengthen

To finance these bailouts and make up for lost tax revenue, the government would have to borrow additional funds. Given this danger, it is prudent to take the decision to restrain present government borrowing to leave room for a future surge in debt should the need arise.

This does not mean that nothing can be done. For example, there could be a modest increase in government borrowing to finance additional investment in infrastructure. Such investment should satisfy two conditions. First, it should be in the form of projects that can be started quickly so as to give an immediate boost to demand. Secondly, these projects should generate future tax revenue for the government, either directly or by stimulating tax-generating commercial projects.

Projects that generate revenue for the government should be given precedence over projects that are valuable in their own right but do not generate receipts. Thus, transport should take priority over hospitals. Provided the projects in question genuinely create tax revenue, borrowing to fund them will not exacerbate the public debt problem. Indeed, if future tax revenue outweighs the cost of borrowing, public finances will be strengthened over the longer term.

Borrowing to finance profitable investment is good business for United Kingdom PLC. Hopefully, the markets would recognise this.

Broadly speaking, therefore, I believe that the present fiscal stance of the government is correct. Apart from some additional borrowing to finance infrastructural investment, I would stick with the existing austerity programme. This does not mean that I agree with every detail, but the overall thrust is right.

I also support further monetary stimulus, such as quantitative easing and measures to encourage the flow of bank credit to business, especially small and medium-sized enterprises.

Robert Rowthorn is emeritus professor of economics at Cambridge University

Jason Cowley

A marriage of convenience

England," Disraeli said, "does not love coalitions". And so it has proved with the present government. The polling data suggests that it is tolerated out of necessity rather than admired because of what it is doing or represents.

That is not to say that the Labour Party is any more popular. Ed Miliband continues to struggle to connect with a wider electorate, most of whom remain largely indifferent to or sceptical of the Labour leader and his attempts to reformulate a new model of social democracy during an era of austerity.

The question he keeps being asked is this: what is the point of Labour when there is no money to spend? So far he has failed to find a satisfactory answer. Or, if he has one, he is keeping very quiet about it.

In Britain, coalitions tend to be formed during periods of national emergency – during the two world wars, for example, or in the early 1930s after the fall of the second Labour government and at the start of what became known as the Great Depression.

At the end of the 1970s the Labour government, led by Jim Callaghan, formed a pact in desperation with the Liberals as the long post-war consensus began to unravel, during the years of high inflation and the winter of discontent, when Margaret Thatcher and her fellow free market ideologues were preparing for their long counter-revolution against Keynesian orthodoxies, statism and trade union power.

Our first-past-the-post voting system is generally favoured because it is supposed to return strong working majorities of the kind that both Thatcher and Tony Blair enjoyed. But that did not happen in 2010 when the Conservatives failed to secure a majority in spite of the general election taking place amid the worst economic crisis since the Great Depression and the increasing unpopularity of a riven and fatigued Brown government.

David Cameron has been grappling with the consequences of that failure ever since. He is seeking at once to appease his restless, Eurosceptic backbenchers, who want a Conservative prime minister to pursue unadulterated Conservative policies – how they cheered when he used his veto to thwart treaty change at the EU summit in December – while on the other hand keeping the left-leaning Liberal Democrats happy. And this has led to a problem of self-definition for Cameron. Just what kind of Tory is he? Is he a quasi-Thatcherite or a Macmillan-style one-nation patrician? What are his core beliefs and values? What does he want beyond the seductions of high office?

Cameron and Clegg may be in a shotgun marriage but it is my conviction it will last the distance

Yet for all these uncertainties, Cameron remains more popular than the rest of his party. He is both fluent and effective under pressure. He has a commanding personality and is nimble in a crisis, as he demonstrated when returning from holiday during the English riots last summer.

And in Nick Clegg, Cameron knows he has a willing partner who, because of his own party's unpopularity, is bound tightly into coalition. "I am in blood stepped in so far that should I wade no more," said Macbeth. Clegg knows that if the coalition collapsed and there were a general election, the Lib Dems would be wiped out in Scotland and lose many English seats as well. For him, there is simply no turning back.

However, this may not be the burden that some seem to believe it is. Just before Christmas, I was a guest at a drinks party hosted by Clegg at his offices in Whitehall. The mood was subdued, but it was far from pessimistic. The deficit reduction programme, which unites both coalition parties, has alienated many traditional Lib Dem supporters. At the same time, it's clear that the party's ministers are rather enjoying power: the ministerial cars, the grand offices, the scuttling aides and the diligent civil servants.

As one of Clegg's closest aides told me with a smile of satisfied astonishment: "We never really believed that we would ever be in this position. We have disagreements on policy, but we're not like the Labour Party. We actually like each other."

Clegg and Cameron are committed to a five-year fixed-term parliament. Theirs may have been a shotgun marriage – conceived in haste and repented at leisure – and it may often be unhappy. But it is my conviction that it will last the distance.

If Ed Miliband and his party think otherwise, then they are deluded. They should be preparing psychologically for the long haul of opposition – and the need for patience and stamina will be perpetual.

Jason Cowley is editor of the *New Statesman*

Letter from America

The US economy is the best of a bad bunch

Ronald Reagan used the slogan "Morning in America" to great effect during his 1984 re-election campaign, thanks to a speedy economic recovery. Barack Obama would be laughed off the stump if he attempted to make a similar claim. The US is expected to grow by just 2% in 2012 – a sluggish rate for a nation that once took pride in its economic dynamism.

But Americans should be grateful for small mercies. Relative to its closest peers, the US economy at least looks healthy. The crisis-ridden eurozone is on track to shrink by 0.7%, according to consultancy IHS Global Insight.

Several pieces of good fortune help explain why the US has not succumbed to the economic chill in Europe. The first is financial stability. Ebbing investor confidence in the eurozone is leading to dearer borrowing costs. The EU's loss has been America's gain as capital fleeing the zone pushes down US interest rates. Credit, while hardly abundant in the US, is far easier to secure than in the eurozone.

European officials might reflect bitterly that the US has a higher public debt overall – around 74% of GDP to the eurozone's 61%, according to the OECD. But investors are confident that the US will pay up and sceptical that prudent eurozone nations will bail out their profligate neighbours.

The US has also been relatively unharmed by lower spending from European shoppers and businesses. Exports to the continent account for just 2% of America's national income. By contrast, the natural exuberance of US consumers has been helping their domestic economy tick along. As unemployment rates start to decline, Americans have been quick to head back to the shops. Spending rose at a solid 2.4% in the third quarter.

Consumer optimism is also being supported by signs that the worst may be over for the housing market. The number of unsold homes sitting on the market is down by about a quarter over the past year and new construction is picking up.

Finally, America is benefiting from an investment surge in its energy sector. Hydraulic fracturing – a new drilling technique to extract oil and gas from rock – has created highly-paid jobs. It is no coincidence that states rich in such resources have jobless rates far below the 8.5% national average. Oily North Dakota has the nation's lowest, at 3.4%.

The US economy faces plenty of headwinds in 2012. Consumers will still be constrained by a mountain of debt. At about 110% of disposable income, household debt is higher even than the 80% peak at the end of the go-go 1980s. A full-scale financial meltdown in the eurozone would also likely cause credit to dry up in America.

But while Obama can't really claim it is "Morning in America", at least he can point to evidence that the darkest part of the night has long since passed.

The latest news from Christopher Alkan, our insider in Washington

OPINION

Dominic Holland

In it for the money

When I received a new £50 note recently it made me panic – I thought I'd been palmed off with a worthless foreign note. The new £50 isn't a million miles from the old one. But as well as the Queen, it features two British luminaries: James Watt, the great Scottish engineer who facilitated the industrial revolution, and Matthew Boulton… Anyone? No, me neither. Boulton, it turns out, was Watt's partner, so would surely be aggrieved his contribution to history is barely registered. Though it could have been worse for him, I suppose: he might have been put on a euro.

What I like about my £50 note is that it is brand new. I don't feel I need to wash my hands after handling it. In fact, new money is a concept we are all familiar with since quantitative easing was used in the UK's darkest hour to stop it falling into a financial abyss.

So I'm holding on to my new £50. It's a bit big for my wallet, but I like that because it peeps out at me. I can relate to the plight of Matthew Boulton, living forever in the shadow of his illustrious partner. My eldest son is an actor and far more successful than me; he will eclipse me in the world of show business. Our house will no doubt eventually sport a blue plaque – not for me, for him. But by then, like the brilliant but overlooked Matthew Boulton, I hope I'm long gone.

Dominic Holland's blog is at dominicholland.co.uk

Kevin Roberts

Why it's smart to market in a recession

Recessionary investment is a slippery science. In tough times, business leaders are inclined to lower product prices, cut spending on research and hack at the ad budget like Sunday golfers flailing round the course. The benefit of the safe option is that it brings with it a sense of security. But opportunities are lost as everyone hibernates. Ideas do not bow to the timetable of events. They are the currency of the future. The smart movers don't farm; they hunt. For example, in the dark days of 2001 Apple launched the iPod.

There is a body of evidence to support the idea that increasing advertising in a recession helps brands steal a march on the competition. Of course, scale, breadth and deep pockets play a role. The car industry is fertile territory for this argument. In the latest recession, Mercedes (Taiwan) and Hyundai (America) made big gains in market share by spending a lot on advertising. Part of Hyundai's acceleration came from its assurance to take back customers' cars if they lost their jobs – an intimate gesture that goes to the heart of the issue.

Toyota, in a period before today's challenging environment, grew for 20 consecutive years in the North American car market, gaining market share through three downturns. It did this by launching products and investing in strong brand building. Notably during that time, Toyota made higher market share gains during recessionary periods than non-recessionary periods.

A glance at Twitter today confirms we live in less happy times. It's what I call a VUCA world: volatile uncertain, complex and ambiguous. Only fools claim to know how long it will last. But advertisers' cash reserves are up and opportunity knocks. So how far to commit the ad budget and how long will the benefits flow? A long way, I say – and not just because I would say that.

The reason is human nature, not the next research study. People are emotional. How do we choose a car, a house, a husband, a wife? We spend ages rationalising and then go and do the opposite. As the neurologist Donald Calne said, "Reason leads to conclusions; emotion leads to action."

In a VUCA world, our everyday decisions come under more scrutiny than ever. People want to spend less but get more. It's Dickensian – "A penny saved is a penny got." Consumers will take control of value for themselves. We distinguish between true value and false economies. We juggle options any way we choose – *plus ça change, plus c'est la même chose.* We decide with our emotions. In these topsy-turvy techno times when everyone is always switched on, we live for, and in, the moment and we share everything at warp speed. Emotion rules and it is returning epic premiums.

Put the brand at the heart of everything the consumer does, not the customer at the heart of everything the brand does

It's a mistake for a brand to end its conversation with customers. The right move is to get closer to customers and win new ones. Brands should deepen the conversation through empathetic insight into how their audience is feeling and then have the creative foresight to do something about that before the competition.

This separates price-driven value (or war) and priceless value. Today's question is not: "How cheap are you?", it is: "How will you improve my life?" And the right answer puts the brand at the heart of everything the consumer does, not the customer at the heart of everything the brand does.

Smart business leaders recognise that there are different ways that value plays with consumers. And they should all aim to inspire both love and respect. The progression goes from product ("It's not what I really want, but it's cheap"), through fad ("This is fun, but do I really need it?") to brand ("This is good value, but I could live without it if I had to") to the ultimate love mark ("I will make sacrifices before I give this up").

Such priceless loyalty reframes value to match emotional states, and surprises with the obvious. Hyundai's car-back programme did it. Toyota Prius's button-start ignition did it, turning process into experience. Procter & Gamble emphasised overnight dryness for babies so that toddler (and parent) can sleep right through the night.

Procter & Gamble, famous for investing and winning through good times and bad, works from the consumer backwards. P&G's winning way is to be "purpose-inspired and benefit-driven". Brand owners must see recession as an opportunity: give consumers options, stay the course in communication, innovate to address needs and, through insight, adjust their conversation to win both minds and hearts.

For brands, the question shouldn't be whether marketing spend is an investment; the question should be: "How can my brand improve the customer's life?"

Kevin Roberts is CEO Worldwide of Saatchi and Saatchi

你好

(Ni hao: hello and welcome)

As China opens up to the international market, a stint in its burgeoning economy will boost your career. But, asks **Penelope Rance**, can you overcome the challenges that await the Western expat in the Middle Kingdom?

Rising in the east: (Above) China is tipped to become the world's second-largest economy. (Opposite page) Shanghai's stylish waterfront (main picture) is just one of the eye-catching sights in a city of contrasts, where the old and new as well as the formal and the casual, rub shoulders

Tipped to become the second largest economy in the world, and one of the few not teetering on the brink of collapse thanks to its particular brand of open-market Marxism, China is so very now. The benefits of a spell working in the Far East are numerous – international exposure, experience of its fast-paced business culture and the chance to sample some unusual foodstuffs.

But it's not all *hen hao* (good). Once China cried out for Western expertise, now it favours returnees – foreign-educated nationals. They understand a culture that can be opaque to outsiders. And your lack of understanding could be a barrier to more than just employment. Many who return early from the land of the dragon do so because of culture shock. If using squat toilets, eating live prawns and being unblinkingly stared at on public transport sounds too uncomfortable, it may be best to consider Croydon instead.

But if you decide you can hack it, gaining experience in China, where young executives can expect early promotion and a high level of responsibility, can greatly enhance a CV. With competition from returnees increasingly tough, the easiest route is to take a position with a Western firm with an office in China, or transfer within your current organisation.

That said, the speed of economic growth is also expanding the need for accountants with international experience, while foreign invested enterprises (FIEs) continue to locate there. Recruitment consultant Hudson reckons FIEs employ 85% of expats. Jobs with local Chinese firms are scarcer, but as one of Asia's most candidate-short countries, China has the continent's highest salary inflation and staff turnover.

Hudson claims that banking creates the majority of expat demand, with accounting and finance second. Finance directors, commercial directors and financial controllers are all needed. Although preference goes to bilingual native candidates with experience in multinational companies, certain industries need the skillsets found among expats, including the ACA.

"China is ambitiously globalising its accountancy profession, so many firms are open to international talent, both the Big Four and smaller firms," says Joyce Chao, chief representative of ICAEW in China, who has worked there for eight years.

In order to maximise your chances, advises Chao, you should learn Chinese, gain a basic understanding of the business infrastructure and become an expert in a specific area. "You are competing for jobs with local professionals. Unless you bring tangible value to the firm, it's hard to justify hiring a foreigner."

BUILD YOUR NETWORK

If you haven't got a job offer, it is worth spending time in China, meeting contacts and researching companies. It's all about who you know, and with the Chinese culture of filial piety filtering into the business world, an experienced mentor could open doors.

"Getting on with your local colleagues and clients takes time," says Susan Yang, senior manager in PwC's assurance group. Based in Shanghai, she spent two years with PwC UK, so is well placed to compare working conditions.

"Chinese people tend to spend more time establishing a trust relationship before doing business," she adds. "Having a local guide is of paramount importance. The ICAEW office in Beijing organises various activities for members and students. Through this channel, you may meet experienced expatriates in senior positions."

Be prepared for a different attitude towards accountants if you are not working for an international firm. "For an accountant in China the job prospects are different from the UK," says Eric Zhu, audit manager for KPMG. A Chinese national, he spent three years in the company's London office. "In China, accountants perform purely financial roles, and it is very rare for an accounting-based CFO to become CEO or chairman.

"One of the biggest challenges is that some of your clients have little idea regarding the difference between auditor and accountant, and may expect you to perform management tasks," says Zhu.

Being an expatriate will limit the work you can do. "In order to sign official reports you must have the CPA qualification from the Chinese Institute of Certified Public Accountants," says Chao. "Very few expatriates

MORGAN OWENS, PANOS, ANDREW ROWAT, SCOTT WOODWARD

This striking 44-storey building in Beijing is the headquarters of China Central TV. Local taxi drivers call it "big boxer shorts"

can pass the all-Chinese written exams, so you must have skills that add value to the firm besides audit."

"There is a need for foreign-qualified chartered accountants to bring their understanding of international dimensions not only for foreign invested enterprises, but also domestic corporations seeking to do business in the rest of the world," adds Mark Wilson, partner in RSM China, who has worked in China for nine years. "International cooperation between ICAEW and CICPA has raised the profile of the UK profession, while niche qualifications such as Certified Internal Auditor are gaining recognition as domestic corporate governance regulations become more international."

PRIORITISE THE EXPERIENCE

Go to China with the mindset that you are doing it for the experience, not the money. "Expatriates should not have the same salary expectations as in their home country," warns Chao. "However, the profession is advancing quickly and becoming competitive in its salary schemes. What is more valuable than the salary is the experience of working in the most dynamic economy in the world right now."

There is cause for optimism, though. "Salaries vary between regions, sectors and industries," says Yang, "but salaries for experienced accountants have kept rising during the last few years due to huge demand from the capital market and foreign investment."

Preparing for the change in culture may prevent you from becoming one of the 70% of expats to make an early exit. "The best thing about living in China is 5,000 years of Chinese culture and Chinese cuisine," says Zhu, but the full force of this can be overwhelming to the average Westerner. If you're obsessed by cleanliness, customer service and making sure things go to plan, China may not be for you.

Business is done differently, too. "Things change quicker than you have scheduled, such as regulatory change, clients' urgent requests or getting new clients," says Yang. "When I worked in the UK, I scheduled client meetings a month in advance because a request for a meeting within a week would be regarded as unprofessional. Now, if I could plan things one week ahead, I would be happy. The greatest culture shock for Westerners may be how we value business over personal life. For example, a business trip is a reasonable excuse for not attending a close friend's wedding."

There is also a difference in behaviour. "People in China tend to be more quiet and less willing to speak out in meetings. For the Chinese, actions speak louder than words," says Zhu.

VALUE YOUR TIME

"Whether dealing with Europe in the late afternoon or the US throughout the night, the international working day is generally much longer than in the UK," adds Wilson. "And you need to travel for regular work. In the UK, it was normal to travel up to three hours by train. In China, the same time limits apply, but I'll be flying.

"Leisure time is limited. When I do take time off, the first priority is to spend time with my children who are growing up in an interesting bilingual environment."

His children will have an advantage over many expats. For a career in China, learning the language is vital. Even if you're only there for a short time, knowledge of standard Chinese or *putonghua* (based on the Beijing dialect of Mandarin) will help you get a job.

"China is becoming an internationalised workplace and English fluency among young professionals is rising," says Chao. "However, knowledge of the language is essential and an understanding of the Chinese culture is equally important. If you are not able to follow the detail in Mandarin, ask the same question in a number of ways to validate points that may be lost in translation," says Wilson. "Generally inbound work is more forgiving of a deficiency in the local language."

Everyone who has lived and worked in China agrees that the experience will be challenging. "It is hard to do business without being able to read Chinese," says Wilson. "Bureaucracy is also rife and administrative procedures can take an inordinate amount of time. Patience may be a virtue, but if you want the interest of the challenges, you will need an abundance of it."

The biggest challenge is the work-life balance, says Yang. "But once an expatriate can cope with the culture, they will enjoy living and working in China."

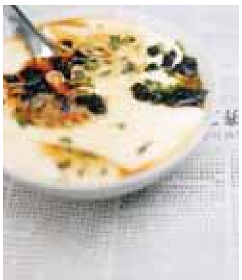
"The most important thing is not comparing home and China," adds Chao, "and to think like the Chinese. China is not for everyone, but if you want to partake in its dynamic modern history, then start learning Mandarin and book a ticket."

ANDREW ROWAT

LIVE LIKE A LOCAL

If you shop in local stores and eat at inexpensive restaurants, you'll find your money goes a long way.

EAT	
Three course meal for two in a mid-range restaurant	£11.07
Cheap restaurant meal	£1.91
0.5 litre domestic beer, bar/shop:	£0.67/0.37
0.33 litre imported beer, bar/shop	£1.83/ 1.33
Loaf of white bread	£0.86
Litre of milk	£1.06
1kg potatoes	£0.67
TRAVEL	
One-way local transport ticket	£0.20
1 litre petrol	£0.65
Taxi, start/per km	£1.08/0.23
LIVE	
Monthly rent one-bed flat, city centre/suburbs	£297.04/£140.04
Monthly rent three-bed house, city centre/suburbs	£684.73/369.00
PLAY	
Monthly gym membership	£17.97
Cinema ticket	£5.93



Average prices across China. Source: Numbeo

KEY WEBSITES

PwC China
pwccn.com/home/eng/index.html

British Foreign and Commonwealth Office
fco.gov.uk/en

ICAEW China
icaew-china.com

Hudson recruitment
uk.hudson.com

KPMG China
kpmg.com/cn/en/pages/default.aspx

RSM China
rsmchina.com.cn

Brazil

AT A GLANCE

In the first of our series of international profiles looking at business destinations around the world, **Penelope Rance** takes a whistlestop tour of the carnival country

VITAL STATISTICS

POPULATION: 203,429,773 (July 2011 est.)
CAPITAL: Brasilia
OFFICIAL NAME: Federative Republic of Brazil

ECONOMIC STRENGTH

GDP PER CAPITA: $10,800
EXPORTS: $201.9bn
IMPORTS: $181.7bn
EXCHANGE RATE: 2.8 reais to the pound
SUMMARY: Growth this year will be 3.6%, making Brazil the world's sixth largest economy. Key exports are coffee, soybeans, sugarcane, wheat, cocoa, citrus and beef.

PROFILE

Brazil is the economic powerhouse of South America. It's the largest and most populous country in the region, covering 47% of the continent. Its economic muscle comes from abundant natural resources and a large labour force. Industrial and agricultural development of the interior continues apace, while tourism thrives on the coast. Unequal distribution of wealth has led to high crime rates. The government has tried to reduce inequality, with mixed results.

IN THE CITY

City life is a big part of the nation's culture, with urban dwellers making up 87% of the population. Aside from the capital, key cities are São Paulo, Rio de Janeiro and Salvador. These coastal settlements were once vital trade destinations, but in the late 19th century the decision was made to move the capital closer to the centre of the country. Brasilia was begun in 1922 and is one of the world's most striking planned cities. It is the only 20th century city to be awarded World Heritage status by UNESCO.

JUST THE JOB

To work here, you'll need a temporary residence visa. To gain one, you'll need a job offer. Your employer will apply to the Immigration Division of the Ministry of Labour on your behalf. Working in Brazil is all about the experience, not the money. You can be taxed up to 27.5%, and pay income tax on both Brazilian and any overseas income. The cost of living is high. Some larger companies will contribute towards health insurance, childcare and the cost of transport.

DOING BUSINESS

Personal contacts are key. Doing business is a personal interaction, so it's all about who you know. But keep language formal and don't refer to people by their first name unless invited to. On the phone try to sound sociable rather than pressed for time. Getting to the point can be seen as brusque. Combined with a relaxed attitude towards time, this can make meetings long and frustrating. Turn up promptly, but don't expect everyone else to.

WEATHER REPORT

One of the advantages of life in Brazil is the tropical climate, with an average annual temperature of 28ºC in the north and 22ºC in the south. Beach life is an integral part of the coastal culture, with locals flocking to Rio at weekends to parade on Copacabana Beach. The 4km of golden sand is edged with glamorous restaurants and hotels stretching along its black-and-white promenade.

GREEN DEFICIT

The push for economic growth is having a serious impact on the Brazilian environment. Deforestation of the Amazon Basin is endangering indigenous plant and animal life and destroying their habitats, as is the lucrative trade in illegal wildlife. Air and water pollution are significant concerns in major cities such as Rio de Janeiro and São Paulo, while repeated oil spills have sullied the coastline. Poorly regulated mining activities have led to land degradation and water pollution.

SIR PHILIP HAMPTON is worried about the eurozone. He's so worried that his furrowed brow is causing our photographer problems. The latter is trying to coax a smile out of the RBS chairman. "You wouldn't smile either if you knew what I know about the euro," Sir Philip quips. When asked how worried we should be about the euro, he replies, "Terrified".

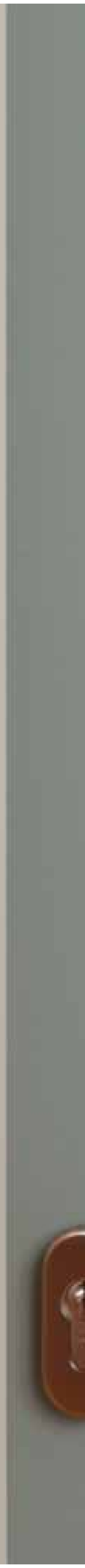
THE RELUCTANT BANKER

As chairman of one of Europe's largest banking groups, Sir Philip has more to worry about than most. Although RBS took a nasty hit last summer when it wrote off £750m in Greek debt, he fears there is worse to come for everyone. "The majority of our business is still focused in Western Europe," he explains. "We do have operations across the globe, but we are still very concentrated on Europe".

It hardly needs saying that the crisis in the eurozone has knocked the entire European banking system badly. Indeed, banks all across the world have been contaminated by it. Sir Philip is clear that this remains his overwhelming concern. "We have lost a year or maybe two on the recovery," he says. "And as a bank our recovery depends very much on what happens in the eurozone. We remain a European-based bank with most of our assets in Western Europe. We have a good-sized American business as well and operations in the Middle East and the Far East. But the heart of the business is Europe and that is severely affected by the crisis in the eurozone."

Sir Philip arrived at RBS in 2009 as the bank was recovering from the worst of the financial crisis that had almost seen it go out of business. He came fresh from an extremely successful spell as chairman of J Sainsbury, during which he and chief executive Justin King had effectively turned the business around. But he had also done a stint as

Words: Richard Cree Pictures: Charlie Best



the first chairman of UK Financial Investments (UKFI), the body that oversees the Government's stake in the banks and was previously group chief financial officer at Lloyds TSB.

Far from being an industry outsider, he clearly knows his way round a bank balance sheet. Yet I ask him if he sees himself as a banker and he looks at me with mock horror. "Oh God no," he says. "I never introduce myself as a banker."

But then Sir Philip is anything but the archetypal macho City banker. Quiet, humorous and self-effacing, he is openly critical of the worst excesses of banking. Last January he talked to the BBC's business editor Robert Peston about banking's "gangmaster mentality", where superstars at the top attract a loyal team of less starry henchmen.

"The star quality seems to filter down to people who don't seem so star quality," he says. "There is a sort of gangmaster cultural phenomenon in this. You recruit top people to make a difference… but they associate themselves with people who aren't such stars."

His main point seemed to be that the pay disparities between the top stars and some of what he dubbed "the journeymen players" are not big enough.

That's a top banker describing some other bankers as overpaid and underachieving. For anyone in any doubt, he goes on to add, "The most peculiar thing about it all, actually, if you look at the last 10 years of massive increases in pay, is that the performance for shareholders has been pretty disastrous across most banks. Some banks have gone out of business altogether and most have had a poor performance for shareholders."

SIR PHILIP HAMPTON BIOGRAPHY

Experience

After graduating from Oxford University with an MA in English, Sir Philip joined Coopers & Lybrand in 1975 and qualified as a chartered accountant in 1978. He took an MBA from INSEAD from 1980 to 1981, and went on to work at Lazards investment bank for nine years.

Senior positions held:

- 1990-1995, British Steel - Group finance director
- 1995-1997, British Gas - Group finance director
- 1997-2000, BG Group - Group finance director
- 2000-2002, British Telecom - Group finance director
- 2002-2004, Lloyds TSB - Group finance director
- 2004 -2008, J Sainsbury - Chairman
- 2008-2009, UK Financial Investments ltd. - Chairman
- 2009-present, RBS - Chairman

Sir Philip was knighted in the 2007 New Years Honours

It's not difficult to see why people who have worked with or for Sir Philip rave about his honesty. Peninah Thomson runs the Mentoring Foundation, a charity that uses FTSE 100 chairmen and CEOs to mentor women in the so-called "marzipan layer", just below board level in other FTSE 100 companies. Sir Philip has been a mentor since his days at J Sainsbury. Thomson says he is noticeable for both his commitment and understated approach to the role.

"He puts across very important ideas and recommendations without a hint of his own self-importance", Thomson says. "One of his key phrases is, 'You might like to consider', and even if you don't know it at the time, what he suggests is usually something brilliant."

Sir Philip is an expert in guiding large complex institutions, having had stints as group finance director at BT, British Steel and British Gas, as well as Lloyds TSB. He says as chairman his role is to guide and help CEO Stephen Hester to achieve the RBS recovery plan. The role of a chairman, as he sees it, is not quite that of the old Combined Code.

"The Code used to say that the chairman runs the board while the CEO runs the business," Sir Philip says. "I have always thought that was a bit peculiar. It isn't as black and white as that.

"At its simplest level the job of the board and the non-executive directors (NEDs), led by the chairman, is to support the management to run the business and to replace it if they don't."

> "It is a terrible time to be in banking. But it is also a fascinating time. As a business challenge it is unmatched. Banking has taken centre stage even in our personal lives – that was unthinkable a few years ago"

The current five-year plan was laid out for shareholders three years ago. But just as the global economy has been thrown off course, so Sir Philip says the euro crisis and its knock-on effect has hindered RBS's ability to meet the targets laid out in that plan.

"In terms of the things we wanted to do, which were all spelled out to shareholders a few years ago, I think we have achieved a lot of them. Most of the levers we can pull we have pulled pretty effectively. But we thought that three or four years into the plan the economies we operate in would have started to improve. Banks are very reflective of their economies. If the economy is good, the banks are good because they have fewer bad debts. In challenged economies, banks are challenged."

But Sir Philip is clear that RBS is a different organisation to that which he joined in 2009 and to the one that failed so spectacularly.

"The whole orientation of the bank is different," he says. "The same is true of most of the banks in Europe and the US. The whole orientation had been limitless growth, in lending, geographical spread and product spread. Everything was getting bigger and wider and the financial crisis stopped that in its tracks. Most people are thinking in terms of stabilisation where they have a strong but stable franchise or retrenchment, particularly in investment banking. People are trying to cut back because capital requirements are much greater and the business is less profitable. We have gone from a bank whose slogan was 'Make it happen', which is not untypical of the time, to something more controlled and focused."

The government owning 83% of the bank's shares hasn't had a significant impact on the running of RBS, he confesses. "It holds its shares as a commercial arms-length shareholder. That's why RBS was kept as a listed company. The government could have taken 100% if it wanted to. But it wanted to keep a listed company for commercial disciplines and to make it easier to sell their shares in the market."

And on the whole, he says, they have stuck to that pretty well. "Occasionally politics does intrude, but overwhelmingly they are a commercial shareholder."

He's reluctant to expand any more on that particular point, but the day we meet is the day after the chancellor George Osborne announced the government would be accepting most of the recommendations of the Independent Commission on Banking, including the suggestion that investment banking operations be separate from retail banking.

Sir Philip's take is typically honest. "From a public policy point of view the case for separating banks is very strong," he says. "People are concerned about the exposure they have as ordinary people to international capital market activities.

"There is also a good argument that if you are going to have investment banking and international capital market activities, they ought to be able to finance themselves, and shouldn't have to rely on sources of finance from government or ordinary people. The basic disciplines of the different businesses and the capital independence of the two businesses is a good principle."

Yet he thinks it is doubtful whether the separation will be worth it in the end. "Whether it's worth the cost is another question. It puts big costs on the banking system. The ways of dealing with that are either to become more efficient, which all banks need to be, or to pass them on to customers or shareholders. But nobody wants those extra costs."

Sir Philip is less diplomatic when discussing the errors made by Sir Fred Goodwin and his former regime. "Clearly there was overexpansion by RBS," he says. "The substantial extra layer of ABN AMRO produced the biggest balance sheet in the world at just the wrong time. I'm not sure that was ever the aim, but that's what it became. There hadn't been a banking crisis or big credit losses in banks for a long time so people thought that the assets were largely solid. They didn't realise that when the bubble burst, particularly in the global property sector, whether it was US sub prime or commercial real estate in the UK, Ireland, Europe or other parts of the world, what people thought were a safe, secure, collateralised loan ended up as a massive impairment."

So was the crisis borne from incompetence? "No doubt that it was a misjudgement and with hindsight it's an amazing misjudgement," he says. "But for a long period of time property prices had been rising, whether people's houses or commercial property and people just generally speaking didn't see that asset bubble."

He speculates that just as people were caught up in the excessive optimism of the boom, there is something of a negative hype at play today. "It's commonplace to think that you are experiencing normality, when at any one time you are not. And maybe while now we are all doom and gloom I hope that at some stage in the future we will look back and think, 'Well, we shouldn't have been so miserable, things were bound to get better and they did.'"

Asked whether there is anything shocking in the fact that the bank was led by accountants at the time of its collapse, Sir Philip dismisses the stereotype of the boring, cautious accountant.

"People in these professions are reasonably reflective of a wide range of attitudes. I have met some accountants who are incredibly cautious and I've met some who are real go-getters and risk-takers, " he says. "The only profession that is really stereotypical in my experience is the actuarial profession. They seem to fall into a much tighter spectrum of personalities and attitudes. But accountants come in a fairly wide range of shapes and sizes."

Asked whether this is a good time to be in banking, Sir Philip looks aghast at the suggestion. "No. Absolutely not. It is a terrible time to be in banking." But he quickly adds that it is also a fascinating time.

"As a business challenge, it is unmatched. The man in the pub can talk about bank capital and quantitative easing and that was unthinkable a couple of years ago. Banking has taken centre stage in our business and personal lives and it is fascinating. But the sector has had a terrible few years. For shareholders, it's been terrible."

He says his job, and that of everyone in banking, is to restore their reputation. "It can be done, but in time. It won't be easy as the scars are deep, but there's no reason it can't be done with a concentration on giving customers good service, good value and by behaving properly. It's a restoration of old-fashioned values in some ways."

THE FSA REPORT

At the end of 2011 the FSA published a report into the near collapse of RBS. It was an unusual step for the regulator, but one which Sir Philip Hampton, chairman of RBS, says the entire board of the bank was happy to see.

"I am glad the report came out, because we have been waiting for it for a long time and we thought it was right that something like that was produced," he says. "What happened to the bank was of major importance nationally, in financial and other terms. It was particularly important to learn lessons from it to reduce the chance of it happening again. Explaining why things went wrong and how horribly they went wrong doesn't make pleasant reading for the chairman of a bank and I'd rather they hadn't happened."

While some have criticised the report for being watered down, Sir Philip is happy that the FSA is correct when it says it has applied all the personal sanctions it can. "We do need to consider whether the FSA should have more weapons to fire or levers to pull in future. That debate needs to happen."

But he adds that RBS's troubles were not as simple as some people think. "Lots of other banks failed as well. Bear Stearns, Lehman Brothers, Bradford & Bingley, Northern Rock, HBOS and others had to get emergency capital. The whole capital regime was wrong for banks, so whether you failed or survived was down to where you were on the spectrum. But all banks, we now know, were in the wrong place. Capital levels multiplied across the sector."

On the subject of the ABN Amro acquisition, he concurs with Lord Turner that hostile takeovers in the financial services sector are inherently risky. "By definition, the regulator ought to have the power to block them if there are concerns it will lead to excess strain or inappropriate capital levels," he says. "Any hostile deal, even in a simple business where you can see the products and work out from the outside what the main financial drivers are, is risky. But for a complex financial institution on a global scale you have to get inside it. You don't get that from published data and you certainly don't get stuff like whether you have big loans in sectors where the bank you're buying also has loans."

But Sir Philip is clear that the heavier capital ratios and regulatory regime put in place since the crisis is sufficient. "I wouldn't call for heavier regulation than we have now. I think the regulatory regime is on the way to being fixed. There is significantly more resource going into direct oversight and supervision of the banks by the FSA and the international regime and requirements on banks, both in terms of capital and liquidity, has been significantly strengthened. To some extent we may be overcompensating but it is much stronger than it was a few years ago."

"The whole capital regime was wrong for banks, so whether you failed or survived was down to where you were on the spectrum. But all banks, we now know, were in the wrong place"

2012 - The Year of Champions

HOW TO BUILD A WINNING PRACTICE IN 2012

With the countdown to the London 2012 Games starting in earnest, the focus for athletes is on how to build individual or team performance to go for gold. Accountants, whether sole practitioners or large firms, face similar challenges: how can they take a commanding lead to win - or retain - business in an extremely competitive market?

Seven pointers to success

1 Review your practice workload, what work could be safely outsourced to an operation with lower overheads? An experienced outsourcing partner will be able to suggest possibilities that may not have occurred to you.

2 Could your clients take greater ownership of routine data entry through an online bookkeeping service? If so, choose a solution that integrates with your own practice software to maximise the benefits of collaboration.

3 Brainstorm the higher value services you could provide using the time freed by outsourcing and/or online bookkeeping.

4 Is your practice software supporting you in closely controlling workloads and costs, so that you deliver excellent service profitably?

5 Consider solutions such as electronic document management that will give all your team secure, easy access to integrated information.

6 Dynamic or dinosaur? Successful practices understand the complex, open-all-hours world in which their clients operate and innovate and evolve accordingly.

7 Do you have water-tight processes in place to minimise any potential risks to client data? What's your business continuity strategy should disaster strike?

7 out of 9 AccountingWEB winners use IRIS software

The rewards are great for those who rise to the challenge. Like the top-performing Olympians, some will even win recognition and accolades for their achievements. The AccountingWEB Awards were inaugurated in 2011 for the specific purpose of recognising accountants who achieve practice excellence. Significantly, seven out of nine winners or finalists run their business using software from IRIS Accountancy Solutions.

Raise your game

These award-winning practices know that no accountant today can rely on client inertia. They constantly review their practice and look for new ways to add value to their client accounts.

James Scanlan, a judge at the AccountingWEB Awards, observes that the operating climate is changing: "The power of the relationship has swung in favour of the clients. This is no bad thing, and in my opinion has forced many practices to significantly raise their client care and communication to keep their client retention high." (Source: www.accountingweb.co.uk)

Clients typically have four criteria in mind when reviewing the service they receive from their accountant, each presenting an associated challenge to the accountant:

What the client expects...	The challenge for your practice...
Skills & talent - Will our accountant keep us on the right side of HMRC?	How can we ensure that all routine client work is completed efficiently and cost-effectively?
Going the extra mile - Does our accountant contribute sound advice to help us build a flourishing business?	How do we position ourselves further up 'the food chain', as trusted business advisors rather than simply number-crunchers?
Teamwork - Does our accountant take into account the demands of running a business and try to make our life easier?	How can we meet the needs of clients in today's tough climate while maximising our own profitability?
Staying the course - Can we rely on our accountant to safeguard our interests and be there for us?	What processes do we have in place to minimise risk and to build trusting, open relationships?

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Mergers, acquisitions and executive bonuses can all rest on a brand valuation. But the disparities between different valuations can run into the billions. **Jane Simms** asks if it is realistic to put an absolute figure on a brand

STAND BY YOUR **BRAND**

Given the traditional tension between finance and marketing it is not surprising that brand valuation – a concept that seeks to marry the two disciplines – should polarise opinion. Indeed, 25 years ago most marketers and accountants, guarding their territory with an almost pathological hostility, would have dismissed the notion as an oxymoron.

But when, in 1988, Interbrand founder John Murphy produced brand valuations that demonstrated that Goodman Fielder Wattie's hostile takeover bid price for Rank Hovis McDougall dramatically undervalued the business, people sat up and took notice. Since then brand valuation has developed into an industry and has been used for purposes ranging from mergers and acquisitions, and international taxation and transfer pricing, to marketing and business strategy.

But while many have bought the central tenet – that intangible value in most companies is so high that attempts have to be made to measure and manage it in order to grow shareholder value – others remain sceptical. Brand value can quickly rise or fall for reasons totally unrelated to how well the brand is managed, they point out, arguing that cash flows are a more reliable predictor of future health. Such scepticism is fuelled by the inherent subjectivity in brand valuation that takes shape in the dramatically differing values that different consultancies ascribe to certain brands.

The publication this month of the annual Brand Finance Global 500 league table will reignite the debate. Brand Finance valued Coca-Cola at \$27bn (£17.2bn) in September, around a third of the \$72bn (£46bn) value ascribed to it by Interbrand in its Best Global Brands league table in October. Brand Finance values Apple at \$39.3bn (£25.1bn), whereas Millward Brown Optimor's BrandZ ranking last April valued it at \$153bn (£97.7bn). And Brand Finance's \$48bn (£30.7bn) tag on the Google brand was trumped by Millward Brown's \$112bn (£71.5bn) valuation.

The primary reason for the differences is that although the consultancies all claim to base their valuations on the same publicly available information, they define brand differently and use different valuation methods and key assumptions. Each stands by its own approach, but the wide discrepancies in value are at best confusing and at worst threaten to undermine the credibility of the discipline as a whole. If determining the value of a brand is really as subjective as all this, runs the argument, then what's the point of doing it?

Consultants, clients and observers draw a distinction between these league tables, which are little more than a marketing tool, and individual bespoke valuations based on full access to clients' accounts. "Lots of CMOs have their bonuses tied to our league tables," says Interbrand's global CEO


vodafone
i'm lovin' it
mcdonalds.co.uk/ourfood
Kellogg's
Special K
Coca-Cola
DRINKAWARE.CO.UK
SMIRNOFF


Santander
power to you
vodafone
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Lindt
MASTER SWISS CHOCOLATIER
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> "There is no absolute precise right answer to what a brand is worth, except at the point of purchase"

Jez Frampton. But if they are sometimes a useful incentive for senior executives, these rankings are of scant use to investors or anyone else trying to gauge a company's true health.

Robert Shaw, honorary professor of marketing at Cass Business School and director of business economics, says, "League tables tell me nothing about how well managed a brand is, just how big it is. An elephant is bigger than a cat and a cat is bigger than a mouse, but does that tell us anything useful about elephants, cats and mice?"

Martin Deboo, consumer goods analyst at Investec, agrees. "Far more interesting and useful would be the worth of a brand per dollar of sales. That would make for a much more equal comparison," he says.

MISPLACED AUTHORITY

But Mark Bezant, senior managing director at FTI Consulting and chairman of the valuation special interest group at ICAEW, says that the lack of consistent methodologies in the various league tables is not the only problem. The danger lies, he believes, in "according a misplaced authority to brand values. It's the absolutism of some of these calculations that bothers me."

He explains, "There is no absolute precise right answer to what a brand is worth – except at the point where someone is ready to buy it. The rest is conjecture, albeit reasoned conjecture. Rather than trying to crystallise value into a single number, therefore, some tolerance in measurement is informative – seeing a brand as worth £x million, plus or minus 20%, depending on a number of different assumptions and external conditions." While such ranges would be "more realistic and meaningful," Bezant acknowledges that not only are people conditioned to expect a single number, but also that such ranges might confuse rather than clarify.

But while clients seem fixated with the valuation, it is in fact the evaluation that is done to arrive at the number that's the most important part of any brand valuation exercise, says Murphy. Since retiring from Interbrand 17 years ago he has been putting into practice as a brand owner what he preached as a consultant, most recently as founder and chairman of St Peter's Brewery. "It is the diagnostic that's important, and what lies behind the number," he says.

Murphy tells the story of an early brand valuation for a company that had noticed a rise in a hostile stakeholding and was advised by its merchant bank to have its brands valued as a potential defence. The bid never materialised, but the company asked Interbrand to present the work it had done to its senior finance and marketing team who, the chairman believed, "were making a huge cock-up of managing their brands."

Murphy explains, "They had some brands that they loved to death and threw money at, and other really

$112bn
Value of Google, according to Millward Brown

$72bn
Value of Coca-Cola according to Interbrand

$153bn
Value of Apple, according to Millward Brown

important valuable solid brands that they had given to junior marketers to look after because they considered them unflash. But they lacked any decent brand financials. They knew how much profit each factory was producing, but nothing about the brands coming through those factories.

"We got them to work out profit and loss for their brands, which demonstrated to them that the brands they loved were duffers and the unloved brands were cash cows. They were fascinated by the numbers, and we had to explain to them that they needed instead to focus on why these valuations were arising and how they could unlock far greater value by managing the brands better."

It was this strategic use of brand valuation that allowed Raoul Pinnell to set up Shell Brands International (an organisation that he then chaired) as a separate entity within Shell in order to focus on licensing activities.

"To me, brand valuation has never been about exactness, but about getting the issue on the table," says Pinnell. "That process in itself is of value to the main board. If something has never been valued before and they find out it is worth between £5m and £15m, that really focuses people's minds. It is OK to have a range of numbers and a range of approaches, provided you are able to explain them. You can then start talking about how effectively you use the asset.

"In Shell this process forced us to understand how much intangible value was represented by the brand and then how we could work to make that intangible value tangible."

Shell worked out that its petrol stations had a higher than average throughput than those of its competitors and was, therefore, getting higher volumes and margins from the same fixed investment. "We identified how much of that was attributable to price, staff, service and brand, and that really exercised the business," says Pinnell.

INTANGIBLE WORTH

But some people would argue that factors such as price, staff and service are not separate from the brand but contribute to the brand, which brings us back to the issue of subjectivity, something that lies at the heart of all brand valuations.

Ask five different people what they understand by the term brand and you get five different answers, even among the branding consultants who make a living from brands.

Bezant sums up the challenge. "Is Coca-Cola the world's strongest brand, or does it just have the world's strongest distribution network? And which came first? Is it meaningful to separate the two when, for 100 years or more, they have been inextricably linked? The valuation consultancies may all have different answers."

Despite the fact that he is not convinced the different approaches will ever be reconciled, he feels "this may not matter, provided clients understand the differences and are able to discriminate between the different purposes of brand valuations."

So while a specific value is required for, say, licensing purposes, if you are using the brand valuation for internal management purposes, you can afford to have a more relaxed definition, Bezant says. "You are going to be more interested in directional movement than absolute measures, and some aspects of brand value or measurement will be more important to one company than to another."

For Frazer Thompson, CEO of English Wines Group and the former global brands director of Heineken, "any means of better understanding the intangible asset value that drives the share price is worth pursuing." An additional benefit is the bridge the process helps to build between marketers and accountants, "because it is a dialogue they both understand."

VALUE ADDED FACTS

And although understanding how the brand is built and the levers you need to pull to grow it further is, Thompson believes, the most valuable part of the exercise, "the pure numbers in league tables can also be interesting from an indicative point of view." He explains, "If you value brands using the same mechanic then you can see relative values, both year on year and brand to brand.

"If I were still running Heineken, for example, I might be stimulated to find out why my brand was, say, only 20% more valuable than Budweiser, and not 25% more."

He is also interested in the different values different consultancies place on the same brands: "I would want to know why those values were so different in order to determine if there were value drivers for my brand that I wasn't picking up on."

The consensus view of brand valuation is summed up by David Wheldon, brand consultant and former global brand director at Vodafone: "The numbers don't lie. They are based on consumer metrics and financial dynamics. But I wouldn't bet my house on them."

Nevertheless, some believe valuation could and should be more consistently reliable, and David Haigh, CEO of Brand Finance, the world's leading independent brand valuation consultancy, believes the issue of independence and objectivity is a barrier to this.

Brand Finance recently launched a Campaign for Independent Brand Valuation based on Haigh's belief that consultancies such as Interbrand and Millward Brown can't provide the objective valuation opinions on brands that the ISO standard on brand valuation

THE ADVERTISING ARCHIVES

BRAND VALUATION AT A GLANCE

How do you put a value on a brand? The process appears to be so subjective that many concerned with hard financial data find it hard to take such valuations seriously.

It's impossible to give a definitive answer to what a brand is worth. But there is more to be gained from the process of determining value than many think. It's diagnostics that are important – what lies behind the numbers.

Conflicts of interest, perceived or otherwise, must be eliminated, and standardising and regulating the process of brand valuation is vital if the numbers are to be taken seriously.

Join the debate at icaew.com/economia

"The numbers don't lie… but I wouldn't bet my house on them"

requires, because they are part of big integrated communications agencies.

He says, "We believe consultancies that are wholly owned by major brand-building and marketing communications companies cannot credibly provide arm's length brand valuation opinions on brands that they, or their parent companies, create and maintain."

As Haigh points out, the accounting profession is full of Chinese walls and other segregation and compliance structures to prevent and manage potential conflicts of interest. And it has outlawed the practice of developing an asset in one part of a firm and valuing it in another, recognising that the inherent conflicts are so strong. No such formal systems exist in the marketing world.

BENEFIT FROM REGULATION

The issue is, to a large extent, one of maturity. Despite the ISO and International Valuation Standards Council standards, which seek to create greater conformity in brand valuation, data and understanding are still evolving and need to evolve further. Pinnell supports the notion of standardising and professionalising brand valuation, while Murphy suggests that the industry would benefit from regulation. "Years ago we tried to get some sort of standardisation and accreditation, but it was like herding cats," he says. "People were coming out of business school thinking they knew it all, and now everyone is hawking their own thing." Part of the standardisation process would be to make methodologies more explicit and transparent in order to dispel clients' concerns.

Of course, the catalyst for the kind of regulation that exists in the accountancy world is often some sort of failure. And it's not clear whether there will be a failure in brand valuation, primarily because most people don't rely on it exclusively.

Informed clients make informed choices, says Bezant. "Clients choose a valuation firm based on the specific expertise and degree of comfort that they are looking for, and in some cases they might feel more reassured by the idea of using a more heavily regulated firm. It comes back to purpose and context and the issue is the extent to which clients understand the differences."

Clients might feel even more reassured by one transparent, consistent methodology that is endorsed by the accounting profession. Some people wonder whether, by labelling brand valuation as too difficult, the profession isn't ducking its responsibility.

The debate about methodologies and independence will continue, but in the meantime a growing number of companies are finding that an objective analysis of their brands is radically transforming their understanding of value creation and the way they allocate resources. That in itself is invaluable.

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SUPPORTING MEDIUM-SIZED BUSINESSES

To coincide with the launch of *economia*, we are unveiling a campaign to improve awareness of the potential of a hugely under-represented sector of the economy. By highlighting the specific requirements of mid-sized companies, The Squeezed Middle campaign will raise the sector's profile with the public (as potential employees), with investors and dealmakers and, vitally, with policymakers. The intention is that we should all pay more attention to the M in SME and ultimately help realise the untapped potential of these businesses that represent the heart of British business. The CBI has claimed that these firms are essential to economic recovery and that they could have a game-changing impact. Its *Future Champions* report estimated that given the right support, these firms could create an additional £50bn for the UK economy by 2020.

These are the fast-growth companies most likely to create jobs and lead the recovery. As the feature over the page shows, there is a marked difference between attitudes to these firms in Germany and the UK. In Germany there is a tradition of support for medium-sized, fast-growth private businesses. It is embedded in the country's economic and political culture. It shows in the actions of policymakers and the attitudes of investors. It shows, too, in the confidence of those running these firms and their success.

The UK government focus has been on start-ups (witness David Cameron's support for Start-Up Britain), while the media has looked at corporate Britain and large PLCs. Our campaign seeks to highlight the needs of firms with a turnover between £15m and £100m.

Greater awareness of the needs of these companies will ensure the overall economic and political climate is as supportive as possible. This is where The Squeezed Middle campaign will play its part.

Our aim is to promote greater awareness among policymakers of these issues, which ultimately should lead to a better environment in which these companies can thrive. Their success will in turn help drive growth, more job creation and a healthier economy. The prize for success is that £50bn bonus to the UK economy.

SUPPORTED BY LLOYDS BANK

GOING LARGE ON MEDIUM

Looked at from the outside, the German economy is booming while all around it fails. But is the focus on SMEs the right model for the UK? And is the success as solid as it seems? **Adrian Holliday** investigates

The fires of the Mittelstand have helped forge the German economic revovery in the teeth of recession

The thinking, albeit abbreviated, goes something like this: careful, prudent Germany invested heavily for years in its traditional manufacturing and engineering base, enabling her to export her way out of the recent global financial crisis. The UK, in contrast, focused on services and financials, both of which have struggled since the cataclysmic (and continuing) credit seizure of 2008. Ergo, Germany's economic supremacy and resilience has bought her a trade surplus of which the UK – now dealing with a trade gap of almost £10bn – can only dream.

So should the UK now attempt to copy an industrial policy closer to that of Germany's? This might mean replicating Germany's highly successful Mittelstand (pronounced mittle-shtunned) model. That is, the legion of small and medium-sized family firms supported by a regular stream of blue collar workers deeply respected for their precision engineering skills. Skills which German technical and vocational colleges churn out year after year.

It's a remarkable model (although not without its own problems). So what elements could be successfully transplanted to the UK? Can it be done? And should it be done?

But first, why has it proved so successful? In the last decade Germany has been aided by strong public finances, state-supported research institutions and consumers not overly burdened by personal debt. House prices remain reasonable. Germany has also been able to take advantage of cheap labour from nearby Eastern Europe for some of the heavy lifting. Mix in the rise of a more confident and richer Asia able to afford many of Germany's high-precision exports – luxury cars, washing machines, high-quality industrial plant – and you end up with a complementary economy to emerging powers like India and China. The icing on the cake is a price premium. People will pay extra for exceptional build and performance. This is often

German enterprise relies on regional, skill-based specialities

THE GRASS IS ALWAYS GREENER

Is the German Mittelstand model sustainable? This is a fair question in view of looming future demographics, which are a concern. Germany, like the UK, is hiking its state pension age (by 2029 the statutory retirement age will have climbed to 67). Germany's population is contracting by 100,000 every year. Those aged 65 or over as a percentage of the working-age population will double to almost 60% by 2060. That's quite a bit worse than the EU average. In recent years, there has been a bigger push towards higher education, with a higher percentage of young Germans enrolling at universities, and German manufacturing is now complaining about the lack of blue-collar workers, a trend that is likely to increase in the future.

Germany can still tap Eastern Europe for muscle. This is labour that can be quickly trained up. But much of the muscle is also skilled. Because Eastern Europe offers vocational training systems compatible with German systems, it has been easy for Eastern European immigrants to re-skill or cross-skill. It is also a reason why Eastern Europe has been very successful in attracting Western car producers, including VW, Opel/GM, and even Porsche. Eastern Europe has its very own demographic problem, adding to the supply issues facing the vocational training system in Germany.

Unemployment remains high in places such as Berlin. Constraints of firing typically pose legal issues, making it difficult to sack workers, and there remains concerning xenophobia towards foreigners in sizeable pockets of the east. Raising seed capital can also be difficult in Germany, especially when you do not have a lengthy relationship with a savings bank.

Gone is the need for factories that employ 15,000-plus workers. In their place are well-connected, smaller spaces and environments, perfect for German Mittelstand firms

produced by small-to-mid-sized companies that keep production inside the country, as far as possible. That's quite a feat given the cost of labour in Germany (although the price of labour has been successfully held down).

Professor Albrecht Ritschl from the London School of Economics' history department thinks that the Mittelstand model has been strongly supported by industry clustering, twinned to a flexible, responsive planning system. "German enterprises often come in regional clusters, with quite complementary skill bases," he says. "Look at Dortmund, formerly the German equivalent of Newcastle or Leeds. How did they develop this dreary collection of coal pits and blast furnaces into an insurance hub?

"Or consider the region around Stuttgart, where they manufacture Mercedes and Porsche cars. You'd find hundreds of medium-sized machine-building and electrical companies there, all highly specialised, often leading the world market in their niche products. How did this cluster originate, what holds it together? The key explanation seems to be a knowledge base common to the region. Britain used to have that, and in several sectors still does."

The Germans invested a lot of public money in brownfield sites, cleaning up old industrial works. Gone is the need for factories that would employ 15,000 plus workers. In their place are well-connected, smaller-sized spaces and environments, perfect for medium-sized business – or German Mittelstand firms. Or, if you're talking British medium-sized businesses, a company with between 50 and 499 employees with a turnover of £10m-£100m.

At the heart of the Mittelstand model is the role of family ownership, often known to take the long view, and without the burden of external shareholders. This means medium-sized German companies can invest in tightly coupled supply chains and distribution channels.

"It's enabled them to display agility when it comes to adapting to customer demands," says Dr Ajay Bhalla, professor of Global Innovation Management at Cass Business School. "The tightly knitted German ecosystem comprising of technical educational institutions feeding high-skilled talent to Mittelstand firms is difficult to replicate.

"This is reinforced through the long-term relationships large German manufacturers nurture with Mittelstand firms. As a result both large and small companies benefit from mutual trust and reputation. Consider the recent scenario when traditional bank funding started to dry up. Reputed Mittelstand firms turned to bond markets, which in Britain would be considered sacrosanct, purely for large organisations."

But the broader funding picture, when compared to the UK, is more unfamiliar. It's estimated 70% of Germany's Mittelstand market is serviced by local savings banks, co-ops and mutuals, many of which remain at a safe distance from the financial meltdown of the last three to four years. Typically these local banks can fund a local business up to €3m (£2.5m), though debt/

THOMAS MEYER/OSTKREUZ, DAWIN MECKEL/OSTKREUZ equity ratios are often low by international standards, ensuring these companies retain their independence. If a business needs more than €3m, it can call on the regional state banks. Or fund itself from retained earnings.

"To some non-Germans this broad funding model sounds antiquated," says Stephen Clarke, economics and industrial research fellow at Civitas. "German savings banks branches aren't allowed to operate outside certain geographical areas. Before the [financial] crisis, that was seen as inefficient; against free market ideas. But it does focus these banks on becoming profitable by finding clients in their own back yard, while in Britain there's no real incentive for banks to take on some local borrowers because they may pose a risk."

Another piece of the jigsaw is that, in the UK, mid-sized businesses employing a good number of people are often not very well understood by Government or other business agencies. We are traditionally good at understanding large corporates, or (to a lesser degree) start-ups. But there's a grey area in the middle that lacks profile, clout and encouragement.

"Many medium-sized-businesses," says Emma Wild, head of Knowledge Economy and Competitive Markets at the CBI in a recent report called *Future Champions*, "get squeezed out of government initiatives to support smaller companies such as the Enterprise Finance Guarantee, which is restricted to firms with annual revenues below £25m, and reduced corporation tax, which only applies to companies with operating profits below £300,000. Yet the same firms don't have the internal resources of larger firms to navigate a complex legal and tax environment." In contrast, businesses that make up the German Mittelstand model are a clearly identified and championed part of the economy.

"They are heralded as engines behind the country's strong economic performance, well supported through Government policy and business networks," says Wild.

"What is needed is a longer-term plan for manufacturing and engineering in the UK. Not one that lasts for just one Government, but one built for 20 years plus," says Professor Keith Goffin, professor of innovation and new product development at Cranfield School of Management. "We need high quality apprenticeships and we need to look for the right kind of companies that will kick-start the economy. That means high-tech, high value businesses that will expand and export."

Goffin would also like to see a stronger link between local banks and businesses and a willingness to ensure jobs stay inside the UK.

Other issues abound. Planning is a big one for Professor Ritschl at the LSE. "If you have a business plan and you go the mayor's office, and you want to invest a few million for jobs, they would roll out the red carpet," he says of German planning. "They actively want to work with you. 'How can we ease planning and compete with other locations to attract you?' they might say. I'm not sure this is done in Britain. Too much of Britain's planning policy is geared to the land rent. The areas around Frankfurt and Munich have problems with congestion and high land prices, but the majority of [German] cities don't have this. Housing is quite affordable as is land for commercial development."

The point, he concludes, is to invest in companies and technology that can be exported. "You have a very vibrant services sector in the UK, but you can't really export pizza to Japan."

Investment in technical education has paid off

BEFORE THE UK GOVERNMENT TAKES THE MITTELSTAND PLUNGE

- They should understand why the apprenticeship model works in Germany. Technical skills are taught in vocational schools while there is also structured business training from local companies. The two often work hand-in-hand.
- Mittelstand companies are part-built on a supportive eco-system designed to support mid-sized businesses. But this is not just about surrounding these businesses with good roads and railways. You need to encourage theatres, cinemas and opera houses so staff enjoy working and living in the area – a key part of German strategy in revitalising places like Leipzig and the Ruhr (after Paris and London the biggest metropolitan region in Western Europe).
- Often not much is known about UK medium-sized businesses. We should find out who they are, what they need – and encourage their ambition and a stronger identity.
- The CBI estimates that 10% of family firms in Germany are run by the eldest son – compared with 50% in the UK. "Where the default is to appoint the eldest son to run the company, firms are drastically restricting their ability to source the right talent for the job."
- The CBI estimates the extra value to the UK economy from medium-sized company growth could be between £20bn and £50bn "or an extra 0.1% to 0.26% of GDP growth a year by 2020".

THE SQUEEZED MIDDLE AT A GLANCE

The German economy is holding its own in the recession due to sustained investment in technical education and support for medium-sized firms.

Regional clusters and family ownership give these firms market agility.

In the UK, companies of this size lack profile and clout. They need support to encourage a longer-term, wider focus.

Join the debate at icaew.com/economia

Growth is essential for any economy. It may seem a distant prospect, but **sooner or later** our economy needs to get growing. The labelling of economics as "the dismal science" by Victorian historian Thomas Carlyle seems particularly prescient in the light of the current consensus that economic growth is too fragile. Indeed early indications from ICAEW's Business Confidence Monitor – a consistently reliable gauge of real GDP – suggest a **further decline** in confidence. If correct, these latest figures would point to the UK economy having dipped back into recession after several quarters of flatlining. The eurozone crisis is **driving down confidence**. Here we have opted for a more positive approach, asking a range of leading economists, business leaders, finance professionals and **thinkers** to propose their solution to get the economy moving. Their views, along with a 10-point plan for growth, are presented here. You can join the debate at **icaew.com/economia**

A 10-POINT PLAN FOR GROWTH

1

A simpler tax system

Most observers agree that the government's ability to intervene in the economy on a significant scale is limited by the need to keep borrowing down. But there is a great deal that could be done to improve the tax system. ICAEW chief executive Michael Izza has suggested that it would be a start if government ensured that any tax reforms made the system simpler, more stable and more competitive. There are also concerns that the system is not fair to smaller companies. Julie Meyer and Richard Murphy, among others here, raise the question of tax evasion and avoidance. At the very least, the estimated £25bn deficit in tax receipts could be more evenly spread.

2

Less business regulation

The current government, like many before it, made much of its intention to cut red tape and remove regulations that hinder business. The proposal for a one-in-one-out regulation initiative was welcome, but as ICAEW has previously suggested, this effort has to be focused on removing regulations that hinder business growth now, rather than taking away defunct or archaic regulations. LSE's Professor Chris Pissarides is right to suggest this action needs to focus on SMEs. A temporary raising of the thresholds at which regulations kick-in would be a strong start.

LYNDON HAYES/DUTCH UNCLE

A 10-POINT PLAN FOR GROWTH

3

A business-friendly banking system

This recession has been different, partly because it was sparked by a financial crisis and a near-total collapse of the banking system. While the government is right to focus its growth strategy on building a more balanced economy, we still need strong, robust banks. The government needs to ensure that reform of banking regulation creates a financial system that serves the needs of SMEs and the real economy and maintains Britain's competitive advantage as a financial centre. More needs to be done to make sure finance is available to the SMEs that need it. While banks have had to adjust risk positions in the light of capital and liquidity requirements, the government should use its position as a majority shareholder to enforce carefully considered lending to fast-growth firms.

4

Boost exports

The global nature of the current crisis means few markets are growing. Exporters have to cast their nets further to find a sale. Government support to encourage trade relations with less developed markets are essential. There needs to be a continuation of the efforts to help businesses boost exports, with a focus on emerging markets. A system of government-backed export credit guarantees would provide a safety net for those seeking to export high-tech or expensive goods.

Vince Cable

Secretary of state for Business, Innovation and Skills

We are operating in one of the bleakest economic times the country has faced. Speculation over recession, coupled with the fragility of the eurozone, means business and public confidence is low. My task, and that of the whole government, is to create the conditions for businesses to succeed.

The core task of the government has been to create financial stability in the wake of the banking collapse and the ensuing recession and credit crunch. To do this we have had to take tough decisions to stabilise public finances. Beyond that we have to rebalance the economy by creating the conditions for sustainable growth, centred on business investment rather than debt-driven consumption; on export and import competing industries and services; and on private sector expansion and job creation rather than government spending.

In achieving these objectives, business is looking for an attractive business environment in which business taxes are reasonable and competitive, regulation is proportionate, and the government provides support for skills training, innovation and in opening up new overseas markets.

We are still living with the legacy of the credit crunch and it is crucial to ensure banks lend to SMEs on reasonable terms. There is a lot of potential for new sources of finance, including equity, to support innovative projects and growth. In the Autumn Statement we announced a National Loan Guarantee Scheme, with up to £20bn of guarantees for bank funding over the next two years. This will allow banks to offer lending to small businesses at a lower cost. An additional £1bn will also be available through a Business Finance Partnership. This will invest in SMEs in the UK through non-bank channels.

We have made progress in reducing and improving the amount of regulation businesses face, although there is always more we can do. Through the Red Tape Challenge we are seeking the views of businesses and the public on regulation. Of the 1,200 rules looked at so far, more than 50% have been scrapped or improved. We are also creating a culture change across Whitehall so government departments think carefully before introducing regulations, or whether old ones can be reviewed. And we are looking at reforms of the tribunal system to reduce the costs involved in increasing employment.

We also announced an additional £1bn for the Regional Growth Fund, the scheme that provides extra support for private sector-led projects that will create jobs and secure private investment in areas dependent on the public sector. Business does not operate in a vacuum but in a social context.

At a time of hardship it is also essential something is done to address the concerns about how pay awards are distributed in our largest listed companies, and about rewards for failure. A consultation has been launched on company narrative reporting and completed on executive pay. I am talking to businesses and shareholders about what can be done differently and will report back shortly. But I want to stress that good companies should be free to reward able and hardworking staff and that entrepreneurs who create new, successful business should see Britain as a highly competitive and supportive environment.

Businesses need to ensure their staff are equipped with the right skills. We are making it easier for small businesses to take on apprentices, reducing the bureaucracy surrounding the process. Apprenticeships are at the heart of my department's work on boosting growth and the additional funding for this type of training in the past year should encourage more businesses to consider the skills level of their staff, and what more can be done with government support.

We want to do more to enable businesses to trade, hire, expand and up-skill. I work closely with business groups, so I can understand the issues facing their members and address them as far as possible through government policy.

I hope 2012 will be a year when a powerful private sector leads our recovery.

Andy Halford
Chairman, the Hundred Group and CFO, Vodafone

The productive engine of employment and business prosperity will be the key to moving out of this difficult economic phase and hopefully into a brighter place in the medium term. One only needs to look around the rest of Europe, and why so many countries are troubled, to realise that having a core of economic activity is at the heart of being a prosperous country in the longer term.

The key thing overall is the growth agenda and doing whatever we can to help the government and regulators do things that will encourage economic activity within the UK.

That will manifest itself in ways such as inputting into what the government is thinking of doing on tax and tax reform to make sure it's helpful to business and is helping businesses to want to locate, grow and prosper in the UK.

Some of this is looking at what sometimes seems a tidal wave of regulation coming on many fronts and trying to respond proportionately to the underlying problems they're trying to address. Sometimes there are more good ideas for changing things than can practically be delivered.

Where we can we're speaking up and making sure the actions that are decided upon get to the heart of the issue; to do a few things and do them decisively rather than end up with too much happening and end up confusing things.

Sometimes there are more good ideas for changing things than can practically be delivered

Philip Shaw
Chief economist, Investec Bank

Although sterling's status as a standalone currency has given the UK some immunity from the turmoil in the euro area, British recovery is dependent on a successful solution to the eurozone crisis.

The 17 countries that use the euro account for 50% of UK exports. Also, a disorderly outcome to the area's sovereign debt woes will put further pressure on bank balance sheets, leaving financial institutions less able and willing to provide credit to the private sector, essential for the medium-term recovery of all Western economies.

EU leaders recently agreed on a fiscal compact, designed to limit the level of government borrowing in euro area countries. It does not resolve the crisis since fiscal rules carry little credibility in markets as governments frequently break them.

Indeed, the euro area's Stability and Growth Pact, set up when the euro was created, fell apart after a number of countries breached its limits. The compact fails to quell investor fears that eurozone nations will not be able to finance themselves.

A substantial rescue fund is required, over €2trn, probably with significant input from the IMF. With this in place the eurozone can start growing again and markets' worst fears over banks will be alleviated. Without it, Britain's downturn is likely to be longer and deeper.

Julie Meyer
Founder and chief executive, Ariadne Capital

Growth in any economy is driven by entrepreneurial businesses, but you have to be targeted in your support. It is worth reflecting on NESTA's finding – that the 6% of firms defined as high-growth account for 54% of the jobs created. These so-called "gazelles" are not a niche sector, they are the heart of our economy and should be at the centre of economic policy.

In this country, as in the US, we like fairness when it comes to government action. But when a small group are disproportionately driving GDP growth in this way, why not create more tax advantages, not only for the high-growth business, but for those invest in them and work for them?

When it comes to fairness and tax, there are questions to be asked about how companies such as Vodafone and Goldman Sachs are being let off £25bn in tax when people running small businesses are being chased for PAYE and NIC payments. It's all very well making policy announcements about a fairer tax system. But policy statements aren't what drives the experience of thousands of business owners. Policy is what actually happens. At the moment there is a gap between the statements and the experience. We need to ensure that the benefits big companies enjoy are offered to small firms, especially those gazelles.

More could also be done to encourage the financing of entrepreneurship. This includes joining policy dots when it comes to angel and other private investors. At Ariadne Capital we pioneered the model of entrepreneurs backing entrepreneurs in the UK and Europe at the institutional level. Our 60 founding investors offer their capital, but also their networks, expertise and time to our portfolio companies.

The evidence of the power of this model is what happens when one of those supernova deals gets done. So Mike Lynch sells Autonomy and another 100 millionaires are created, who all invest in and set up other firms. It is on the back of these supernovas that ecosystems are built. The good news is that high-growth, technology-fuelled businesses see London as the European capital. They want to be based here. But we should make it as positive an environment as possible.

There are always tales about traditional banks failing small businesses. Banks need to up their game or they will lose out to new competitors. There has been an explosion in new types of lending, with firms like Zopa, Funding Circle and EuroTRX developing new consumer and business financial services models, while Monetise (which we've advised for seven years) is building a new mobile money ecosystem.

Emma Wild
Head of knowledge economy and competitive markets, CBI

Medium-sized businesses (MSBs) have the potential to add £20bn to the economy by 2020, but for too long businesses with a turnover of between £10m and £100m have been overlooked by policymakers.

The CBI's *Future Champions* report showed the UK's MSBs have untapped potential to grow. While gazelles did extremely well in the years before the recession, just 6% of MSBs accounted for 60% of new jobs and nearly two-thirds experienced 1% growth at best. Meanwhile, MSBs in France and Germany account for a higher proportion of revenue and employment. Our report recommends three ways that MSBs can be better encouraged to grow and create jobs.

Firstly, a broader range of finance. We'd like to open up non-bank options to MSBs and were pleased that the chancellor announced plans to look at exactly this question in the run up to the Budget. Secondly, we need to increase the capabilities within MSBs, so that they are able to exploit opportunities to grow. And thirdly, too many MSBs in the UK lack the confidence or the ambition to grow their business.

The CBI will champion these firms and help to give them confidence to invest for growth.

Ultimately, we want the UK to have its own version of the German Mittelstand - a backbone of medium-sized businesses that export, innovate and generate growth. Given the right boost, they could transform the UK economy. We cannot afford for anything to hold them back.

Chris Pissarides
Norman Sosnow chair in Economics (London School of Economics) and Nobel Prize winner for economic sciences

The outlook for the UK economy in 2012 is not good, partly because of fiscal austerity and partly because of the problems in the eurozone. The best way to achieve growth is to stimulate more activity in the private sector, but growth in aggregate demand is held back by restrictive policy and by retreating export markets in Europe. Having embarked on the deficit reduction programme, which was ultimately needed, the chancellor should not back-track on a large scale but should try low-cost ways of stimulating activity in the private sector. The government should also try to help find a solution to the eurozone's debt problems. Trade with a resurgent eurozone will be beneficial to both economies.

In the domestic economy, less regulation and more incentives to SMEs seem to be the best way forward in the present juncture. Under regulation I include taxation and national insurance contributions. The threshold at which regulatory procedures, national insurance contributions and other taxes, like VAT, become operative could be increased, at least as a temporary measure. In addition, subsidisation of new employment, for a short period, would increase job creation and stimulate demand. The subsidies should be restricted to the hiring of unemployed workers, or workers with unemployment history, and be handed over only if the new job is not closed down in less than a year. This will have the advantage of creating more jobs especially targeted to the unemployed, and because the government will be saving the job seeker's allowance it should not be an expensive policy to administer.

In the eurozone help could be given by encouraging countries to use existing EU institutions to find a solution to the fiscal problems without having to go outside the present framework, which would be more time consuming. The UK could also help both in the discussions about the institutional framework needed for fiscal discipline and in finding funds for partial bailouts of governments or financial institutions as the need arises.

The government should help find a solution to the eurozone's debt problems. Trade with a resurgent eurozone will be beneficial to both economies

A 10-POINT PLAN FOR GROWTH

5
Alternative finance for SMEs

Banks have an important role to play in supporting SMEs financially. Growth at the macroeconomic level requires individual businesses to grow and that requires them to have finance in place. With banks under pressure to reduce risk, there is a need for investment to come from as many sources as possible. There is plenty of private money available, from venture capital and private equity houses to private investors and business angels. Explaining these options and offering the investors financial encouragement in the form of greater tax breaks, would be a huge help. As Julie Meyer puts it, we need to "join some of the dots" when it comes to using tax breaks to encourage investors in smaller firms.

6
More support for medium-sized firms

There's little doubt that medium-sized businesses are largely invisible in the UK. They are under-represented and under-supported. Our Squeezed Middle campaign (see page 51) aims to change that. By the CBI's estimate this sector of the economy, if properly supported by policymakers and investors, could add an extra £50bn to the UK economy by 2020. As Cranfield's Keith Goffin points out (page 55), "What is needed is a longer-term plan for manufacturing and engineering in the UK."

Your next step for business growth

Top 10 reasons why the Netherlands

1. Strategic Location
In the heart of mainland Europe's consumer market with 500 million potential customers.

2. Competitive Tax Climate
The Dutch tax system may be very beneficial for international tax planning with low effective tax rates, ruling practice with participation exemption, R&D regime and an extensive treaty network.

3. International Business Environment
Home to many multinational companies and with a long tradition as a stable and enterprising nation, the Netherlands is well-known for its international outlook.

4. Superior Logistics Infrastructure
With two of Europe's most important seaports and well-connected airports, the Netherlands can provide any logistical connection to the hinterland.

5. Outstanding Technological Infrastructure
Two decades of investment in modern digital technology makes the Netherlands one of the most 'wired' countries in the world.

6. Talented Workforce
Dutch professionals make up one of the most highly educated, flexible, multilingual and productive workforces in Europe.

7. Innovative Environment
Well organised public-private partnerships create a mindset of creativity, collaboration and reliability for foreign companies to thrive in.

8. Business-Minded Government
The Dutch government focuses on minimal regulation, strong economic clusters and ease of doing business in the Netherlands.

9. Attractive Quality of Life
The Netherlands is proud to have an affordable high standard of living for its residents.

10. Netherlands Foreign Investment Agency
As part of the Dutch government the NFIA assists companies with every aspect of their strategic decision-making process.
Without obligation, confidential and free of charge.

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Pioneers in international business

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Danielle Stewart
Partner, Baker Tilly

The government must do more to reduce the tax burden in the UK in order to support businesses to drive economic growth. In our *Outlook 2012* survey, we asked UK businesses what single initiative the government could undertake to improve business conditions: half of the respondents wanted to see reductions in the rate of VAT, income tax and NICs.

The respondents also stated that red tape and regulations were getting in the way of growth. The administration associated with those old chestnuts, PAYE, VAT and health and safety legislation were cited as taking time away from proper business planning and, more importantly, trading.

We have written to the deputy prime minister Nick Clegg to encourage further simplification of our tax system. The legislation proposed for removal by the Office of Tax Simplification is a good place to start, as are the changes announced in the draft Finance Bill 2012, but more needs to be done to support business growth. We are pleased to see the Cabinet Office's launch of the Red Tape Challenge to promote discussion on how regulation can be met in the least burdensome way.

David Miller
Partner, Cheviot Asset Management

Boosting growth in 2012 will be one of the government's biggest challenges. While the markets want to see measures to boost growth, any measures that are seen as breaking the UK's fiscal discipline will be counterproductive. However, within these constraints, the government has opportunities.

Releasing pent-up housing turnover should be central to the government's plans this year. Reducing stamp duty on all property up to £500K in value, and eliminating it for those under £250K, will help get the housing market going and free personal finances for prospective homebuyers.

Our highly complex tax system is also ripe for government action. Simplifying personal tax will enable individuals and families to plan their finances more effectively, giving them the confidence to spend. I expect the chancellor to look at this in March.

Finally, the government should take steps to help the high street. Measures to help companies cope with property rents could ease the burden on small businesses, which play a vital role in boosting employment.

However, the most important thing the government can do is stick to its current course. With the fall in long-term borrowing costs, private sector investment will rise once confidence returns to the markets. Resilience will be the cornerstone of 2012.

Jim O'Neill
Chairman, Goldman Sachs Asset Management

Part of the solution requires most influential leaders and thinkers to be a bit more objective and stop blaming everyone and everything for our challenges. I often describe the UK crisis as being a Facebook crisis where it is so easy to moan and accuse, but less apparent to lead and adapt. The crisis, the subsequent recession and anemic growth have happened because the UK economy was highly geared and levered to the world cycle, and meant we were vulnerable to many things going wrong with that model. It delivered a lot of growth and wealth for the previous couple of decades, but those days are over, and we need to change. Part of this change is happening, and we will adapt.

The decline of sterling means that UK manufacturing is more competitive than it has probably been for 20 years, and this together with the changing nature of the drivers of world growth will ultimately be key drivers for us. After all, the UK is a very open economy. As the BRIC economies become more prosperous, they will want to buy more and more sophisticated services as well as consumer goods, and the service products are something that the UK can and will provide, whether it be financial, architectural, legal or otherwise. We will also improve our domestic government finances in time, which will allow more confidence at home about the future outlook for individual incomes and taxes.

The decline of sterling means UK manufacturing is more competitive than it has been for 20 years… this will ultimately be a key driver for us all

A 10-POINT PLAN FOR GROWTH

7

A national strategy for design

We must do more to highlight things the UK is good at and that includes design. In its recent report *Restarting Britain: Design Education and Growth,* the Design Commission called for greater awareness of the economic power of design. The report's conclusion was that the government needed to recognise design and design education as a major lever for economic growth. The commission called for a national design strategy to help unlock the potential of the UK's businesses. It claims design is a proven way to boost the competitiveness of businesses, selling more British products and services. "It can and does unlock the commercial potential of the UK's research base – sciences, engineering, new technologies and digital industries," it says.

8

Encourage more innovation

A growing economy is an innovative one. As Birgette Andersen of the BIG Innovation Centre explains, there is little hope if we don't invest time, energy and resources to encourage innovations across the science base. Investment in our universities and the next generation of scientists and engineers is essential. The current generation would benefit if R&D tax credits were made easier to access.

Richard Murphy
Director, Tax Research UK

John Maynard Keynes said that if during a recession you solved unemployment, the budget would look after itself. His point was simple: in contrast to companies who can sack staff and so avoid a cost, a country that sacks staff keeps the cost and gets none of the gain from their endeavours.

I propose a three-point Plan B for the UK. First, deliver a Green New Deal, a massive renewable energy programme. This would protect our economy from future currency exposure on energy imports and employ people in the UK. The people employed aren't on benefits, pay tax and so more than cover the cost of their jobs when the effect of their spending is taken into account.

Second a complete change of policy on tax collection is essential. I argue the UK tax gap is £70bn of evasion a year and £25bn of avoidance. HMRC says it is just £35bn. Either way, we have a crisis of uncollected tax that undermines honest businesses. More staff in local tax offices, with new information-gathering powers, would help plug the gap in tax revenues and create a better business environment.

Lastly, people feel alienated from both business and the state. We need a political leadership that tackles business excess and makes clear that businesses, and those who direct them, have a duty to the communities that support them. We also need business leadership that admits it is accountable for how it makes, and uses, profit. Without it we will not solve our problems, and that is the long-term goal to which accountants must contribute or we lose our relevance.

Birgitte Andersen
Director, the Big Innovation Centre

Austerity alone cannot create a dynamic, prosperous economy; entrepreneurship and innovation must be placed firmly at the heart of the growth strategy. National policymaking should aim to build an enterprising state where talent is fostered and where investment and innovation spur economic growth, prosperity and job creation.

But neither the government nor the free market can do this alone, nor can our banks, businesses or universities. It is the interplay between these institutions – how they work together within so-called "innovation ecosystems" – which matters profoundly to competitive success and investment confidence.

The business-backed Big Innovation Centre is at the forefront of this agenda and is working across these groups and government to ensure that together we can build the conditions and coherent policies needed for the UK business success stories of the future. The government's Research and Innovation Strategy for Growth could be the beginning of a process that turns the UK into the most innovative economy in the world. However, it remains unclear whether the scale and scope of the strategy is big enough to deliver the government's economic ambitions.

> Policymakers should aim to build an enterprising state where talent is fostered and investment and innovation spur economic growth

Ian Powell

Chairman and senior partner, PwC

The key issue facing UK business and government is growth; ultimately this is the only way forward given the economic pressures we face. It is interesting that many businesses are doing well but feel uncertain about the future with the consequence that key investment decisions, which will drive growth, are not being made. This uncertainty comes from economic, regulatory, liquidity and taxation issues.

On the specific issues of tax and regulation, the government needs to continue to create an environment that supports growth and encourages UK businesses to invest in the UK, and not overseas. I have been part of the wider business lobby encouraging government to give greater certainty around tax and regulatory policy to enable the UK to benefit from foreign direct investment.

If we are not careful the UK will become an unattractive place to do business. As is so often the case it won't be one single issue but the cumulative effect of what we say and do in relation to corporate and personal taxes, the way we develop national regulation and legislation and the way we adopt EU legislation that will be critical to growth. We also need to create an infrastructure that supports and promotes business, through strategic investments in our air, road and rail networks.

However, we must not lose sight of the underlying strengths of the UK economy and the business opportunities in the global economy outside of the EU. We have a very international business culture and are well placed to take advantage of the major opportunity – particularly in Asia and emerging markets. I remain optimistic that UK business working with the government will create the growth needed.

Alyson Stafford

Director General – Finance, Scottish Government

The sovereign debt crisis in Europe, coupled with the slow global recovery, has weakened confidence. The Office for Budget Responsibility now predicts that the UK economy will grow by just 0.7% in 2012.

The Scottish government has made boosting Scotland's sustainable rate of economic growth our focus. Our Government Economic Strategy and Spending Review set out a range of initiatives to accelerate recovery and create jobs. In the light of the challenging external and fiscal environment, we are focused on three priority areas.

Firstly, given the continued weakness in private sector demand, we are boosting public sector capital investment to stimulate economic activity and employment. This has the added benefit of creating a legacy of assets which can promote growth.

Secondly, improving access to finance, particularly for small companies, and encouraging new private sector investment is vital if we are to boost demand and rebalance our economy. The Scottish Investment Bank aims to provide support for growing and ambitious Scottish companies, while our Enterprise Agencies are seeking new opportunities to attract international companies to Scotland and encourage Scottish companies to export.

Finally, enhancing economic security is key to supporting confidence across the economy. In this regard, initiatives such as the council tax freeze and abolition of prescription charges aim to protect household incomes and support demand.

Professor Sir Andrew Likierman

Dean, London Business School

It's tempting, particularly for finance directors, to batten down the hatches, stopping investment and recruitment. But then the only thing of which we can be certain is that economic activity is cyclical and the current conditions are no more permanent than at any other time. Standing still also means slipping backwards, since competitors will be thinking how to improve their offerings for the future. So investment in people, products and ideas is crucial, not only to get through the current troubles but to be ready and competitive when the economy turns. At the London Business School, we're committed to helping organisations and individuals think this through. For example, colleagues in our new Deloitte Institute of Innovation and Entrepreneurship are discussing the risk of failure to innovate and new forms of finance for innovation; colleagues in marketing are discussing the importance of holding one's nerve in pricing; my economics colleagues are discussing alternative scenarios in looking forward; and work in finance includes looking at the changing nature of financial markets. All this illustrates the importance of a dynamic, rather than a passive, approach to the current turbulence.

Standing still means slipping backwards, since competitors will be thinking how to improve their offer

A 10-POINT PLAN FOR GROWTH

9
Speed up planned infrastructure investment

As Robert Rowthorn makes clear (page 27), even within the current fiscal contraints, there is a need for more infrastructure spending. This must not be empty Keynesian hole filling. Rather we must put more money into much-needed improvements to the transport, broadband and communications networks. These have a double-positive impact, creating jobs and encouraging growth in the short term and into the future.

10
Boost financial literacy, business and enterprise skills

Regardless of the causes of our economic woes, we would be in a better position had we invested more time, resource and energy to teaching young people how to be more entrepreneurial, more creative and more enterprising during the good times. While there are many initiatives in place that aim to teach creative, financial literacy and business skills, these are often fragmented, on a small scale and too local in nature. It is time to bring all this work together in a more cohesive national strategy for enterprise education.

This plan was compiled from ICAEW's five-point plan for growth and the comments of the expert panel. Have your say at icaew.com/economia

Jo Owen
Author, How to Lead

When a patient's heart monitor starts flatlining, even my GP would recommend something stronger than two aspirin. And the UK economy is flatlining, while the politicians are busily administering a few aspirin. We need radical action to revive the patient. Here are a few thoughts to get us going:

Create massive enterprise zones, which are exempt from nearly all employment law; keep basic health and safety, nothing else. See how quickly employment will grow when business is unshackled.

Decouple the City of London. Change its royal charter so that it is no longer part of the UK or EU but is obliged to transfer all taxes to Westminster. The City problem is solved: it escapes the EU; Cameron no longer needs to defend it; the amount of tax subsidy it generates for the rest of the UK becomes transparent. If it goes belly up – not our problem.

Write off £300bn or more of UK debt. The perverse effect of quantitative easing is that the public sector (HM Treasury) pays interest to the public sector (Bank Of England, which is practically if not legally public sector) on debt, which it owes to itself. End the accounting fiction: retire the debt and watch our debt disappear in a puff of accounting smoke.

Take an axe to public spending. Foreign aid is a great way of fuelling the bank accounts of foreign despots and kleptocrats: stop it now. Public procurement is a total farce: get a grip. Stop subsidies to business: too many businesses focus on farming the government for subsidies and contracts. They rip the tax payer off.

Spend on education. That will not fix today's problem. But it may fix the problem for the next 50 years. Do you want a society full of illiterate, unqualified gang members who have no idea of right or wrong, or do you want a society where everyone can make their own way productively?

Open house for skilled foreigners. Take the immigration debate away from the extremists. We want as many rich and skilled foreigners as we can find. So make the immigration rules very easy and make it very tax attractive.

It's not smart to leap on board the Titanic when it is sinking. The euro is going down and we do not want to go down with it. We are in the lifeboat called sterling and it will be a very uncomfortable ride for us, but not as bad as for those on board the good ship euro.

Finally never rely on government. Business makes its own luck. There are endless opportunities out there. And if there are not enough opportunities in your town, go to another town. Buy a ticket to China. Develop a new service or product line. Be nicer to your existing customers and make them more loyal. It's going to get a whole lot harder over the next year so business leaders must expect to have to fight harder than ever.

David Marsh
Co-chairman, Official Monetary and Financial Institutions Forum

The major thing that needs to be done is a medium-term strategy tied to structural reforms that can't happen overnight. But large companies that are good at manufacturing need to organise themselves in a more coordinated assault on international trading partners. These need to include both Europe, with whom we already trade a great deal, and the growth countries in other parts of the world.

People have been going on about it for the last 60 years without much success, but strengthening of manufacturing needs to be encouraged. This includes business exports but also training, apprenticeships and the development of technical schools.

In the short term, if the economy is growing at a lower rate than has been expected due to the euro crisis, the chancellor should relax spending constraints and maintain, and even increase, the rate of infrastructure investment. But it needs to be done in a way that ensures value for money. It's not just about digging holes and filling them in. The infrastructure we build needs to make a difference to the economy. The chancellor also needs to continue bearing down on the deficit while taking advantage of the relatively low private sector borrowing to be more flexible in public sector borrowing than he has been in the last 12 months.

Business BUT NOT AS WE KNOW IT

Work and the economy are changing at unprecedented speed. **Joanna Higgins** asks a panel of leading thinkers how we will be doing business 10 years from now

NEW WORLD ORDER

Barring economic disaster, China is expected to become the world's largest importer within a couple of years. The rise of the Asian economies will be "the biggest issue for most western boards" over the coming decade, says Pankaj Ghemawat. Most industries are facing a migration to culturally, administratively different markets.

The big challenge will be how to compete. Sheer scale, scope and speed will continue to give China "massive advantages," says Simon Collinson. "We should play to our strengths – creative industries, finance, software games, the service end of manufacturing – and promote speed of change rather than regional development." Staff will need to work clever to ensure the best return on effort.

This new world order will also change the way brands position themselves: western audiences will no longer be the focus of product development or brand messages, observes Nick Morris. Business leaders, meanwhile, will need to develop what Vijay Govindarajan calls "transnational competence" and a global mindset.

But we shouldn't write off the US, says Costas Markides. New industries may spring up, just as Microsoft, Intel, Google and eBay did in their sector. "We don't have a monopoly on knowledge, but we do have a society that encourages entrepreneurship and the institutional and capital systems to support it. We need to start thousands of businesses and experiment."

AN AGEING POPULATION

Japan's median age is 45; in the UK it is 40. China (with its one-child policy) and Russia are expected to see their working-age populations decline significantly by 2050, according to PwC.

The big uncertainty is whether companies can harness the demographic divide. "Longer working lives mean businesses will have to find ways of using people as they get older – on a contract basis, or mentoring," says Alison Maitland. In Germany, BMW is already tackling practical health-related concerns among older workers. But managers will also need to address softer issues – bringing older and younger employees together; reverse mentoring and knowledge sharing, performance metrics – to get the best from people at every age.

The cost implications of an ageing population for healthcare are significant and questions surround the future of pension provision. Will private share ownership become a more widespread alternative to corporate pension provision? Will investment companies step in to fill the void left by some corporates? Of course, the grey pound is

ASK THE EXPERTS

The forward thinkers interviewed for this piece

Mary Adams The co-author of *Intangible Capital: Putting Knowledge to Work in the 21st Century Organization* and the creator of the IC Knowledge Center

Simon Collinson Professor of international business and innovation, Henley Business School

John Elkington Executive chairman, Volans

Carlos Espinal Co-founder, Seedcamp

Pankaj Ghemawat Author, *World 3.0* and IESE Professor of Global Strategy

Vijay Govindarajan Professor of International Business at the Tuck School of Business and co-author of *Ten Rules for Strategic Innovators*

Umair Haque Director of Havas Media Lab and author of *Betterness*

Pegram Harrison Fellow in entrepreneurship, Said Business School

Alison Maitland Co-author, with Peter Thomson, of *Future Work*

Lucy Marcus Founder and CEO, Marcus Ventures

Costas Markides Professor of strategy and entrepreneurship, London Business School

Andrew McAfee co-author, *Race Against the Machine*, principal research scientist at the Center for Digital Business in the MIT Sloan School of Management

Nick Morris, Founder and director, Canvas8

Derek Woodgate Founder, The Futures Lab

Join the debate at icaew.com/economia

VIKTOR KOEN

also an opportunity, and one that new services are already addressing, from tourism for what's being dubbed club 60-90 to the Gransnet website.

DISRUPTIVE INNOVATION

Innovation will increasingly become the major source of advantage for businesses, particularly business model innovation. Heavily driven by mobile and social technologies, Carlos Espinal sees the democratisation of business growing apace – spurred by the rise of crowdsourcing and co-creation.

"Crowdsourcing makes the next decade favourable for start-ups," says Andrew McAfee, while low-cost ventures built around co-creation – LocalMotors automotive components, for example – will continue to disrupt entrenched industries. The evolution of funding platforms such as Kickstarter and AngelList will also provide seed funding for start-ups and could change the concept of shareholders over time. Flatter management structures will encourage employees to create solutions to problems with hacks – a term now used by the likes of management guru Gary Hamel to share innovative work practices over the web.

Global markets will be another big source of disruptive innovation in the Clay Christensen sense, predicts Costas Markides. Like Tata's Nano car, ideas that start out low-end and niche in emerging markets can grow to become global competitors – as Japan proved in the 1950s and 1960s.

Vijay Govindarajan says that the "bottom of the pyramid" will also be a source of jobs and start-ups. "The economic model for Europe has to be focused on solving problems for poor countries." And it is out of countries such as Africa that new business models are predicted to emerge, as poorer nations work around problems such as lack of infrastructure.

CAREER SHIFTS

Managers worldwide predict a revolution in working practices, according to a survey done for Alison Maitland and Peter Thomson's book, *Future Work*. Social and demographic changes, combined with technological advances and the financial crisis, have exposed the industrial age model as dated and inflexible.

"There's a drive for more autonomy and choice in the way we work," says Maitland. In the new model, work becomes more fluid, the possibility of having more than one career more likely and entrepreneurship is a viable first job option. Individuals may move in and out of different types of work, out of necessity or choice. This is pushing up the number of freelancers and contingent workers – whose numbers, according to the US Human Capital Institute, have swelled from 6% to 27% in the past 20 years.

It also calls for a hybrid type of employment – a 50:50 model, where someone is working part-time for one employer and the rest of the time for himself. "A typical company will be around 40% actual employees, 20% on a retainer or contract, 15% expert consultants and the rest will be networked," predicts Derek Woodgate. That mix may extend to the leadership team. "Employment will look more like self-employment," says Maitland. And that means less job security. This is likely to be reflected in pay, incentives and pensions. It also means managers must re-think what motivates employees. They will now feel "horizontal" loyalty, as *Drive* author Daniel Pink puts it, to teams and projects rather than to a business.

PROTECTIONISM

We've resisted so far, but with unemployment rising, it may be hard for politicians to avoid the urge to ensure that natives are first in line for jobs. John Elkington, executive chairman of Volans, says, "Nothing has dissuaded me that Schumpeterian creative destruction has abated. Pressures are not going away – and the level of support for protectionism could go off the scale if the Schumpeterian model is even partly right. This isn't all bad: there's a need to meltdown the 19th and 20th century systems to create mindspace for what's new."

ANYPLACE OFFICES

As alternative arrangements and task-based, flexible working practices become the norm, so will any place, any time working. Traditional offices won't disappear, but they are likely to evolve into something more like meeting places for face-to-face discussions. Web-based collaboration tools have already prompted a rise in remote working – software company 37Signals's story is typical: it started out by renting desks in another firm and using its own remote working tools, then eventually commissioned its own workplace. Its team now comes to the office more frequently.

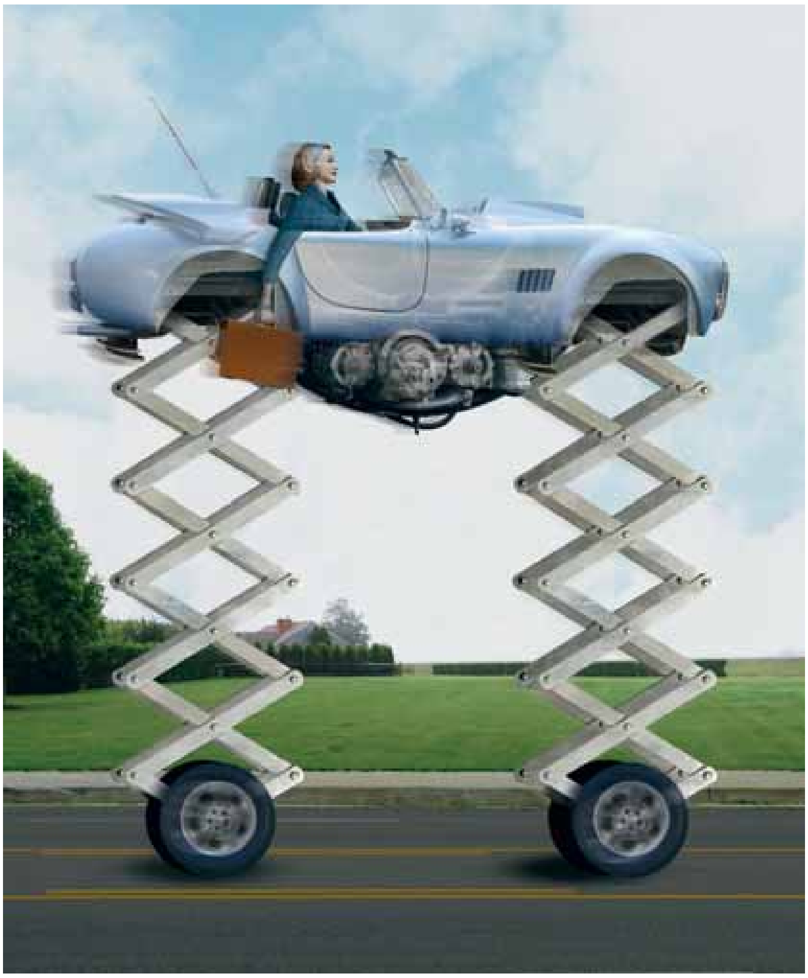
"We are now seeing many companies move to a geo-dispersed workplace, with development in the east and HQs in the west," says Carlos Espinal. Homeshoring, whereby contact centres such as LiveOps employ virtual centre agents to work from home, is also taking off. Hubs and shared offices will proliferate, offering the potential for more innovation (as people from various disciplines exchange ideas) but also for more security breaches. Office design is evolving to reflect changes to organisational culture, with the likes of Microsoft in the Netherlands and Unilever in Hamburg doing away with separate offices – and with them, the status attached to the corner office.

BIG DATA

Information is everywhere, accessible to many and easy to store in the cloud. That is giving rise to a mass of data. According to IBM, 90% of the world's data has been created in the past two years, with social media and video major contributors. The Internet Innovation Alliance talks about an "exaflood" – a deluge of data that will keep growing along with the number of people (and systems) that access the net.

Intelligent data tools hold out the promise of smarter decision-making and efficiency. But the rise in data volume has not been accompanied by a rise in the ability to make sense of it. "Systems and people that can analyse and interpret specific data will be highly valued," says Pegram Harrison. Data intelligence will be a goldmine for entrepreneurs and companies looking for innovative products, services, correlations in customer habits. Big data gives rise to new businesses – and models – says Espinal. "Big data is a

VIKTOR KOEN



huge trend" for web-based startups, whether it's to measure your social influence using Klout or gathering retail pricing intelligence using Profitero.

Disruptive business models will emerge out of the data itself and the way we consume it. "If you can have a holographic image projected onto your eyeball, that's going to shift business models radically," Espinal says.

A BETTER MEASURE OF WEALTH

GDP as a measure of economic prosperity has outlived its usefulness. "Capitalism as it's been practised is beginning to fail people. The fundamental building blocks of the economy are not fit for the future," says Umair Haque. He is calling for GDP to be revised to account for the different types of capital – financial, environmental, wellbeing – that comprise a nation's true wealth.

Changes are underway in emerging economies: India is attempting to shift wholesale to a "green GDP", while China's GDP will include quality measures such as happiness and environmental impact. "These will provide measures we don't have, and give them better information for faster decisions," says Haque. Better

> "Capitalism as it's been practised is beginning to fail. The fundamental building blocks of the economy are not fit for the future"

economies, markets and businesses will optimise for happiness. "We need a national balance sheet – a true measure of wealth," he says, one based on social and environmental capital, not just financial.

Haque also expects to see others moving in the same way as Puma, which has developed an environmental profit and loss account that discloses in more detail the full costs and environmental impact of its production. Markets and financial instruments will also emerge to supplement corporate profits with data about the real wealth the company is creating.

VALUING INTANGIBLES

A similar problem exists for companies measuring intangibles. As lower-skilled tasks and shadow work become automated, companies will need a far more accurate measure of knowledge work's real value than currently exists. "So much of the value of a company is no longer captured by traditional accounting tools," says Mary Adams. In the early 1970s, the balance sheet explained about 80% of the value of the company. Now it could be as little as 20%."

The skills of a workforce, the company's intellectual property (IP), its data, the networks that exist between its employees and customers and suppliers – what was once ascribed to "goodwill" in accounts – will need to be reframed to reflect its importance to the business. "We've created a new kind of infrastructure where competitive advantage may not reside in hard assets, but may be invisible," says Adams.

Organisations such as the Intellectual Asset Centre in Scotland are working on how to express those invisible assets. But there are wider implications for how companies will be run: if value resides in the relationships between customers and vendors, this asset becomes part of an organisation's infrastructure. Decentralised knowledge requires distributed power – and a leader more like Peter Drucker's orchestrator.

Reporting on intangibles, though, should result in more transparency and less short-termism: it will be less easy to hide things. "The last thing to change is usually accounting standards," says Adams. "But how can we go with an 80% information gap?"

THE RISE OF THE MACHINE

We already teleconference with avatars, but in the next decade we may be working with robots – or lose our jobs to them. "The single broadest trend will be the

THE FUTURE IN FIGURES

Space-based solar power could soon be a reality: a new method has been developed that would make it possible to launch a $10bn pilot within 10 years

$10bn

2020

Sweden pledges to phase out its reliance on fossil fuels to be completely free of their use by 2020

$9.7trn We need to invest $9.7trn by 2050 to feed the world, says the UN. In Asia, $120bn a year is needed; current spend is just $80bn. This will see more investment in agriculture – particularly in Africa

2050

5 BILLION

The National Science Foundation estimates there will be five billion internet users in 2020, compared to two billion in 2011

Personalised medicine may soon become a reality. **Genome sequencing** costs are dropping at a rate that beats **Moore's Law** – making the '$1,000 genome' a possibility within **five years**.

$1,000

Do you know what I am thinking? You soon could do: members of a private-public partnership comprising a number of Japanese companies and research institutes claim they will have created mind-reading technology by 2020

2020

5% Deloitte predicts spare oil capacity will drop below five per cent of global demand, doubling the price by 2030

8

Britain's mobile web is growing eight times faster than the wired web. Gartner says more will use the net via handhelds than PCs by 2014

adoption of ever more powerful technology into the workplace and the economy," says McAfee. "Self-driving cars are already here, as are computers that are better than the best quiz players."

These advances are becoming mainstream all at once. Companies such as GeoFluent have developed automated translation technology that could revolutionise healthcare and diagnostics – and so white collar jobs in the sector. "It's not just low or mid-skilled work that will be affected," says McAfee. "These will be unsettling times." Managers will have to forge new ways of working with, rather than trying to compete against, machines. "It would be a huge mistake to think we've run out of ideas," McAfee adds. "The trick will be to make the human labour force look as attractive as the cheaper robot, making people more skilled and focusing on their creative abilities and problem-solving skills."

Some take a dystopian view of the future, but McAfee prefers a more Utopian view where the rise of the machine benefits a wider group of people. Policymakers, though, may lag behind the technology. "Ten years on, there will be self-driving vehicles that will probably be better priced and will certainly be safer on the roads. But will the regulatory framework be there to use them?" says McAfee.

TRANSPARENCY

All of these issues feed into changes at board level. The inter-connected nature of businesses worldwide and via technology is making the role of the non-executive increasingly complex. "It is no longer about just short-term shareholder value. A director needs to ensure the organisation has the ability to withstand challenges from within and without," says Lucy Marcus. "It's a job, not an honour."

The role of the director will become tougher and more professionalised, while globalised standards of best practice are likely to emerge over the next decade. Fewer directorships and the threat of being struck off may improve board performance, but the boardroom will need more diversity and dynamism if it is to reflect the society in which it operates

Greater public awareness of the role of boards is forcing a "sea change" in behaviour, says Marcus. "The power-base is shifting – to that unmanageable world of the average person. Social media has given rise to authenticity and transparency."

Once just a trendy term, transparency is forcing an array of issues "blinking into the sunlight," says John Elkington. A business's ethics are increasingly exposed to scrutiny – online, in reporting procedures – with not just green behaviour examined, but employment practices and its contribution to the local community. Companies will have to manage openness with care – and influence indices will be more important than old boys' networks when it comes to appointments.

If giving back is something you intend to do, make 2012 the year you do it

After enjoying success with his own business, ICAEW member Grahame Woodward decided it was time to use his skills to help others in war-torn Uganda. **Penelope Rance** talks to him about his experiences

A healthy work-life balance isn't just a goal for Grahame Woodward – it's a principle that informs everything from the way he runs his business to his decision to spend four weeks in Uganda, helping a local charity to revolutionise its reporting systems.

"Retirement is a little way off, but I want a better lifestyle balance," he says. "I want to meet the same challenges, but have more flexibility. The charity placement I undertook in February 2011 is an extension of that.

"In my work environment, I've gone into numerous SMEs where the systems were a mess, bringing improvements, making processes flow and developing skills. I've made a career out of building in self-redundancy, working roles to the point of exhaustion then moving to the next challenge."

As principal of Grahame Woodward Associates, he has created a business model managing the needs of three or four clients, rather than an entire portfolio, offering each part-time involvement. This put him in the position to look at challenges beyond the accounting profession.

"I'd wanted to do it for a long time, but never actually got up off my behind and did it," he says. "Then I stumbled on an organisation that acted as agents for accountants to give something back."

Attending a workshop run by Accounting for International Development, he was able to select the country he wanted to go to, when and how long for.

"They have a range of charity partners, but I had to have a real passion for who I was going to support. It had to be hard-hitting," he says. "The ones in northern Uganda really appealed. The country had been through 20 years of civil war and genocide."

The father of two daughters, he was drawn to charities supporting children. "Having seen their parents murdered, girls were dragged into prostitution and boys into child soldiering. All of that combined with the HIV/AIDS epidemic. It's a child-dominated community with kids bringing up siblings. The image was so compelling, I had to go."

We're all painfully aware of the images of war-torn Africa, but the impression is of a desperate need for emergency relief. So do they really want accountants?

"When people think of Africa, they think frontline services, such as building latrines and getting physically stuck in. But there is a need for accountants," says Woodward. "There are charities trying to restore normality to devastated communities and a lot of funding going there."

Consider, Woodward says, watching *Children in Need*. You text in your pledge to donate money, but in the back of your mind you're wondering how much of it is really

"Valuable charity work was being done, but the reporting style raised more questions than it answered"

INTERNATIONAL REFUGEE TRUST

Main picture, left: A child at Orapwoyo Primary School answers a question. From top: Woodward at work in Uganda; many of the pupils look too old for primary school. They are catching up after missing out during years of conflict

reaching the child. “There’s a degree of cynicism whether it’s going into the pockets of corrupt officials. The charities have to overcome these very real credibility issues.”

Initially, the aim of Woodward’s placement was to tighten up the financial controls used by Comboni Samaritans, a small charity that supports children and HIV/AIDS victims in the district of Gulu. Its work is funded by the International Refugee Trust.

Critically, improved accounting and management skills were needed at a local level to develop reporting systems to strengthen the charity's bonds with donors, showing clearly that funds were going where they were intended.

“The cash might be used for the construction companies’ benefit, leaving

> “It brought home to me what they were doing there. They offer amazing support to patients in the face of the reality of people dying. The truck I got a lift in every day was also being used as a hearse”

shiny new schools and hospitals standing empty," explains Woodward. "The charity has to show that the kids are actually getting an education.

“My attitude changed during the course of the assignment. Charities were asking for professional support, but it became apparent that what was missing was a system for reporting back to the donors.”

For Woodward, the importance of Comboni Samaritans’ work became apparent on a trip to a new classroom in the village of Orapwoyo. They travelled for three hours along rapidly deteriorating roads. Arriving at the new school block, they were overwhelmed by the children’s appreciation.

Such enthusiasm is incredible in a region where the biggest cultural change has been convincing parents that education can benefit their children more than sending them to work in the fields.

Woodward was also impressed by the dedication of the Comboni Samaritans’ staff, which was always above and beyond the call of duty.

“I was picked up from my hotel every day by George, who worked for the charity as a driver. One Saturday I bumped into him in town. He worked extremely long hours, but on his day off he was giving up his time to drive an HIV patient to their final appointment. Their funeral.

“It brought home to me what they were doing there. They offer amazing support to patients in the face of the reality of people dying. The truck I got a lift in every day was also being used as a hearse.”

“It was obvious the passion and honesty was there, and valuable work was being done, but the reporting style raised more questions than it answered,” says Woodward. “So my focus turned to helping them to demonstrate the good work they were performing, with both financial and operational reports. A large aspect of their work is supporting individual children through education. But the reports were going into such detail they were missing the bigger picture. There was absolutely no analysis of the financial data. They were simply printing out their accounts and sending them back. So I found myself having to rely on my softer skills to improve the reporting processes to the charity’s clients.”

During his four weeks, Woodward developed a system for sending news to donors. It wasn’t pure accounting work, but has informed the way he does business.

“It’s made me more rounded as an accountant. Reporting has to extend beyond financial figures. I try to present the idea of work-life balance. It’s not just about grabbing the most money and running.

“The experience had a huge impact on me. It increases your perspective of your own life and how overwhelmingly easy we have it in the West. But you have to be realistic about why you’re doing it. It’s not completely altruistic. That side is pivotal, but I was also doing it for myself. I gained a hell of a lot of enjoyment from the whole experience.

“It’s a great option for the retired, or for those who don’t do holidays. Employers can also get a lot of kudos by sponsoring staff for such a placement.”

Woodward is determined to give even more back, and is in the process of arranging another placement, hopefully in Cambodia.

“The acid test is that I *want* to go again,” he concludes.

KEY WEBSITES

There are a number of organisations which support professionals who are interested in volunteering abroad

2Way Development; 2waydevelopment.com

Accounting for International Development; afid.org.uk

Challenges Worldwide; challengesworldwide.com

GOAL UK; goal.ie

Mango; mango.org.uk

REdR; redr.org.uk

Briefing
Audit reform, tax policy and David Gauke

From ICAEW's response to the Sharman Panel to revenue recognition, we round up five key technical issues

PAYING VAT ONLINE

1 HM Revenue & Customs has issued an alert to VAT-registered businesses across the UK about important changes due to come into effect from 1 April 2012. From that date all VAT-registered businesses must send their VAT returns online and settle their balances electronically. Currently, only newly-registered businesses and those with turnover of more than £100,000 have been required to do so. The new rules will cover VAT returns filed for accounting periods beginning on or after 1 April 2012.

ICAEW RESPONDS TO THE SHARMAN PANEL

2 A panel chaired by former KPMG International chairman Lord Sharman has been examining the UK regime for assessing and reporting on going concern. While welcoming the debate, ICAEW would like the panel to seek further consultation on any responses before it makes any final decisions.

"It is at this stage, through a review of detailed illustrative examples, that the implications can be properly assessed," says Robert Hodgkinson, ICAEW executive director, technical.

Hodgkinson adds that ICAEW doesn't think fundamental change is necessary to the current going concern regime, but that risk disclosures for main market-listed companies could be enhanced.

Caution is also needed when it comes to changing the current "three-bucket" model for auditor reporting. "An emphasis of matter paragraph is a central tenet of the current regime and can be an effective mechanism for ensuring appropriate disclosure where concerns exist around solvency or liquidity," he says.

"Furthermore the model is the accepted international position under clarity ISAs, which the EC is currently seeking to adopt. For the UK to depart from this position would be undesirable."

For more details on the Sharman Panel, visit icaew.com/sharman

CHECK THOSE OLD CLIENT UTRs

3 Businesses and agents acting for companies should check the unique taxpayer references (UTRs) stored in their systems.

Historically, people filed company tax returns based on a company's name but computer systems automatically file online using the UTR stored within. The correct UTR should be on the company's documentation received from HMRC, such as the notice to file, but an agent could have had the wrong UTR stored in their computer files for years.

Agents are advised to check they have the correct references in order to avoid problems filing corporation tax returns.

IMPROVING PERSONAL TAX ADMINISTRATION

4 The government is seeking ideas on how to improve the administration of the personal tax system to make it easier to understand and deal with. It wants to hear views on which areas of the personal tax system create the most difficulty and how to provide better information and help so that people can take a more active role in ensuring they pay the right tax. The closing date for suggestions is 24 February 2012. Comments should be emailed to PTAdministration.responses@hmrc.gsi.gov.uk.

To contribute to the Tax Faculty's response, email jane.moore@icaew.com

HAVE YOUR SAY ON REVENUE RECOGNITION

5 The International Accounting Standards Board has re-exposed its proposals for a radical new model for revenue recognition. ICAEW will be responding to the IASB and is keen to hear members' views on this revised draft standard, published in November 2011.

The proposed legislation, which would not come into force before 2015, will impact on all reporters falling under the demands of the International Financial Reporting Standards. Although the main elements of the model remain unchanged from the earlier exposure draft on revenue recognition, some key details have been revised. The deadline for submitting comments is 13 March 2012.

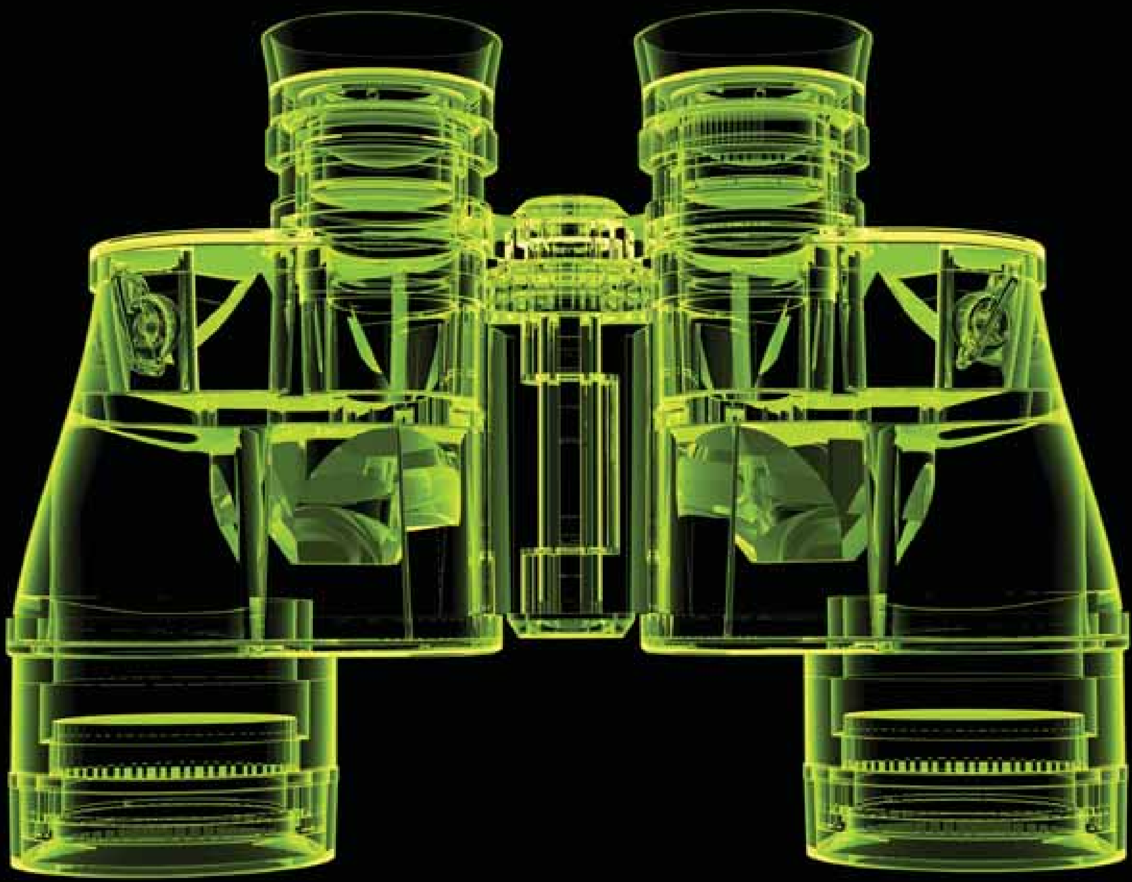
> "Agents are advised to check they have correct UTRs in order to avoid problems filing tax returns"

Members who wish to comment can email john.boulton@icaew.com. For more details, visit icaew.com/revrec and for copies of the proposal, visit ifrs.org

For more information on all these stories, visit icaew.com/economia/technical

Audit confronts the future

A series of financial crises have raised challenging questions about audit. **Lesley Meall** examines the future and asks key figures what they want and what they are expecting from the impending shake-up



SHUTTERSTOCK

The audit industry is in the middle of a period of profound change. But we can only guess what form this will eventually take and how long it will be before the most significant changes materialise. At the moment it's all talk, but there's a lot of it. ICAEW has worked hard to shape the conversation, sustaining a productive dialogue with industry supervisers on systemic risk issues.

"This is possibly the most challenging time for the profession in its long history," says Henry Irving, head of ICAEW's audit and assurance faculty. As well as the economic challenges created by crisis after (unsolved) crisis, the audit profession, and those in the ecosystem around it, must grapple with a number of other major challenges. They include getting to grips with the vagaries of European Commission proposals on audit reform, a Competition Commission enquiry, the Department for Business Innovation and Skills (BIS) consultation on the future of narrative reporting, new EC accountancy and company law directives, the Sharman Inquiry on Going Concern and Liquidity Risk, and a rise in the audit threshold.

> "Until mid-tier firms are given a real opportunity to compete on a level playing field for the audits of mid-cap listed companies, clients will see no reduction in costs and will have no greater choice"

COST AND COMPLEXITY

Time will tell if any of these regulatory initiatives achieve the desired effects, or come together in a manner that does more harm than good, but optimism is thin on the ground. "Adding cost and complexity to business will not help European capital markets, investors and business," asserts Ian Powell, chairman of PwC UK. He is referring to the EC green paper on audit reform, and the Big Four aren't the only firms to be unimpressed by the proposals of EC internal markets commissioner Michel Barnier. David Ingall, from the UK200Group, a member association of 150 small and medium practices, has also expressed his dissatisfaction with the commissioner's approach.

Matthew Fell, director for competitive markets at the CBI says, "We are concerned that the prohibition of non-audit services and the requirement for audit-only firms will threaten the breadth of expertise and quality of services currently available to business, without boosting competition." This perspective is echoed by Andy Halford, chief finance officer of Vodafone and chairman of the Hundred Group of FTSE finance directors. He predicts a fall in the quality of statutory audits, increased cost and a reduction in the value of audit opinion to investors, "without any compensating tangible benefit".

Barnier sees things differently. "Investor confidence in audit has been shaken by the crisis," and the proposed changes are necessary to "restore confidence in the financial statements of companies", he says. As an impact analysis by the Commission estimates that its proposed changes could increase annual compliance costs by up to €150,000 (£126,000) for each large business affected, this collateral damage has clearly been considered and judged acceptable. In the circumstance, it is almost a moot point whether or not Barnier (and others) are right to lay some of the blame for the banking crisis at the feet of some statutory auditors. Almost.

DOGS THAT DIDN'T BARK

But suggestions that auditors lacked independence and that their supervision was not robust enough persist. "There were some manifest and very large failures in bank audits," says Jon Moulton, the accountant and venture capitalist who is chairman of Better Capital, a turnaround specialist. "In 2007, the accounts for Allied Irish Bank were too fanciful even for Enid Blyton, and nothing happened about it," he says, describing the UK as "a good place to be a poor auditor". Moulton is a professional sceptic, so his views can seem extreme. But even auditors accept that the banking crisis prompted serious questions about whether they are sufficiently sceptical.

"The questions about this did contain an element of truth," admits John Griffith-Jones, chairman of KPMG UK, "though tarring all audit professionals and audits with the same brush is a dangerous generalisation." He says that the profession has listened and responded to calls for change. Improvements have ranged from a new audit firm governance code to a more structured approach to dialogue with supervisors.

So, while one member of the House of Lords Economic Affairs Committee, Lord Lawson, still sees auditors as "one of the dogs that didn't bark", Griffith-Jones says, "I don't think that auditors have ever been more sceptical than they are now."

Some smaller firms that could benefit from Barnier's proposals believe that they will offer the protection required to make Big Four auditors more independent. Anthony Harris, one of the 14 partners with the Thames Valley firm Critchleys, says, "The mandatory rotation of auditors, which is adopted already in places such as France, has much going for

"If you ask what we can do to break up the oligopoly you must also ask what it would do to the quality of audit"

GETTY IMAGES

Informing the debate: (from left) Geoff Goodyear of Russell Bedford International; chairman of PwC UK Ian Powell; Vodafone CFO Andy Halford; KPMG UK chairman John Griffith-Jones; and Lord Lawson

it." As he points out: "It is not possible to sack the auditor during their period of appointment in certain European jurisdictions, so this gives complete freedom for the audit report to be independent." Harris expects this to be reinforced by the split between audit and non-audit, and mandatory rotation, and he's not alone.

"We have always believed that mandatory rotation is the only way to break the obvious over-concentration in the audit market, and provide public interest entities with a proper choice," says Geoff Goodyear, chairman of the global audit network Russell Bedford International. "Unless and until mid-tier firms are given a real opportunity to compete on a level playing field for the audits of mid-cap listed companies, clients will see no reduction in costs and will have no greater choice." Quite understandably the Big Four see things a little differently. So how does Griffith-Jones feel about the Competition Commission enquiry?

"When it was first suggested I thought bring it on, we've been arguing about this for too long," says Griffith-Jones, "but now that I've seen the Barnier report I am less sanguine." He believes that "a competition-type answer to the Big Four question" should be balanced against potential consequences that go beyond self-interest.

"If you ask what we can do to break up the oligopoly you must also ask what it would do to the quality of audit". Although this concern was echoed by audit committee chairs (ACCs) when ICAEW and Brunswick Research asked for their views, the ACCs do think that there is room at the top for more firms.

Most of the ACCs surveyed would like to see the Big Four extended to include a larger group of top tier firms. So, why don't they do something about it? James Roberts, BDO senior audit partner, puts it down to institutional prejudice. "I don't mean this in a sinister way," he explains. "Lots of audit committee members are alumni of Big Four firms, so there has been a historical preference and this has become self-sustaining." And ACCs have shown a disinclination to challenge the status quo. "A lot of ACCs are coming to the end of illustrious careers and don't want to take unnecessary risks," he says, "and nobody ever got fired for buying IBM."

Research into audit committee reporting seems to confirm a gap between what is expected of audit committees and where many are. BDO and ICAEW analysis of 237 listed companies' audit committee reports found that just one third included details about the effectiveness of external auditors and its assessment, and what's termed boiler plating was evident in explanations of how the independence and objectivity of the auditor is, or is not, achieved. "Many audit committees do not maximise the potential to tell the story of the work that they undertake throughout the year, and this is a missed opportunity," says Robert Hodgkinson, ICAEW's executive director, technical.

EXPLAIN THE VALUES

Better communication is something that might do wonders for the way audit is perceived in a more general sense too. "The profession needs to do more to explain the value that auditors can add, and to clarify what success should look like, because a better-educated debate is needed," says Irving. ICAEW is working to achieve this. "We've launched a website called Trueandfair.org.uk that will help the man on the Clapham Omnibus make his mind up about the integrity of statutory audit and its value to the economy, and give audit a human face," he adds.

Many inside and outside the profession also want audit to be more transparent. Barnier wants audit reports to be "no longer than four pages or 10,000 characters (without spaces)", but he also wants all members of an audit team listed. As the head count for large company audit teams can top the hundred mark, this creates some obvious challenges. Of course, there are other barriers to transparency, and the main one is complexity.

"I long for simplicity and an element of genuine utility in audit, and I'd like to see it become more substantive," says Moulton, adding: "Apparently well meaning requests for more transparency have just led to more complexity."

International standards on statutory audit now run to 1,500 pages, while standards for internal audit are a fraction of the size, despite doing a job that is at least as complex. There are now around 2,500 pages of International Financial Reporting Standards (IFRS).

"We need a much simpler financial reporting framework," says BDO's Roberts. "There has been a conspiracy of silence. The time has come for the profession to say that financial reporting has become too complicated." Many see the rise of IFRS as a major cause of the growth in complexity – and some cite it as one of the causes of the banking crisis.

"Lots of audit committee members are alumni of Big Four firms, so there has been a historical preference. This has become self-sustaining. A lot of ACCs are coming to the end of illustrious careers and don't want to take risks"

Former fund manager, Tim Bush, who sits on the Urgent Issues task force for the Accounting Standards Board suggests that the move from UK Generally Accepted Accounting Principles (GAAP) to international accounting standards was one of the drivers behind bankers' recklessness, because the standards forced auditors to abandon the principle of prudence in their audits.

"I think we need UK GAAP back," says Bush, who is urging business secretary Vince Cable to circumvent the interminable process of accounting standards development and intervene "to change the rules before any more damage is done".

But if regulation can't increase audit transparency; what about armchair auditors?

A QUESTION OF TRUST

They've been shining lights in some dark corners since the government made its financial data publicly available, but this also seems to have eroded trust in audit. "It's too incestuous and there are too few independent auditors," says Teresa Musgrove, who is better known as Mrs Angry, one of the bloggers and activists who uncovered a £1.3m audit scandal at the London Borough of Barnet. "I'm disnumerate," she says, "and I managed to spot the huge lack of procurement compliance. If the auditors couldn't even manage that, I don't see any point to them." Let the drama unfold.

Join the debate at icaew.com/economia

Cracking the tax code

GETTY IMAGES

Tinkering with the tax system is a reflex action for a new government, but is any benefit gained from minor changes? **David Adams** asks whether politicians are meddling too much, if an overhaul of the system is possible, or whether simplification is too complicated

Every industry has its own jargon, but tax surely runs neck and neck with IT for the prize of sheer impenetrability to outsiders. To be able to talk tax is akin to having a second language. Although the basic principles are straightforward, the tax system itself has become hugely complex.

"In the last 10 to 15 years we've seen unprecedented growth in tax legislation," says Frank Haskew, head of the tax faculty at ICAEW. "We have probably the longest tax code in the world, which for a nation of 60 million people doesn't seem right. And it's difficult to support growth and encourage investment if the UK is seen to be a hard place to do business in terms of tax."

Politicians tend to agree, in theory, if not always in practice. The 2010 Coalition Agreement promised a "wholesale review" of small business taxation to create "simpler measures", and reform of corporate tax "by simplifying reliefs and allowances".

In July 2010 the government created the Office of Tax Simplification (OTS) to advise the chancellor on delivering a simpler tax system. In November 2011 the government published a discussion paper setting out its vision for a more open and understandable personal tax system.

LIFTING INCOME TAX THRESHOLD

Following consultation over the summer of 2011, working groups have been established to plot the next steps for consultation on the operational merging of income tax and National Insurance, as announced by George Osborne in the March 2011 budget. The Coalition Agreement also commits the government to a flagship Liberal Democrat policy: lifting the income tax threshold to £10,000, although the principle aim here would be direct stimulation of demand rather than simplification.

The OTS has recommended the abolition of more than 100 reliefs (the government has agreed to abolish more than 40 of these) and reforming small business tax, and has launched reviews on the taxation of pensioners and employee share schemes. But whatever ideas the OTS or the Treasury put forward, politics will always get in the way. "Any tax simplification is almost certain to create winners and losers," says Tony Dolphin, senior economist at the left-leaning Institute for Public Policy Research (IPPR). "The way governments have got around this in the past is to make sure that the losers are unpopular, like bankers or big oil companies."

TIMING THE CHANGE

Dolphin also points out that the best time to embark on major changes to the tax system is when revenues are buoyant and there is a surplus to spend, which isn't quite where we find ourselves today. Other observers have yet to be greatly impressed by the OTS. "The surprising thing is that it's got a part-time chairman and a part-time tax director and there are a few members of staff who I think are only there for a few days a week," says David Martin, research fellow at the right-leaning Centre for Policy Studies (CPS) and a member of the Tax Law Review Committee at the Institute for Fiscal Studies – here expressing his own views. "Clearly the object of the exercise is to keep costs down and make sure the office doesn't overreach itself."

Nevertheless he welcomes, with reservations, the work the OTS has done on small business taxation. It

has put forward a series of options including, for the smallest unincorporated businesses: flat rates for expenses; a tax based on turnover or on other indicators, such as number of employees; or a tax based on standard lump sum payments in lieu of income tax and Class 4 National Insurance. A turnover tax could make life simpler, but would certainly be criticised. As David Martin points out, turnover might represent 5% of profits for one business and 90% for another, yet both would pay the same tax.

"The basic problem with UK tax law is that we have a fragmented tax base," he says. "We tax capital gains, we have capital allowances, [tax on] income is split into investment income and trading income and none of these rules fit together. The best thing for business is to put it all together, just tax profit. You don't need hundreds of allowances." He believes implementing this proposal would remove 75 to 80% of tax law applicable to businesses. On personal tax he would amalgamate income tax, National Insurance and

"Small businesses tell us the biggest source of complexity is change. If you simplify, you have to change, so you have to get a balance"

Capital Gains tax. "If you find you need exemptions, create some. So, for example, I would be in favour of relief for entrepreneurs selling a business. If you've got a coherent tax base you can have a number of tax reliefs without overcomplicating it." He also believes this change would help to reduce tax avoidance by increasing transparency.

But, in every case the practical difficulties created by the shape of the current system remain. Frank Haskew cites Geoffrey Howe's quote that likened reforming the British tax system to painting Brighton's Palace Pier while someone else was extending it to France.

"The trouble is, politicians are always looking for new ideas and initiatives for stimulating growth, so you end up with conflicting objectives," says Haskew. "To make meaningful simplification you need to be quite radical. But that is very hard to do when you're up against a big deficit and difficult to sell without a tax-cutting agenda. Clearly we're not in the best part of the economic cycle to do that. So we're seeing a lot of tinkering around the edges."

"If we're doing some useful tinkering at least we're being useful," says John Whiting, tax director at the OTS. "I hope we're going to promote some radical thinking, but simplification isn't easy. We are trying to simplify the legislation and the running of the system. It isn't necessarily going to scythe through the legislation but it is hopefully going to have practical benefits."

He also accepts the doubts some have expressed about the size of the OTS, noting that his small team depends on individuals seconded from the Treasury, HMRC or the private sector. "It would be nice to have more resources, but what it's forced us to do is to talk to people and gather the evidence, rather than sitting in a big think tank thinking we can do it all," he says.

FINDING A BALANCE

Whiting stresses the dangers of trying to change too much too fast. "Small businesses tell us the biggest source of complexity for them is change in the system," he says. "If you simplify you have to change, so you have to get a balance."

But IPPR's Dolphin would like to see a radical overhaul of the system. "I want to halve the size of the tax code, so you have simple structures and lower rates," he says. "It could be done, but it is political dynamite." And he says, "We're a decade away from being in a fiscal system where any government could contemplate a radical overhaul of the system."

But there are also some reasons to be thankful for complexity, says Bill Dodwell, head of the tax policy group at Deloitte. He cites international financial reporting standards, which can compel companies to report profits that haven't yet been realised. "The tax system has a number of ways to express understanding of that situation – we don't think it's realistic to tax unrealised profits," says Dodwell. "Usually those things are options – companies don't have to do them. That's an example of complexity we don't need to worry about."

Tony Dolphin also thinks it's difficult to be certain a complicated tax system harms competitiveness. "An efficient, simpler tax system probably is a good thing. Businesses will say they spend too much time worrying about tax law, but I haven't seen any evidence of a negative correlation between the complexity of the tax system and the growth rate," he says.

But change is coming, slowly. Necessarily so, says John Whiting, "I'm not sure anyone would want radical change tomorrow. You need to plan properly."

Bill Dodwell stresses the importance of giving companies, advisors and technology providers time to adapt: "My focus would be on systems and things that benefit the public and less on simplifying the law."

Frank Haskew says, "Simplification is a worthy aim, but making it meaningful will take a long time and will mean taking big decisions. Without that it's just tinkering around the edges. That's not to say it's not resulting in important administrative simplification. There's nothing wrong with that, but that's all it will be."

Join the debate at icaew.com/economia

Trust in the balance

Exchequer secretary to the Treasury, David Gauke, has a busy year ahead. But, as he tells **Andy Sawers**, he's up for the challenge

GUILHEM ALANDRY / DOCUMENTOGRAPHY

In the office of David Gauke MP, exchequer secretary to the Treasury, is a framed print of *The Daily Telegraph*'s Matt cartoon. It depicts a boy waving his dad off to work: "Have a good day at the Treasury, Dad," calls the boy. "Try not to cry."

Gauke isn't crying, but with the scale of the reform agenda, one could forgive him the odd tear. As minister in charge of the Finance Bill and HMRC, he has set himself the task of removing complexity from tax law, tackling the problem of an exodus of companies looking for friendlier tax domiciles, addressing a possible general anti-avoidance rule, publishing draft legislation, improving governance and the level of tax skills at HMRC, rethinking how best to work with tax agents... and even ensuring that the tax people answer phones and post promptly. Oh, and making sure that tax is collected through better compliance and enforcement.

Achieving this requires a lot of consultation. "I've always been of the view that not all the expertise in the world exists within this building," says Gauke in an interview for the February issue of ICAEW tax faculty magazine, *Taxline*.

But he readily admits this places a considerable burden on the tax profession. Indeed, while tax professionals may have lamented for years the lack of consultation, Gauke says there have been "one or two" voices complaining of too much consultation (be careful what you wish for). He hopes ultimately they will see the benefit of it all.

"We're conscious that sometimes the demands placed upon the private sector in responding to consultations can be considerable," he says, "but we do listen, and I can quote a whole host of examples where things have changed as a consequence."

Gauke goes on to say how he appreciates the support from ICAEW and the various tax institutes, and how the profession is engaging in the consultative process. Almost as if it's a quid pro quo, one of the treasury's near countless consultations is about how to improve the working relationship with tax agents, with a view to them potentially playing a bigger role in tax administration. Words such as "trust" and "responsibility" feature in the Treasury's thinking here – a cultural shift on HMRC's side of the relationship that could see tax agents being able to self-serve more, enjoy greater access to the information they need and even have the ability to make appropriate changes to individuals' tax codes, for example. The problem is how to give more responsibility to tax agents while ensuring that they do the job properly but "not allowing one or two bad apples to cause undue difficulties".

> "I'm keen for HMRC to be as open as possible, but its role is not to be a regulator"

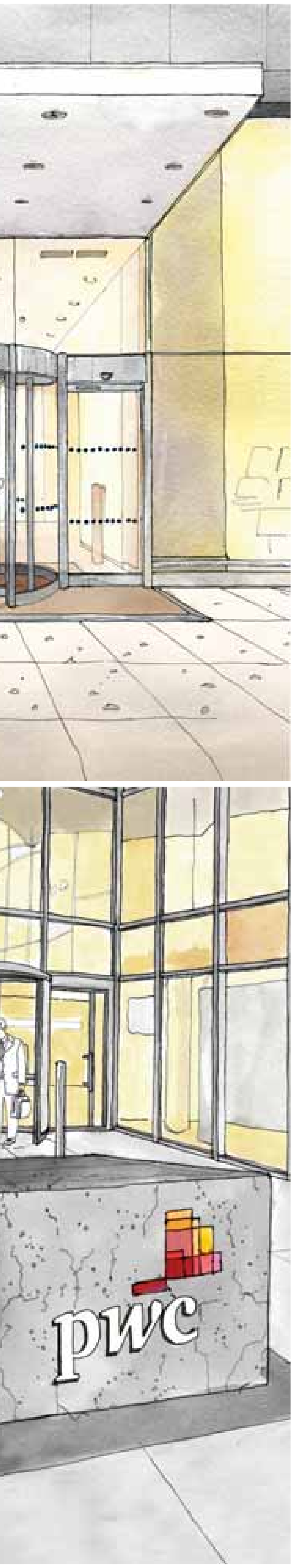
One thing Gauke is clear on; whatever else may need to be done to ensure that tax agents meet the necessary performance standards: "It's not the role of HMRC to be a regulator."

The relationship between HMRC and tax agents has, he freely admits, been through a rocky patch – "there's been some ups and downs" – but he believes there has been "some good progress in the relationship: there is a more positive attitude and atmosphere now than there was perhaps six months ago. I'm pleased about that and I think we want to build on that. I'm very keen to encourage HMRC to be as open as possible and engage with the tax profession as much as possible."

On the other side of his office from the Matt cartoon is a quite striking trophy. In May last year, Gauke won the Tax Personality of the Year award. Widely regarded as a fitting tribute, it should cheer him up on those days when he might otherwise feel like having a little cry.

A fuller version of this interview appears in the February edition of *Taxline*. For details, visit icaew.com/taxfac


KPMG
Deloitte.
ERNST & YOUNG



The flock of the new

Chartered accountants entering the profession today are having to prove their mettle in one of the most challenging economic environments in a generation. **Amy Duff** speaks to the recently qualified about handling the ACA, and to the employers that continue to invest in training them

Economic conditions are uncertain, we face the highest level of youth unemployment in a generation and many industries are maintaining a cautious approach to recruitment as they await recovery. Yet one profession has cause for optimism: accountancy.

According to the most recent Professional Oversight Board report by the Financial Reporting Council, the accountancy profession is an "attractive" sector to work in. And a global increase in the number of accountancy body members and students proves it. In 2010, ICAEW and the six other UK industry bodies had a combined worldwide membership of more than 424,000. In the same year student numbers grew by 6.2% to more than 454,000 globally.

Despite, or perhaps because of, the downturn, this seems to be a great time to pursue a career in the profession. More than ever, organisations across both the private and public sectors are turning to chartered accountants for strategic guidance, financial expertise and consulting skills.

Chartered accountancy training provides a lifeline for people from all sorts of backgrounds, experiences and life stages as well as a vital channel of jobs for successful students. In return, they give back by injecting fresh ideas, skills and vigour into the sector.

Steve Gale, head of professional standards at UK-wide accountancy group Crowe Clark Whitehill, believes that continuing to recruit and invest in fresh talent, even during a recession, makes commercial sense. "We see developing people as absolutely key," he says. "We're a people business so it's part of our ethos to have continual development. If you're looking at the long term, you want to build a sustainable business. We train about 24 people through ICAEW and six through the Scottish Institute each year so that we have a continuous pipeline of new people coming in and being developed."

> Newly qualifieds will tell you hard work and lost evenings and weekends are worth it because the qualification is respected internationally

At the tail end of 2011, the latest batch of ICAEW students received their ACA exam results. Like any profession, the path to qualification calls for high levels of dedication and motivation. With the training contract lasting anywhere between three and five years, and comprising the Professional and Advanced Stage examinations as well as work experience, it's generally considered a rigorous and uphill struggle.

But speak to any newly qualified chartered accountant and they'll tell you that the hard work and lost evenings and weekends are worth it because the qualification is respected internationally, it enables global mobility and it equips them with the sort of dynamic skills that organisations in virtually every sector are crying out for.

Morag Kay, who trained for her ACA with London-based firm Buzzacott and qualified in 2009, says completing the course has stood her in good stead for life outside the classroom. She's now fulfilling her ambition of working in a finance role for a not-for-profit organisation, Orbis, and has picked up all sorts of invaluable skills.

"Being a chartered accountant has opened doors," says Kay. "The training and its strict review of all your work is a very good discipline to get into. Looking at numbers, data integrity, the practice of proofreading and going through accounts so often as an auditor – that real attention to detail and presentation – has proved really useful."

Awarded first place and the Whinney Prize for Case Study in her Advanced Stage examinations, Kay says she didn't realise quite how much she would have to apply herself to successfully complete the ACA. "You have to be a lot more disciplined about your own time," she recalls. She admits it was a relief to get her free time back after she qualified.

UNDER PRESSURE

The pressure on students to pass their exams and succeed is greater now than it's ever been says Anthony Woodings, partner at Manchester-based Hurst. He believes ACA students need to be of a particularly high calibre to manage the reality of working and studying.

Woodings says Hurst is committed to recruiting and training through the recession in order to keep its team "fresh" and enable the business to grow. But he concedes that the job is more taxing for newly qualified chartered accountants than it once was.

"People have to be more efficient and work harder," he says. "It's tough out there. Most clients are suffering in one way or another and they expect some added value somewhere along the process. So you've got that expectation as well."

Accounting is a profession that requires precision, business nous, high ethical standards and, yes, charisma. Is that too tall an order?

"There are a lot of applicants but not all of them are cut out for the job," admits Woodings. "I tend to look at their academic performance as far back as GCSE and A-level to get a consistent picture of performance because that's a better indicator of how they'll perform in their professional examinations."

But it's not just about academic achievement. Woodings says he's looking for people skills as well. "It's about your ability to communicate internally and externally with clients to find out the answers and get the work done," he says. "You need people with good personal skills. People think of working at an accountants as office-based, but they're never in our office; they're always out with clients." He also believes that trainees need at least a general understanding of

UK'S LARGEST ACCOUNTANCY EMPLOYERS

PwC
Deloitte
KPMG
Ernst & Young
Grant Thornton UK
BDO
RSM Tenon Group
Baker Tilly
Smith & Williamson
PKF (UK)
By UK fee income

2011'S BEST PERFORMING QUALIFIERS

ADVANCED STAGE ANNUAL INTERNATIONAL ORDER OF MERIT

Joint first place and the Peat Prize:
- Alexander Hird, York (Garbutt & Elliott)
- Hannah Mole, Chelmsford (Haysmacintyre)

ADVANCED STAGE SUBJECT INTERNATIONAL ORDERS OF MERIT

Business reporting: first place
- Thomas Makey, London (KPMG)

Business change: joint first place
- Alexander Hird, York (Garbutt & Elliott)
- James Pinkstone, Reading (Baker Tilly UK Audit)

Case study: first place
- Zuber Nosimohomed, Hounslow (PwC)

what they are letting themselves in for with accountancy, "because it's tough".

Laura Nyogeri, who sat her Advanced Stage exams in November 2010 and was awarded the overall first prize in the International Order of Merit for her achievements, agrees that ACA training can be intensive and daunting. But speaking from PwC in Bristol, where she works in risk assurance, she maintains that all the hard work will be beneficial in the long run.

"My advice is to focus on why you're doing the qualification in the first place. Think about what you are going to do once you've completed the training, because it is a tough three years," she says. "Having come out of it recently I'd say that it's really worth it. It's given me a good understanding of how business works, what's driving it, how it performs and access to non-finance areas such as strategy as well. The qualification helps you achieve what you want. You can do what you want."

It's a very different environment to when Gale completed his ACA training in the late 1980s. Back then it was generally thought you'd stay with one firm for a much longer period; partnership was more of an aspiration. There's been a significant change over the past 20 years, he reflects.

"Not everyone is going to be partner material and far be it that everybody who comes into the profession sees that as their aspiration," he says. "Some candidates will see it as a stepping stone to an excellent qualification that will stand them in good stead for business life. But that's equally important to us because they could be our clients of the future, not just our partners of the future."

Another good reason for training and recruiting new people is for their fresh perspective, observes Gale. "You tend to remember what life was like for you. The people coming in now know what it's like to be 21 today. It's important to get that sociological input because business life changes and we need them to keep us up to date and move forward," he says.

TALENT POOL

This means fishing in a much wider pool than just university graduates. The Panel on Fair Access to the Professions was established in 2009 to advise government on how it could open up professional careers to all talented people, not just some.

Its chairman, former Labour minister Alan Milburn, observed that while the UK's professional services are held in high esteem and enjoy an unrivalled reputation internationally for excellence and integrity, access to the top jobs has become less – not more – socially representative. "Modern Britain will not work if it

EMMA KELLY/HANDSOME FRANK

> "We want to reflect the diversity of the background of our clients and also to encourage individuals who bring different skillsets"

harbours a closed-shop mentality," he commented. Milburn is expected to submit his final report to Parliament this spring.

In the meantime, the accountancy profession has responded proactively to the challenges he has laid down. ICAEW says it supports the brightest and best regardless of background. It has worked with member firms to develop programmes to reduce the financial burdens associated with higher education.

One such initiative is the ICAEW and KPMG school leavers' programme. This six-year course, run by the accountancy firm and Durham Business School, leads to a degree from Durham University and the ICAEW ACA qualification.

KPMG director of professional qualification training Michael Walby says his firm is at the forefront of the social mobility agenda in the accountancy profession.

"One of the critical drivers behind the creation of the programme was to enable fairer access into the profession," he explains. "Historically, KPMG and the other big accountancy firms have recruited all their talent predominantly from the same small number of universities. That has narrowed access to the profession to a small, albeit talented, group. We recognise that doesn't serve our best interests because we want to reflect the diversity of the background of our clients and also to encourage individuals who bring different skill sets to the profession."

He has a clear idea of what skills those might be: delivering high-quality work; understanding areas of personal weakness and how to put plans in place to address them; a passion for working in business; and curiosity and innovation.

"We want to be forward-thinking, to anticipate how the market will change and how our clients will need our support. That takes people who have a skill to be curious and to come up with innovative ideas that challenge the current practice," he says.

REASONS TO INVEST

Justifying the spend on training, Walby cites four key reasons why employers invest in programmes such as the ACA. First and foremost is to ensure that trainees are equipped with the relevant technical knowledge. Beyond that, companies clearly want to offer an attractive career proposition and retain their talent.

But it's the open and inclusive message that Walby is keen to drive home. "These training programmes help the firm in its need to attract and develop people from a variety of backgrounds," he says. "One great thing about the UK market is that you can pursue your academic passion through to completion of an undergraduate degree without setting foot in accountancy and still make a decision once you graduate to enter the profession. These training programmes upskill you so that you're successful."

As to whether you can spot the stars of the future, Gale says you know a potential partner when you see one. "You can tell by their charisma, the way they question things, the way they present themselves or even walk. All these things can make an impact in the way they stand out from a crowd. There are some special individuals who tick more of those boxes and you think, 'I can see this person really progressing.'"

Members expelled for £1m frauds

Two finance directors who stole large sums of money from their employers have been expelled from ICAEW for at least 10 years and are serving prison sentences

Two ICAEW members have been expelled from the membership after each defrauded their employers of more than £1m. Both men are now serving prison terms. Neither Michael Colin Clark nor Peter Cushion will be able to apply for readmission to membership for at least 10 years.

Clark was company finance director of SBS Worldwide in Dartford, a job he held for 14 years. Forensic accountants BDO were called in after irregularities surrounding the use of the company's air miles account were noticed. Not only had Clark been using the air miles for personal flights, but BDO also discovered that, over the previous nine years, he had withdrawn funds from the company's US and UK bank accounts and paid his own personal expenses. The fraud was highly sophisticated and complex: each time Clark used different payment methods and different nominal ledgers accounts.

"He used various methods to hide the fraud," the accountants said, "for example by using other employee logins into the accounting system and posting journals, which moved the transactions around the accounting ledgers multiple times." Altogether, at least £1,012,669 had been misappropriated from SBS Worldwide.

Clark admitted the fraud and said that he had begun taking the money because he had been promised shares in the company around 11 years ago, which did not materialise. He became depressed, especially after he saw other directors receiving large payments and bonuses. When his crimes were exposed, he paid the company back £750,000. He was given a three-year sentence in August last year.

> "This conduct undermines the confidence held by the public in the profession"

The Disciplinary Committee Tribunal said he had repeatedly abused the position of trust he was in, "This conduct significantly undermines the confidence held by the public in the profession."

Liverpool-based Cushion, who was financial controller at a large charity, syphoned off more than £1.3m over a five-year period. The fraud was uncovered after he left a suspicious transaction on the BACS machine.

Cushion said that he had used the money for gambling and that there was very little left. He is currently serving a three-and-a-half-year sentence.

Although Cushion had pleaded guilty and cooperated with the police and the Disciplinary Committee, his crimes were aggravated because he stole from his employer, the tribunal said. "Given the amounts involved and the length of time the fraud had continued, this had been a gross breach of trust."

For further information on these discipinary cases (D6841 and D6842) and others, visit icaew.com/publichearings

Report listings

The reports that follow are summaries. Copies of the full findings are available from icaew.com/publichearings or from the Professional Conduct Department, ICAEW, Metropolitan House, 321 Avebury Boulevard, Milton Keynes MK9 2FZ

DISCIPLINARY

● Joe Lip Poh Seet of Sigma Partnership, 45-47 Cornhill, London EC3V 3PF
Complaint In the course of carrying out professional work or otherwise he acted contrary to s100.4 (fundamental principles) of the Code of Ethics with specific reference to integrity and professional behaviour in that: on 28 June 2010, he employed unprofessional and abusive behaviour in a telephone conference call with Mr A, Mr B, Mr C and Mrs D stating, of X partners, the "business was bullshit" and "a joke"; and, on 28 June 2010, he employed unprofessional and threatening behaviour in an email to Mr A, stating that his firm "will be writing to the Inland Revenue and the FSA to express our confidential views" when there were no justifiable grounds to do so.
Decision Reprimanded, fined £1,000 and ordered to pay costs of £3,644. **D6843**

● Elizabeth Hilary Tandy of Pathways, Crosemere Crescent, Crosemere, Cockshutt, Ellesmere, Shropshire SY12 0JW
Complaint Gave an undertaking to the Secretary of State for Business, Innovation and Skills under s1a, Company Directors Disqualification Act 1986, that she would not be a company director or be concerned with the management of a company or act as an insolvency practitioner for a period of five years.
Decision After taking a number of mitigating factors into consideration, the tribunal ordered the defendant to be severely reprimanded. **D6844**

INVESTIGATION COMMITTEE CONSENT ORDERS

● Leonidas Michael of 274 Northdown Road, Cliftonville, Margate CT9 2PT
Complaint Between 1 November 2005 and 22 June 2011, he engaged in public practice without holding a practising certificate, contrary to principal byelaw 51a.
Decision Reprimanded, fined £1,500 and ordered to pay costs of £1,055. **D6821**

● Caroline Bevan of 18 Cintra Avenue, Reading RG2 7AU
Complaint Between 1 January 2008 and 27 June 2011, she engaged in public practice without holding a practising certificate, contrary to principal byelaw 51a.
Decision Reprimanded, fined £2,000 and ordered to pay costs of £1,380. **D6822**

● Heather Parker of 7 Audley Drive, Warlingham, Surrey CR6 9AH
Complaint Between 1 April 1999 and 30 June 2011, she engaged in public practice without holding an ICAEW practising certificate, contrary to principal byelaw 51a.
Decision Reprimanded, fined £1,000 and ordered to pay costs of £1,130 **D6828**

● Mohammed Shaikh of 174 Canterbury Road, Croydon CR0 3HE
Complaint On behalf of Shaikh & Co, he carried out the audit of the financial statements of X for the year ended 31 January 2009 in breach of audit regulation 3.02, in that the firm should have adopted appropriate safeguards as required by ethical standard 4.
Decision Severely reprimanded, fined £5,000 and ordered to pay costs of £3,342. **D6829**

● Iain Stewart of 35 Cambridge Road, Bromley, Kent BR1 4EB
Complaint Between 21 August 2009 and 24 September 2010, he issued audit reports in the name of his firm, in respect of the following accounts, when the firm was not a registered auditor:
1 A for the year ended 31 December 2008, audit report dated 23 October 2009
2 A for the year ended 31 December 2009, audit report dated 28 July 2010
3 B ltd for the year ended 31 March 2009, audit report dated 31 August 2010
4 C ltd for the year ended 31 December 2008, audit report dated 9 November 2009
5 C ltd for the year ended 31 December 2009, audit report dated 23 September 2010
6 D ltd for the year ended 31 December 2008, audit report dated 25 September 2009
7 D ltd for the year ended 31 December 2009, audit report dated 24 September 2010
8 E llp for the period to 30 April 2009, audit report dated 21 August 2009
9 E llp for the year ended 30 April 2010, audit report dated 25 August 2010
10 F for the year ended 31 July 2009, audit report 20 October 2009
Decision Severely reprimanded, fined £5,000 and ordered to pay costs of £1,875. **D6830**

● No publication of name
Complaint On 21 June 2011 a member entered into an Individual Voluntary Arrangement (IVA) under the provisions of the Insolvency Act 1986.
Decision The committee directed that the member should not be identified by name when the order was publicised. The member was ordered to pay costs of £330. **D6831**

● Christine Dove of i2 Mansfield, Office Suite 2.1, Oakham Business Park, Mansfield NG18 5BR
Complaint On 2 November 2010, she was the subject of an adverse finding in respect of her conduct by the Disciplinary Committee of the Association of Chartered Certificated Accountants being a body listed in disciplinary byelaw 7(2); in particular, that she had acted contrary to the fundamental principle of integrity by reason of deliberately misleading a client in letters dated 28 December 2007 and 27 February 2008.
Decision Reprimanded, fined £2,000 and ordered to pay costs of £1,205. **D6833**

● Sedley Richard Laurence Voulters of 89 New Bond Street, London W1S 1DA
Complaint In breach of an order made by the Audit Registration Committee on 24 February 2010, he caused or permitted an audit report dated 21 April 2010 to be issued on behalf of the firm in respect of X for the year ended 31 December 2009 without arranging beforehand an external hot file review.
Decision The firm was severely reprimanded, fined £10,000 and ordered to pay costs of £1,780. **D6832**

● Ben Sutherland of 12 Riverview Business Park, Station Road, Forest Row, East Sussex RH18 5DW
Complaint 1 Between 15 November 2005 and 1 June 2008, he engaged in public practice without holding a practising certificate, contrary to regulation 25 of the Learning Professional and Development Regulations.
2 Between 2 June 2008 and 31 March 2009, he engaged in public practice without holding a practising certificate, contrary to principal byelaw 51a.
3 Between 2 June 2008 and 31 March 2009, he engaged in public practice without professional indemnity insurance as required by regulation 3.1 of the Professional Indemnity Insurance Regulations.
Decision Reprimanded, fined £1,000 and ordered to pay costs of £2,500. **D6835**

SPECIAL NOTICE ON BEHALF OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

● Eamonn Joseph Rice, an ICAS member based in Edinburgh, has been expelled from membership of the Institute of Chartered Accountants of Scotland and ordered to pay costs of £5,000, following a hearing of the Appeal Tribunal of The Institute of Chartered Accountants of Scotland. The Appeal Tribunal dismissed his appeal. The Discipline Tribunal hearing on 11 May 2011 found him guilty of professional misconduct in that he had fraudulently prepared a letter that misrepresented the likelihood of a dividend being paid to Mr Rice as an unsecured creditor. Thereafter, he provided a copy of the fraudulent letter to solicitors acting for his bank in an attempt to have the bank stay court proceedings against him.

Further detail can be found at: tribunals.icas.org.uk/Findings.aspx

Life

"The secret of life is honesty and fair dealing. If you can fake that, you've got it made" Groucho Marx

GREG WHITE

*If you know a **GTO** from a shooting brake, a **Petrus** from a **Pomerol** and a **Warhol** from a **Hirst**, alternative investment might be for you; plus where to eat breakfast, lunch and dinner; and an efficient 30-minute exercise regime*

SPREAD THE WEALTH

With the stock market in freefall, it makes sense to invest in assets that have an inherent value. **Nick Martindale** considers some of your more alternative options

Back in 1817, the eminent British economist David Ricardo wrote, "There are some commodities the value of which can be determined by scarcity alone. No labour can increase the quantity of such goods and therefore their value cannot be lowered by an increased supply. Some rare statues, pictures, books, coins and wines of a peculiar quality are all of this description."

It is the ability of such asset classes to function outside of wider macroeconomic circumstances that makes them attractive to investors. In the current climate, they offer decent returns while providing a safe haven from the wild price swings in equities and other commodities, low interest rates and the inflationary environment that have become familiar in recent years.

Ricardo's words remain the guiding principle for Richard Broughton, founder of Mallory Scott Alternatives and director of Alexander Associates Group.

"There's a strong argument to say that these are the original investments," he says. "They're what the wealthy Tudors, Stuarts or Georgians would have invested in. Towards the end of that time, shares would have been the alternative investment, not land, coins or art."

There are three main ways to access such investments: buying an asset directly, through physical ownership or storing it in a secure vault; joining forces with other investors as a consortium; or investing in a fund that uses such products to deliver returns but where investors never come into contact with the physical goods.

"The distinction needs to be made between taking physical possession and being able to show an object off, and putting your money into a fund which owns it," says Charles Gowland, a director in the investment department of wealth management firm Smith & Williamson. "For many investors it may not be quite the same thing to own something through a fund."

One of the hottest alternative investments is art. "There is a demonstrable diminishing supply against increasing demand," says Daniela Sánchez, art advisory and investor relations associate at The Fine Art Fund. "Emerging markets are in a rush to buy and they are better advised than in 2007, so they are looking for high-quality artworks. Art provides a means for wealth preservation that is not closely correlated to the equity markets."

The Fine Art Fund allows individuals to purchase works directly or invest in a fund, adds Sánchez. She advises clients to invest no more than 5% of their overall assets.

Coins are also enjoying something of a boom; again, on the back of the scarcity of supply and strong interest from emerging economies such as China, India and Russia. As an asset class they hold some unique characteristics, says Ian Goldbart, managing director of AH Baldwin and Sons. "They're very durable and portable and the cost to hold them is negligible," he says. "If you hold wine, paintings or furniture you have issues with storage, whereas with coins you could put £1m in your pocket."

Goldbart conducts an annual survey of the valuation of 50 gold, silver and bronze coins. Last year revealed a 16% rise, he says, while the past seven have seen a compound annual growth rate of 10.8%.

"We say we'll try and get investors a 50% return in five years," he says. "But there are no guarantees."

Coins are a favourite for Broughton, too. "There's very little speculative froth," he says. "A large chunk of the price of oil or gold will be speculation but the coin market doesn't have that. The majority of the coin market is long-term, hard-core collectors and not investors, which is why it has such a low standard deviation."

Classic cars is one of the asset classes more prone to flights of fancy and blurring of the boundaries between an investment and a hobby. Yet for the serious investor there are funds that remove the decision-making entirely, as well as stripping out the need for regular maintenance payments.

"There are still a lot of cars with plenty of potential to increase in value and, as models become rarer once they are no longer being made, the

TO OWN OR NOT TO OWN?

ASSET OWNERSHIP

Pros

- Greater control over purchasing and disposal strategy.
- Chance of greater return if good decisions are made.
- Flexibility of overall strategy (you might even want to drink some of the wine).
- Lower minimum entry levels.
- Generally no performance-related fees.
- Can be more interesting.

Cons

- Can be more labour-intensive, regarding strategy, purchase/sale and timing.
- Risk of investment loss generally greater, due to storage, pricing and delivery issues.

FUND INVESTMENT

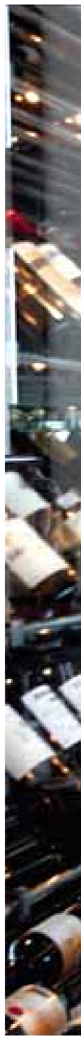
Pros

- Spread of risk/reward.
- Less labour-intensive.
- Less risk of spoilage, pricing and delivery issues.
- Greater buying power can lead to cheaper price.
- No involvement in strategy.

Cons

- Higher, performance-related fees.
- Restrictions on purchase/disposal timing.
- No involvement in strategy.

Source: Provenance Fine Wines


CORBIS

Liquid assets: Although fluid, wine has the advantage of being part of a diminishing stock, increasing in value as the rest of its vintage gets quaffed

class should remain steady in value," says Filippo Pignatti, fund manager at The Classic Car Fund. "Money is kept in a pot and invested in carefully selected models. There is cash kept available not only to allow for quick investment decisions but also for those wishing to exit the fund."

Yet while many alternative asset classes have performed well in recent times, the same cannot be said for wine. After years in which they have performed strongly, prices of the major investment-calibre wines have fallen by 10% to 20% over the past six months, largely due to the eurozone crisis, says Adrian Lenagan, managing director of Provenance Fine Wines.

"People often talk of fine wine being a natural hedge against the slings and arrows of wider economic turmoil and that theory is presently undergoing a fairly rigorous stress-testing," he confirms. "But the market needed a correction and now is certainly a good time to buy."

With wine, there are definite advantages to not taking physical ownership, points out Gowlland. "If you buy a valuable case and you take it out of a bonded warehouse then you're paying tax on it by taking it into your possession," he says.

"In five years' time when you put that back into the market again, it will attract a discount to a case which has been kept in a bonded warehouse, because of the storage conditions and the opportunity for fraud."

Most fine wines are classed as "wasting assets", which is categorised as one where life expectancy is less than 50 years. "This means investors buying wine in the expectation of it increasing in value will not be subject to capital gains tax on any profits when sold," says Fiona Graham, partner at law firm Boodle Hatfield.

"Most of the pieces you're dealing with are one of a kind. Wine is probably the most liquid, but there are some very famous painters who only produced a few paintings"

But HMRC has moved to clarify the current situation, making it clear that some wines which are usually kept for more than this period could be liable to be taxed.

For many of these assets there is a risk of investors being swayed by their personal preferences, losing sight of the need to make a return, and also of them making their decisions based on false assumptions.

"The advantages of these passion investments are that investors can enjoy them and interact with these assets," says Sánchez at The Fine Art Fund. "However, they have to know how to buy good quality works at good prices. A little knowledge in art is a dangerous thing, and we advise people to steer away from the segments of the market that they don't know well or to seek expert advice."

For Gowlland, the unique nature and illiquidity of this kind of investment means any purchase is risky. "We don't put a lot of money into these areas and one of the main reasons is that frankly they're not terribly genuine markets," he admits.

"Most of the pieces you're dealing with are one of a kind. Wine is probably the most liquid but there are some very famous painters who only produced a very small number of paintings. It's very difficult to look upon that as a genuine market."

For most investors, alternative assets will form only a small part of an investment portfolio, but it is one that can represent a useful counter against more cyclical economic forces, as well as offering the potential of significant gains. Against the backdrop of the turbulence seen in more conventional asset classes over the past four years, Ricardo's words resonate just as loudly today as they did two centuries ago.

STAY GROUNDED

When it comes to physical assets, they don't come more solid than land. DGC Asset Management operates as a syndicate which buys forestry or farmland from which an income can be derived along with long-term investment potential. Partner David Garner says:

"In 20 years' time there will be even more people to feed and a greater appetite for feed for livestock and biofuels, and yet we'll have less land. Those who are in control of essential assets, with no emotional involvement, will be in the best position to profit."

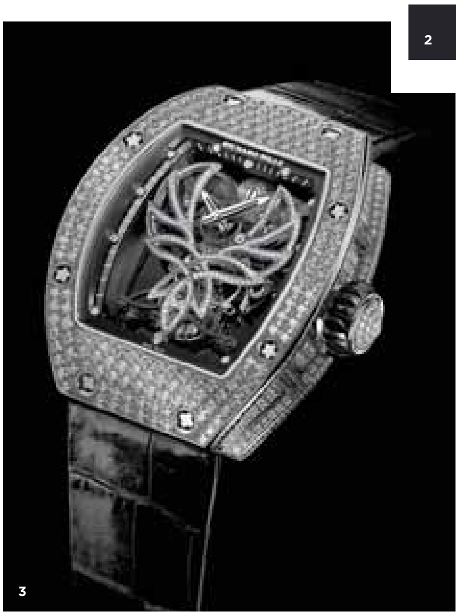
SIX OF THE BEST

LUXURY WATCHES

The economy may be tanking, but the luxury watchmakers continue to turn out ever more exquisite timepieces. Here we round-up some of the best new high-end watches

1

2



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5

6

1 PATEK PHILLIPPE PERPETUAL CALENDAR CHRONOGRAPH
Pick the right Patek Phillipe and it could become a nest egg. This precision model retails at almost £120,000. The analogue date dial features an integrated moon-phase display so precise it deviates from the true lunar cycle by one day every 122 years. £118,940 *patek.com*

2 AUDEMARS PIGUET 40TH ANNIVERSARY ROYAL OAK
The Royal Oak was the first high-end watch made from steel. For its 40th anniversary, Audemars Piguet is producing 40 copies of this openworked, extra-thin Royal Oak. It's a genuine collector's piece. £99,090. *audemarspiguet.com*

3 RICHARD MILLE TOURBILLON RM 051 PHOENIX-MICHELLE YEOH
Richard Mille's strategy is to link with cool and sexy brand ambassadors such as actress Michelle Yeoh. This stunning watch has a baseplate of black onyx and a phoenix adorned with diamonds. Only 18, Yeoh's favourite number, are being made. Price to be confirmed. *richardmille.com*

4 CHRISTOPHER WARD C9 JUMPING HOUR
This collaboration with German designer Johannes Jahnke features a version of the ETA 2824-2 calibre movement. The striking-yet-simple design is a thing of beauty. Each of the limited edition of 200 is hand built by Jahnke and has an alligator strap. £1,150 *christopherward.co.uk*

5 PANERAI LUMINOR MARINA 1950 3 DAYS
The latest addition to the Italian brand is built around Panerai's new in-house movement, the P.3001. It has a three-day power reserve indicator on the rear and is apparently inspired by a little-known model from the 1940s. £6,000 *panerei.com*

6 ROLEX COSMOGRAPH DAYTONA
With a stunning ceramic monobloc bezel, allegedly so tough it is "virtually impervious to scratches", and rose gold inlays on the graduations the new Daytona is as beautifully crafted as it is tough. Price from £6,000. *rolex.com*

THE TRIO GRANDE

There's no reason to be a frugal diner, whatever the economic climate. In the first of our new series, **Richard Cree** suggests where to find your three meals a day

BREAKFAST

Hix at the Albermarle, London

It may not be the meal that seals a chef's reputation, or what Mark Hix wants to be known for, but a breakfast made with love and high-quality ingredients can be a thing of wonder. While finer fare is available later in the day, Hix's fondness for good British ingredients shines through here. This is a man who has in the past compiled a specialist egg menu, so perhaps we shouldn't be surprised. Hix is almost as well connected in the art world as he is in foodie circles and the dining room's wooden panels are brightened by a stunning collection of work courtesy of his famous friends.
thealbermarlerestaurant.com

LUNCH

Chiswell Street Dining Rooms, London

This eatery is run by brothers Tom and Ed Martin, who have a habit of breathing new life into failing pubs. Here they parade their simple, no-nonsense take on modern British food, with hearty being the emphasis over fancy. Starters of scallops with samphire impress with subtle flavours, as does and apple and celeriac soup. For mains, a huge burger and an enormous plate of black truffle tagliatelle score well for quality and quantity. The puddings are spectacular (if you wear embarrassment well, a knickerbocker glory is an inspired indulgence), although the food takes its time to arrive.
chiswellstreetdining.com

MENU OF THE DAY

BREAKFAST

Traditional full English breakfast including two Burford Brown eggs, Wiltshire cure bacon, Cumberland sausage, tomato, mushrooms, Cumbrian black pudding, freshly-baked croissants, Danish pastries, toast and coffee	£29.50

LUNCH

From the à-la-carte menu:

Celeriac and apple soup	£6
Yorkshire venison hotpot	£17.50
St. Clement's trifle	£6.50
Classic knickerbocker glory	£8.50

DINNER

Multi-course taster menu including hen's egg yolk and Alexander apple, slow-cooked cauliflower, salmon and smoked eel, lamb's rump and three British cheeses	£65

TOTAL	£133

Above (*clockwise, from left*): inside the Albermarle; the exterior of Tuddenham Mill; cod and asparagus at Chiswell Street Dining Rooms

DINNER

Tuddenham Mill Nr Newmarket, Suffolk

It's no surprise that a building as old as this mill comes with a fully-loaded sense of its own history. Now a luxury hotel and restaurant, during the Second World War it served as a temporary home for German prisoners of war. Head chef Paul Foster is equally aware of the local heritage and serves up tasting menus packed full of unusual local ingredients including such delicacies as mugwort, mushroom milk and chickweed. Food this fancy can easily grow pompous, but Foster turns out a stream of surprisingly witty dishes (fried peas and mushy fish, for example).
tuddenhammill.co.uk

THE MEASURE

HOW TO FIND THE BEST IN BESPOKE TAILORING




CAD & THE DANDY, NORTON & TOWNSEND

Judging a man by the cut of his cloth used to be easy. Savile Row meant one thing, while Carnaby Street meant another. Now it's not so easy. Savile Row may be bursting at its (well-made) seams, but there are also plenty of smaller, very good bespoke tailors offering deals on great suits

GRESHAM BLAKE is a Brighton-based tailor with a London showroom in South Moulton Street. Offering bespoke and made-to-measure suits, shirts and ties for men and dresses, suits, shirts and shoes for women, the house style is a contemporary take on classic British. They strike a nice balance between sticking to the conventions (ratios of jacket to cuff buttons, for example) and allowing customers to have their say. Among celebrity clients they count *GQ* editor Dylan Jones (a man who knows more about clothes than most). *greshamblake.com*

CAD & THE DANDY is another new kid on the cutting block, with fitting rooms in Savile Row, the City and Canary Wharf. It also offers a modern British cut, but at a considerable discount, with fully hand-stitched suits for men and women starting at just over £800. It also offers online ordering for existing customers. *cadandthedandy.co.uk*

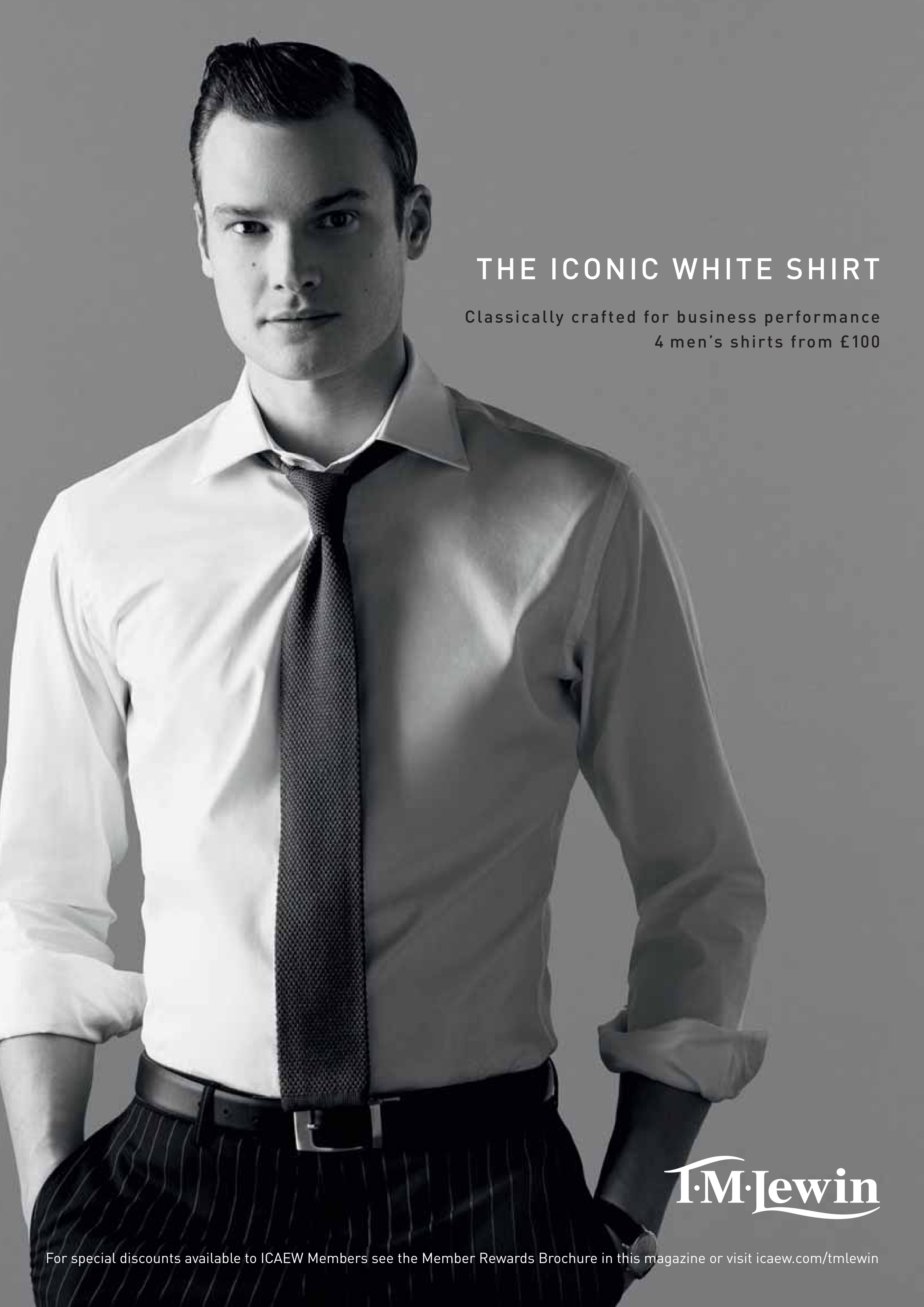
At **POGSON & DAVIS**, while the suits are classic and beautifully made by three generations of tailors, cutters and fitters, the founders recognise that tailoring can be a little too buttoned up. The company has focused heavily on offering a relaxed and friendly service. As a result, the firm's Mayfair showroom is an experience not to be missed. *pogsondavis.co.uk*

TAILOR MADE LONDON has removed the chance for human error in your measurement, thanks to a high-tech, 3D bodyscanner used to take a full image of your body, using thousands of reference points, which the company claims is accurate to within 1/10mm. Is this the birth of nano-tailoring? *www.tailormadelondon.com*

Clerkenwell-based **SUSANNAH HALL TAILORS** offers classical British tailoring with a contemporary twist and is one of a number of tailors offering a visiting fitting service, for those too busy to travel to the shop. *susannahhall.com*

NORTON & TOWNSEND manages to mix Savile Row flair with some no-nonsense Yorkshire grit. It offers a beautiful range of great value but high-quality bespoke suits with a choice of more than 4,000 fabrics. It has locations across the UK and also offers a visiting tailoring service to your home or office. *nortonandtownsend.co.uk*

Things we love this month Paul Smith's mauve silk square-end tie with pink, cream, and brown block stripes; Burberry's leather espadrille wedge sandals; J Crew's Linen Herringbone sportcoat; Mulberry's super-chic Harriet satchel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EVOLUTION: THAT'S WHAT YOU NEED

Busy corporate lifestyles leave little time for keeping fit. But if you don't, your work rate will fail with your health. So how can you balance career with staying in shape? Fitness trainer **Greg Brookes's** theory could help

We all want a body that looks good, feels great and moves without pain. But there's a great deal of conflicting information out there about how to achieve these sought-after qualities. In my experience, an evolutionary approach is the key.

The world has evolved at an incredible rate with the development of agriculture and urbanisation and advances in modern technology, but our bodies are slow to keep up.

We are designed to move in specific ways and to process particular foods. We cannot force modern-day living onto a body unable physically or mentally to deal with it and expect it to function at its best. We need to remember this when thinking about our health and fitness.

First, let's look at human movement. We are only made to move in a handful of ways, as our muscle distribution and structural design demonstrate. Yet many of the exercises we are encouraged to do today force our body through angles and in directions that we simply cannot deal with on a repetitive basis.

Exercise machines are very much to blame for this. You have to sit down and press weights in a variety of directions, but rarely do the machines mimic our natural structural movement lines. Instead they force our joints into compromised positions.

And think about the limited functional use of such exercises. Do you ever really sit down to press a heavy weight over your head?

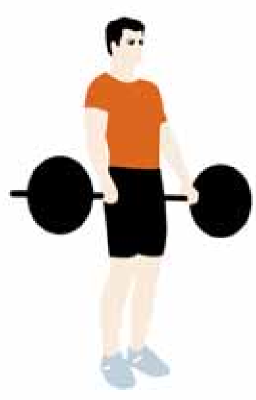
Another consideration is the damaging impact of these unnatural forms of exercise on our already compromised modern-day posture.

Take the trusty abdominal machine in the gym or one of those ab cradles. When was the last time you had to replicate this movement other than sitting up to get out of bed? Spending the day slumped in front of a computer monitor, driving a car or watching TV already encourages us to hunch our backs. We hardly need that reinforced down at the gym.

The solution to effective exercise is to perform moves we are designed to do. The exercises I recommend use more than 600 muscles at a time, resulting in more energy consumption, safer movements, better metabolic conditioning and a more time-efficient workout than machine-based ones. When planning your next workout, think about natural movements such as squats, lunges, deadlifts, standing pushes and pulls.

Most important, when trying to live healthily in an extremely hectic world, don't make life too complicated for yourself. Stick to natural exercise and a good, clean nutrition plan and you'll have the body of your dreams in no time at all.

NEXT MONTH Greg hands out some top tips for a healthy nutrition plan, by drawing on the lifestyles of our hunter-gatherer ancestors.



EXERCISE ESSENTIALS

1 SQUATS
Keeping your feet shoulder-width apart with heels on the floor, sit back as if sitting down on a chair. Try to get your thighs at least parallel to the floor. Keep your back straight, don't bend too far forward, and make sure that your shins are as close to vertical as possible, so that you're not pushing your knees forward. Then push up from the heels to standing. 12 reps

2 DUMBBELL ROWS
Holding a dumbbell in each hand, arms hanging down straight, bend your knees. Find a stable position with your back straight and at 45° to the floor, then draw your elbows back, keeping them close to your body. Squeeze your shoulder blades together at the end of the move. 8 reps

3 REVERSE LUNGES
Stand with your feet together. Take a long step backwards and sink down so that your back knee brushes the floor and your front thigh is parallel to the floor. Return to standing. 8 reps each side

4 OVERHEAD PRESS
Using dumbbells or a barbell, start with the weight at shoulder height. Press your arms up to straighten over your head, then lower back to the starting position in a controlled movement. 8 reps

5 DEADLIFT
Using dumbbells or a barbell, start with the weight on the floor. Push your hips backwards and bend your knees, keeping your back straight and chest up. Straighten your legs to lift the weight up and along the shins and over the knees. Return weight to the floor. 8 reps

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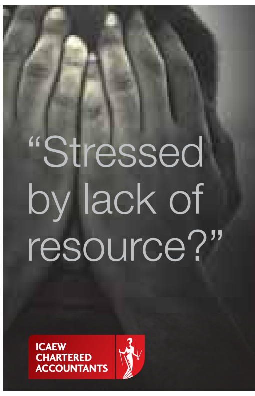

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LIFE AFTER WORK

MAN WITH A PLAN

His working life took him to Guinness, the Kuala Lumpur Tote, and Burroughs Machines. **John De Morgan OBE** tells Penelope Rance why slowing down is not on the cards

John De Morgan takes enjoying his retirement seriously. At 78, he only fully retired seven years ago. He now offers advice to ICAEW members on life after work, and makes the most of his own at his retirement village.

Articled in 1950 to a small firm in London, John moved to KPMG, which was then called Peat Marwick Mitchell & Co and had just 150 UK staff. He worked for the firm for six years, four of them in Malaya, now Malaysia.

"We ran the Tote at Kuala Lumpur Racecourse and were secretaries of the national lottery," he recalls. "It made a change from the usual auditing of rubber estates and tin mines. Then I ran a small office in Penang, with four clerks and an office boy, Abdul Karim, who'd begun work there in 1910 and was still the office boy in 1957."

Moving into industry, John worked for Burroughs Machines and Renault, among others, then Guinness for 15 years. He went freelance, part-time, doing disposals of businesses and interim management, retiring fully in 2004 aged 71.

"I had a varied career," he says. "Looking at my CV you'd think I couldn't keep a job!"

In 2002, John moved to the Castle Village retirement community in Berkhamsted, Hertfordshire. "It's like living in a flat with a 28-acre garden and free country club membership," says John. "There's a central mansion, with a restaurant, bar, snooker room and library.

"I'm the chairman of the residents' association and about to retire after a three-year tenure. I don't believe in being in something too long: you need new people with new ideas."

Since retiring, John has kept busy. He helped in the education department at Bovingdon prison, going through inmates' business plans. "It was a complete eye opener," he says. "I'd never seen the inside of a prison before.

"These days I play tennis and golf. I'm a rugby fan and have a season ticket at London Wasps and a debenture at Twickenham."

"You have a business plan when you are in business so you need a retirement plan in retirement"

Once an accountant, always an accountant – John is an active ICAEW member, taking part in seminars on retirement at Moorgate Place.

"You have a business plan when you're in business, so you need a retirement plan," he insists. "It doesn't have to be a document, just a framework that you've worked out with your family."

Married for 46 years, family is a central theme of his seminars. "I have a daughter, son-in-law and two grandchildren in Hong Kong, but the journey there is becoming a chore," says John. "Do the energetic things early, before it's too late."

Time is not limitless, even when you don't have to work. "Don't commit to things that stop you doing what you want," advises John. "It's best to wind down gradually. Don't finish work on a Friday, then sit in an armchair wondering what to do. Most people can expect 20 years of active retirement. If you have dreams, plan for them or they may not happen."