ICAEW FINANCE & MANAGEMENT FACULTY

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FINANCE & MANAGEMENT

"SECURITY DECISIONS NEED TO BE GROUNDED IN A BUSINESS'S RISK MANAGEMENT PROCESS" PAGE 8

Rising dawn

How China's import market is bringing the UK good fortune

Partner up
The experiences of FDs working in partnerships

Signed, sealed, delivered
How to negotiate the best deal in the boardroom

Which way out?
Looking for an exit from the pension scheme deficit


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For 800 years, the City of London Corporation has helped deliver public services to this dynamic international hub. To keep pace, Deputy Town Clerk Susan Attard chose Microsoft Dynamics to transform the City of London contact centre, giving her team a complete view of callers and the ability to quickly respond to them. Today, 95% of calls are answered within 20 seconds and 75% of callers rate the service as excellent. With Microsoft Dynamics, the City of London Corporation is helping citizens in a decidedly modern way. microsoft.com/uk/dynamics
Microsoft Dynamics

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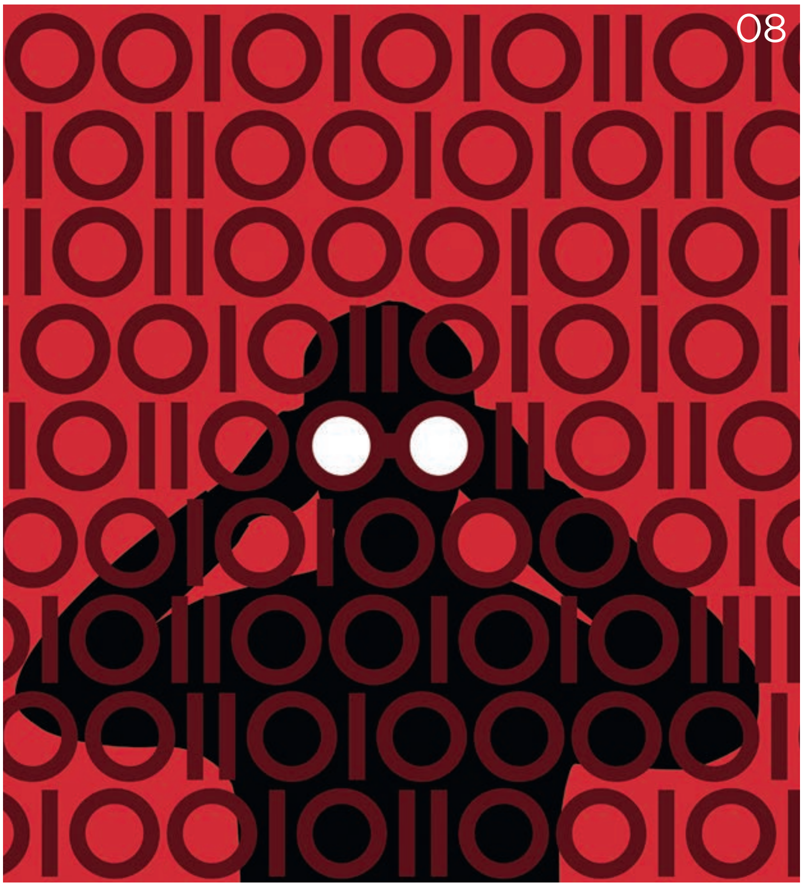
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COVER: GALLERY STOCK

Land of opportunity

FINANCE & MANAGEMENT FACULTY

Those seeking to generate more profits have two choices: increase their income or reduce their costs. Many UK businesses are concentrating on the latter as income growth becomes more and more difficult.

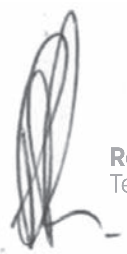
When home markets dry up, export becomes a more viable option, despite the higher risks associated with it. We thought that we'd look at China this month. Companies such as L'Oreal have offset the stagnant growth in Chinese exports seen by other luxury product manufacturers by expanding into smaller towns and cities in China, and although Diageo recently warned its investors that Asia-Pacific markets are softening, we are talking about growth in China significantly higher than any GDP growth across the rest of the world.

We're very pleased to announce the launch of our new Business Performance Management Community, free to all Finance & Management Faculty members. We've called it a community because we're including regular blogs from users and experts and the BPM webpages contain an interactive communications hub where members will be able to:

- network with other BPM members;
- comment on material; and
- pose general questions to the bloggers and the group in an open forum.

As well as exclusive articles and blogs, the site offers 'how to' guides, diagnostic tools and downloadable templates for assessing the health of your business and helping you improve how you measure key business drivers. Our easy-to-use templates (also found at ***icaew.com/bpm***) provide a step-by-step approach to assessing and improving BPM: please give it a try and let us know what you think. You can contact me or any of the team using the telephone numbers or email addresses in the right hand column.

As ever, we hope that you enjoy reading the magazine. Please drop me a line at robert.russell@icaew.com if you've any comments – we are always keen to hear from you. Have a good month.



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SUBSCRIPTIONS
Annual membership of the Finance & Management Faculty costs from £85 a year. For more information and to join see icaew.com/fmjoin

FACULTY EVENTS
For information about forthcoming faculty events, please visit icaew.com/fmevents. Highlights of events can also be found within this mailing. For all enquiries contact the events booking line on +44 (0)1908 248 159.

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Events

WOMEN IN FINANCE NETWORK: THE FIRST 100 DAYS

Thursday 6th June, 5:30pm – 8pm

An implicit and unspoken assumption in the first 100-day plan for any new leader is that there will be conflict and that it will have to be managed effectively. In this entertaining and thought-provoking session, Patrick Dunne will explore the art of managing conflict in a highly-charged setting.

Patrick has 26 years' experience working with 3i as a member of its operating committee and gained extensive experience of helping portfolio company boards from across the world and is chairman of youth charity Leap.

icaew.com/wifjuneevent

WEBINAR: COST MANAGEMENT

Thursday 20th June, 10am – 11am

Free for faculty members

This is the second webinar in our series connected with the Finance & Management quarterly reports. It will explore aspects of cost management from our June report with presentations from both travel and expense specialists Concur and Colin Drury, Emeritus Professor at the University of Huddersfield and author of Europe's best-selling management accounting text *Management & cost accounting*. Professor Drury will be covering activity-based costing, including activity identification and cost allocation. Concur will be covering staff expenses, including their rationale and control.

icaew.com/fmfjunewebinar

THE INFORMATION EDGE: MAXIMISING THE POTENTIAL OF BOARD AND EXECUTIVE MEETINGS

Thursday 20th June, 5:30pm – 8pm

The board's role is to supervise and steward the business, but more often than not, the conversation in the boardroom is dissatisfying – for both the board and the executive. What do high-quality board reports look like and how can the CFO deliver these? Jennifer Sundberg and Emma Sturdee of Board Intelligence will provide practical tools and tips on how the CFO can equip the board with information for more valuable conversations in the boardroom.

icaew.com/fmfjuneevent

INFLUENCING PEOPLE: SWAYING THE BOARD WITHOUT ROCKING THE BOAT

Thursday 11th July, 5:30pm – 8pm

Jack Downton and colleagues from The Influence Business will look at informative and entertaining ways of maximising your level of influence, getting buy-in for your ideas and bringing people round to your way of thinking. This is a session using the highly entertaining and informative methods of Forum Theatre, to ensure a high level of audience interaction and learning. Jack and his company have been working with professional services companies and their executives since 2001, helping to raise their ability to influence so they can sell themselves, their ideas and services more effectively.

icaew.com/fmfjulyevent

All events are charged at £33 including VAT per person and held at Chartered Accountants' Hall, unless otherwise stated

WEBINAR FEEDBACK: FINANCIAL FRAUD

"Great use of time, would like to see more of these."

Sarah Spittle, St Albans

"Very pleased with this service, as I am based in Germany and have limited opportunities to take part in other CPD events unlike my GB based compatriots."

Jonathon Gurney, Erolzheim

"If the service is working well it is an extremely efficient and cost-effective addition to the opportunities to undertake CPD."

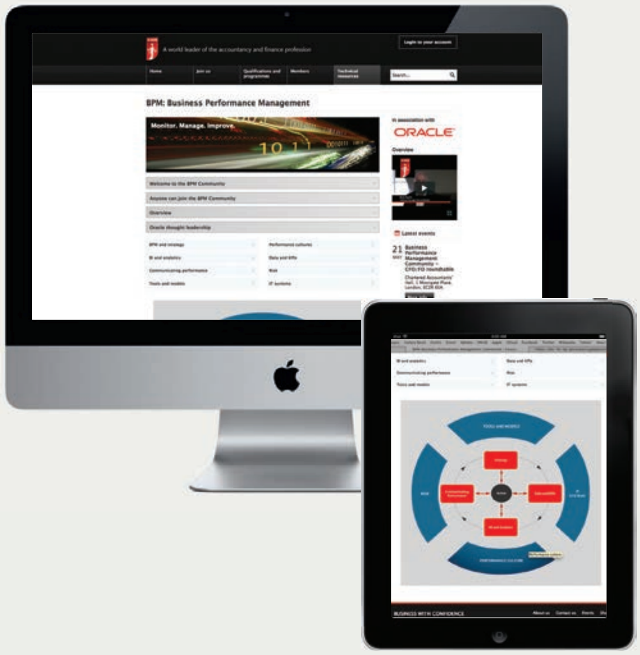
Fiona Muysert, Amersham

"The concept is good. Perhaps share the material in advance and then questions can become more productive."

Hamish Stewart, Ascension Islands

ICAEW LAUNCHES THE BUSINESS PERFORMANCE MANAGEMENT COMMUNITY

New online resource promises blogs, exclusive articles and diagnostic tools to help you plan and grow your businesses



The new Business Performance Management (BPM) Community goes live on 17 May 2013. Access to this specialist resource – developed in association with Oracle – is automatically included and free for all Finance & Management Faculty members. The focal point for this new offer is **icaew.com/bpm**

More than 90% of faculty members questioned said they would value practical templates and case studies relating to BPM. Further research shows it is a key area where you are expected to add value in your business. In response, the Finance & Management Faculty is launching this new service, providing practical support and tools to help members deliver improved business performance measurement and control.

BPM is the most popular topic covered by the faculty; when developing the BPM community, we have worked with leading practitioners and thinkers to highlight best practice and collate resources, including practical tools to assist you and your team.

We've called it a community because we're including regular blogs from users and experts and the BPM webpages contain an interactive communications hub where members will be able to:

- network with other BPM members;
- comment on material; and
- pose general questions to the bloggers and the group in an open forum.

As well as exclusive articles and blogs, the site offers 'how to' guides, diagnostic tools and downloadable templates for assessing the health of your business and helping you improve how you measure key business drivers. Our easy-to-use templates (also to be found at **icaew.com/bpm**) provide a step-by-step approach to assessing and improving BPM.

The faculty is here to add value to your professional life and we hope this new resource will be useful. Please log in and have a look at the site; we'd like to develop it to suit your needs and would welcome your feedback on its content and feel to identify any gaps. Your ideas will enable us to ensure the site is of use to all members.

As well as exclusive articles and blogs, the site offers 'how to' guides, diagnostic tools and templates

Access to the BPM Community is automatic for all ICAEW Finance & Management Faculty members and is included in the annual fee; However, you can join the BPM separately for £65 a year to access the material without being a faculty member.

Membership of both Finance & Management Faculty and BPM is open to all – you do not need to be a member of the ICAEW to join. Joining is easy – just call +44 (0)1908 248250 with your credit card details and ask for Finance & Management Faculty membership. You can also join online at **icaew.com/fmjoin**

Membership offers access to a wide range of articles and reports on topics of interest to those operating in business, discounts on events and networking opportunities with other senior finance and business leaders.

For further details on Oracle's work with the BPM community please contact **morag.manson@oracle.com 01189 240 122**

IN ASSOCIATION WITH ORACLE

CYBERCRIME: HARD TO COMPUTE

It's time for businesses to take the threat of cyber attack seriously. **Kirstin Gillon** looks at how to guard your company's systems from the top down

Have you been hacked yet in 2013? This question was reportedly at the top of the agenda at Davos, as CEOs privately admitted the extent of cyber attacks on their businesses. The renewed interest in computer security has been reflected in a raft of media stories about cyber attacks, from alleged Chinese attacks on US newspapers to a successful targeting of Twitter servers. The security industry is also stepping up its response, with Vodafone, for example, announcing a new partnership with the information security arm of BAE Systems.

But what does this all really mean for businesses? Is there anything new to worry about? And what should businesses be doing about it?

UNDERSTANDING THE PROBLEM

One of the features of cyber security is that it's difficult to get a grip on what is really going on. Businesses don't want to talk publicly about attacks and breaches. Surveys by security companies often lead to a rather sceptical response – 'well, they would say that security is a big issue, wouldn't they?'. So until it happens to your business, it is easy to ignore the risks and focus resources elsewhere.

But the risks attached to computers have grown enormously in recent years.

Through extensive use of the internet in particular, many businesses have exposed themselves to all kinds of new risks. At the same time, cyber attackers have become more sophisticated and organised; there are suspicions that some states may be sponsoring cyber espionage and the theft of intellectual property. There are new politically-motivated attackers, such as 'Anonymous' who are happy to have their attempts at hacking publicised. Hackers gain kudos within their community by

GETTY

successfully hacking into well-known companies' websites. The threat of malicious behaviour by employees or ex-employees is always present.

The impact of security breaches has also increased. This can include the direct costs of fixing failures, regulatory fines, reputational damage and loss of intellectual property. So, there is good reason to be worried.

GET THE BASICS RIGHT

But while there are some highly sophisticated cyber attacks, most security breaches are caused in practice by basic malware and poor security behaviour.

Therefore, the good news is that by getting the basics right, a business can substantially improve its security and prevent many data breaches.

The government has recently published *10 steps to Cyber Security* (bit.ly/Z3xb2H), which has been well-received by the security community and provides a good starting point for businesses. The main points made are highlighted here.

> By getting the basics right, businesses can substantially improve security and prevent many data breaches

1 Keep bad things out. Virus protection, for example, is essential for every computer which connects to the internet and it will catch the majority of malware. It is vital, though, that software is kept up-to-date with patches which address new threats. The Conficker virus, for example, continues to infect computers despite effective anti-virus software, because many computers have not been updated with the latest version of the software.

2 Protect confidential data. Distinguish between different types of data and focus resources on your 'crown jewels'. Encryption software is becoming increasingly popular to protect confidential data wherever it is stored and when it is emailed or transferred to others. This is generally cheap and easy to install and will protect data from unauthorised access by third parties.

3 Prepare for the worst. Most security experts agree that all businesses will inevitably be breached at some point. Therefore, businesses need to build up 'cyber resilience' so that they can operate despite attacks. Backups, which copy software and data onto other media such as tapes or online storage facilities, should be taken regularly and stored elsewhere to ensure that a recent copy of systems is held and can be accessed if needed. Business continuity planning and testing can help a business to keep operating even in the event of systems failures. Intrusion detection software will identify when networks have been attacked and breaches occur.

MAKING SENSE OF THE JARGON

Cyber security is dominated by technical jargon. Here are some of the main technical terms you might encounter.

Malware refers to any bad or malicious software including:

- Viruses and worms, which are programs that replicate themselves and spread to other computers; computers are infected when users click on infected links or run infected programs and they typically slow down networks, corrupt files and cause disruption.
- Keylogger software, which records the keys pressed by the user; it can pick up passwords or other sensitive information.
- Ransomware, which locks a computer and demands payment in return for it being unlocked.

Advanced Persistent Threats (APTs) use various types of malware to infiltrate networks and systems for a period of time, primarily for espionage and to copy sensitive data.

They often feature 'spear phishing' where attackers target staff who have access to specific data, typically senior management and technical staff. They may be sent 'spoof' emails, which purport to be from other employees, and ask them to click on infected links, thereby gaining access to the computer (and data). The average length of time for this kind of attack to be undetected is reported to be nine months, although it can be years.

Distributed Denial of Service attacks (DDoS) happen when an internet server is bombarded with millions of hits with the aim of taking it offline. This could be done to make a political statement or the organisation may have to pay for the attack to stop.

DDoS attacks are made possible by 'botnets' – networks of compromised computers made available to criminals. A computer becomes part of a botnet by downloading malware. The user may be totally unaware of its compromised status.

Security decisions need to be grounded in a risk management process. Viewing security as a technical issue that is the responsibility of IT misses the point

4 New technologies bring new challenges. Threats and security measures change quickly and businesses always need to think about the security implications as they adopt new technologies. The use of employees' own mobile technology to access corporate systems, for example, is a worry for security managers. Moving systems into the cloud changes the risks significantly, with cloud providers increasingly responsible for security and taking control out of a company's hands; security can never stand still.

SPOTTING WEAKNESS

The weakest link in most business' computer security, though, is people. Many breaches in practice are caused by carelessness and a lack of security awareness, rather than by failures in technology.

Passwords are at the heart of computer security but unfortunately they are often easily guessed (according to a survey of stolen and published passwords in 2012, the most common passwords included password, 12345678 and QWERTY). Hacking software like "John the Ripper" and "Hashcat" can make billions of password matching attempts every second. Passwords from sites are processed against set lists of real passwords stolen from previous successful hackings until matches are found.

It is a matter of good security practice that passwords should be strong (contain a mix of letters, numbers and characters) to make it harder for hackers to crack them. Passwords should also be changed regularly so that if systems have been compromised, hackers need to re-crack the passwords. This won't stop them sadly, but it will slow them down.

Of course, using and regularly changing strong passwords is annoying. Users don't remember them and have to resort to writing them down. Or they use the same password for multiple systems. Unfortunately, with current generations of technology, there isn't much alternative to having good password discipline. It is to be hoped that new developments, such as using pictures, symbols or biometrics to authenticate identity, will make it easier for users and strengthen security overall.

This highlights the need for safety-conscious behaviour more generally, for example putting a PIN on mobile devices, thinking twice before clicking on suspicious links and taking care with social media postings. Many people incorporate the use of multiple passwords depending on the level of security required

Encouraging this behaviour requires appropriate policies and training. Most important, though, is a security-conscious culture, which starts at the top of an organisation. Senior management has to be committed to security and lead by example if employees throughout the organisations are to follow suit.

A BALANCING ACT

But security is a balancing act. High levels of security constrain employees, slowing them down or stopping them from doing things entirely. This leads to security measures frequently being ignored in practice as employees simply focus on getting their jobs done. Security software and other measures need money and resources. Furthermore, a business can never be 100% secure, regardless of the amount invested in security measures.

As a result, any business needs to weigh up the right level of security to put in place, based on the value and confidentiality of the data held, the cost and inconvenience of different security measures and the business impact of security breaches. This means that security decisions need to be grounded in a business's risk management process. Viewing security simply as a technical issue that is the responsibility of IT misses the point.

This is certainly a challenging task. It is difficult to measure the benefits of security measures. After all, successful security means that nothing happens. The impact of security breaches will vary substantially depending on the circumstances and the implications may be very difficult to foresee. However, as businesses continue to use new technologies to expand their opportunities, building a secure and trusted environment will become a business imperative.

PASSWORD UNPROTECTED

Passwords are easy for hacking software to crack owing to the predictability of most people's passwords. Attacks on social media sites such as Facebook, LinkedIn and RockYou have enabled hackers to bring millions of real passwords used into the public arena; these lists form the basis for the password matching software. The software takes the list of basic passwords and repeats them multiple times, adding an 'e' to the end, then again with an 's'. A 'high frequency overwrite' (replacing the last few letters of each word with the most common endings found in passwords -er, -y, -123, -man, -dog) is then run. High frequency prepends are then added to the entire list again (the most common first character is '1') and then all the words are repeated in reverse. Each password is then 'leeted' – replacing letters with characters and numbers ('0' for 'o', '!' for '1', '3' for 'e', etc.) until billions of potential passwords have been formed. These are then compared against logins to find matches.

Essentially, the safest passwords are going to be those which are not at all memorable for the user.

Kirstin Gillon
is technical manager in the IT Faculty

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Model shown: Civic 1.6 i-DTEC SE Manual in optional Alabaster Silver Metallic at £20,075 On The Road.

On a level

What is life like for the FD working in a company with no management structure? **Chris Turner** and **Mike Giles** share their view on time spent in partnerships

The challenges facing finance directors working within a partnership structure differ significantly to other businesses. There are no shareholders, no chief executive, no board. Instead, the flat structure allows for equal power spread across the partners who are 'in the club'. For the FD, with no statutory power, the challenge is one of avoiding becoming simply a rubber stamp.

Two finance directors with direct experience of running the finances in a partnership give their views of the peculiar job FDs face when working with partners.

CHRIS TURNER

A qualified chartered accountant he has worked for Lloyd's of London, Binder Hamlyn and Clifford Chance

The meeting room was becoming uncomfortably warm. Made-to-measure jackets hanging on the backs of chairs and shirt sleeves rolled up, it was time to make the call.

My boss appeared, a single side of technical briefing in hand. Just five minutes later he said his goodbyes and left; the deal had been done. I was pleasantly shocked and surprised at the efficiency of the process.

This was partnership governance at its best: a decision approved in principle at board level; parameters for negotiation set; a senior manager appointed to get the transaction to its last phase; and a partner with authority to drive the deal home. So much for the image of partnerships as places where decision-making is suffocated by collegiality and implementation is as stodgy as a cheap gâteau.

But for every example of incisive thinking and streamlined execution there is one which appears to run in the contrary direction. As a result, often the biggest challenges are more about implementation than the decision-making.

Many accountants will, at some stage after qualification, work in a line management role in a partnership environment. And a good proportion will find that over time their roles broaden from the technical aspects of finance into the suite of disciplines of "administration".

The partnership organogram may, superficially, resemble that of a traditional organisation with a main board and various derivative sub-groups. However, the owner-producer-manager model creates an operational environment with distinct challenges.

In particular, the equity partners with full voting rights are likely to be spread throughout various departments in the business. So although an initiative may have board approval it is highly likely that a significant minority of partners will not accept the decision whole-heartedly. This may include influential opinion-formers such as key client-relationship partners on whose performance the business depends.

Even if they are a board member, to be effective in the role the accountant must be able to work with such individuals: some will be directly and outspokenly opposed to a project; others passive-aggressive; and others still unobtainable because of client pressures. The accountant will have to use best efforts to persuade them that a given initiative makes sense for them as individuals and the business as a whole. This may be no easy matter.

Somehow the accountant who has joined from outside the business must gain the respect and confidence of such key players. They must develop

> A key theme is that the client accepts the accountant has their best interests at heart in the advice they give

the ability to lead "beyond their authority" - to use a phrase popularised by leadership expert Julia Middleton. But those who seek to build consensus purely on a numerical basis may find themselves disappointed at progress because the "tipping point" - identified by writer Malcolm Gladwell - is unlikely to be achieved simply on numbers alone.

Partnership politics are more complex than this: progress can be can be distinctly "lumpy" based on the persuasive authority of a handful of key partners.

So how does the accountant tasked with implementing board policy cut through this structure?

There is no silver bullet. However, one useful clue may be gleaned from the work of management professor David Maister et al. His concept of the "trusted adviser" is aimed at lawyers, accountants and others building relationships with third-party clients.

However, the internal adviser faces exactly the same challenge. Following Maister's progression, the accountant would strive to build relationships and, in time, move through the following steps:

- subject matter expert or process expert;
- subject matter expert plus affiliated field;
- valuable resource; and
- trusted adviser.

There is much theory behind these stages but a key theme throughout is that the client - in this case the partner - increasingly accepts the accountant has his or her best interests at heart in the questions they ask and advice they give.

This applies even when the initiative being progressed appears directly to challenge some aspect of the partner's current (and familiar) working practice.

The building of 'trust' does not diminish the importance of exercising the highest levels of professionalism at each stage: but it does allow a potentially difficult conversation to take place on a controversial project in a constructive and conciliatory atmosphere. And in a tough business world, you can't ask much more than that.

CHRIS TURNER'S FD TIPS

DO:

- **Be persistent;**
- Get partner champions for new initiatives;
- **Provide rigorous argument to support proposals;**
- Build an understanding of the partner's working day; and
- **Use clear logical costings and link to unit profitability to give partner context**

DON'T:

- Get disheartened;
- **Use accounting jargon;**
- Waffle with non-essential detail – get to the point;
- **Overplay your authority (it's the partners' firm); or**
- Underestimate the ability of a small number of partners to disrupt a project

GALLERY STOCK

MIKE GILES

Mike Giles was the FD at global law firm SJ Berwin from 2000 until his departure in April this year

I think being the FD in a partnership is very much about winning hearts and minds by convincing the partners that what you're saying is right, rather than simply saying, 'this is the way it's going to be'. There's much more 'sell' than 'tell' and I think that's one of the fundamental differences.

I also think the partnership system itself is an odd one in that it can feel a little like a club, and if you're a member of the club, ie a partner, you are treated rather differently to those who are – for want of a better word – servants to the partnership.

As a result, for the FD, authority within a partnership is earned and not given. Simply giving someone the title finance director or CFO can mean very little.

In those circumstances, it's very much up to the individual to demonstrate authority through the force of argument and by demonstrating their ability to get on and do the job.

In my experience, in a partnership, the day-to-day management will normally centre on a very small group of people. That will generally be the heads of the back office functions – IT, HR, marketing, finance – and alongside will be a small group of partners, generally the managing and senior partners who are effectively the executive management of the firm. So, you have a lot of people getting involved in the management process.

Naturally, the number of people involved in delivering the management is relatively limited. What you therefore have is a very flat structure, where the managing partner doesn't have the power on his own to hire and fire.

Conversely, support department heads don't have that power either. The partnership will need to be consulted on areas of importance, from talking to the bank about extending the firm's financing facilities to opening a new office or bringing in new partners. All of those things are reserved to the partnership, so there is a limit to what the functional head can do day-to-day besides the day-to-day stuff.

Being the FD in a partnership is about winning hearts and minds. There's much more 'sell' than 'tell'

One of the frustrations with the partnership environment – certainly with professional partnerships – is that sometimes it can take forever to make your decision, not least because you have to take account of the demographics of the partnership.

As well as that, it can be very lonely and deeply frustrating in the sense that because it's a professional partnership where partners are very good at doing what they do in their profession, they are not necessarily terribly good business people. They often don't have a deep understanding of what finance is about.

In that situation – and this is something that has become very clear to me over the years – we have a set-up where the sales force is effectively running the business, as both the owners and managers.

I was at SJ Berwin for 13 years, and over that time, the firm went from being effectively a single office in London to being an international firm with offices principally in Western Europe but also further afield in Asia and the Middle East. The FD role changed along with that growth. The fundamental difference is that the FD role is now seen as much more credible and important than it was. Although the FD continues to be challenged from time to time, there is much more acceptance now that what is said is said for a reason and it's generally a good reason.

The FD coming in after me perhaps has an easier passage than I did. Looking back I suppose what I did was take the role from being financial controller to finance director – I had to get beyond the scepticism that existed. It was a fundamental change, from being one who was just responsible for the numbers to being a much more integrated part of the business management and the firm's strategic direction.

NEGOTIATE THE POSITIVE

Even the most confident executive can falter when it comes to doing deals. Negotiation expert **Clive Rich** answers the four key questions geared to achieving success in the boardroom

1 HOW DO I OVERCOME NEGOTIATING ANXIETIES?

Many people do not enjoy negotiating at all. They become very anxious about it and feel they are going to fail. Often this manifests as a "losing" attitude. This kind of attitude may well be rooted in previous experiences which have created a "filter", an automatic cue which feeds them this negative state of mind whenever the prospect of negotiating arises. Unfortunately these attitudes tend to be self-fulfilling. If you think you are going to lose out in a negotiation then you will bid unambitiously, you will look hesitant or nervous and the other side will pick up these cues and push you harder.

So what can you do if you have this kind of unhelpful attitude? The good news is that we can change our "filter" if we want to, from a negative one like "losing" to a more confident outlook. Some of this can be done by asking ourselves questions designed to challenge the language around these negative filters. Do we really always fail in a negotiation? Can we not think of any time when we have been successful? What do we mean by "fail"? How do we know we "failed"? This kind of self questioning can create a more realistic perspective on our previous experiences.

Equally we can gradually shift ourselves to a more confident point of view with a good self-talk. We can tell ourselves that although it's difficult to change our state of mind we are going to give it a go on this occasion. We can remind ourselves that this time we are well-prepared and have a good team around us. We can think back to the last negotiation that went well and remember what that felt like. We can say to ourselves that even if the negotiation doesn't work out that doesn't mean we have failed. We can say we really believe in our product or service and we know it makes a difference. We can say that we now feel optimistic we are going to improve our negotiation this time - whatever the result.

By the time we get to the end of a sequence like this we will have incrementally improved our negotiating attitude to the point where we feel more confident.

GETTY

2 HOW DO YOU NEGOTIATE FOR FUNDING?

This comes up a lot – especially in the world of small businesses where cash is crucial and investment or borrowing is tough to find in the present climate. My advice to those who ask me how best to negotiate for funding is that they should marshal their bargaining power. It's very easy to overestimate the number of bargaining 'aces' that the other side has and underestimate our own, but there are at least 10 sources of bargaining power in a negotiation and they are rarely arranged 10-0 in favour of anybody. Sure, an investor has 'market' power if they hold cash that you want for your business. But you may have other advantages.

You may have 'network' power – the power to access a network which somebody else covets. Or perhaps you have expertise in a particular sector or industry that gives you bargaining power, or extra information – people often say "information is power". You may have some 'authority power' arising from your unique reputation or seniority, or even your title. You can have numbers on your side – if there are more of you in the room than there are people on the other side then that gives you some extra bargaining power. You may be small but you may have some niche market power because you are involved in a particular area that a larger party doesn't know or understand. So, if you are negotiating for funding, think about marshalling these other aces and you will feel more confident about the outcome. ▸

Clive Rich's new book *The Yes Book*, published by Random House, explores more about attitude, process and behaviour and is available now

3 HOW BEST TO SELL A BUSINESS AND HOW BEST TO NEGOTIATE FOR BETTER REMUNERATION?

I grouped these two together because crucial to each is an ability to understand and manage the negotiating "process". There are normally seven stages to any negotiation - they all have to be gone through to reach agreement, but people frequently skip the early stages or operate at different stages. If either of these things happens then the negotiation will be in trouble, and is unlikely to lead to a successful conclusion until the parties go back to the stage they missed or start operating from the same stage.

One early stage that the parties often skip is identifying the needs on both sides. What are the likely emotional drivers on each side? Does the other negotiator need respect or reassurance? Do they need to feel they have achieved something? Normally negotiation focuses exclusively on price, delivery dates, royalty rates. However, whatever position people adopt in relation to these surface issues, there will be a reason why they want it. That reason gives you the clue as to their underlying motives. Most negotiations are sorted out on the basis of 'emotional payments' which address these underlying issues, even though the deal may still be expressed in terms of surface issues such as price and delivery dates. These emotional needs are often not spoken about, so you need to be alert to spot them - ask questions and notice how people's moods and body language shifts as the negotiation develops. What makes them look angry or sad, seem energised or go quiet?

Once you have understood and met the needs on both sides you can get back what you require in return. If, say, a purchaser of a business has a need for achievement, there may be more than one way to meet that need. They may be expressing that need by demanding a very low valuation, but there may be other ways to address it, such as creating a unique deal structure which has never been tried before, or showing them innovative possibilities such as development of new products or creation of new overseas markets.

4

WHAT CAN YOU DO WHEN AN INTERNAL COMPANY NEGOTIATION GOES WRONG?

One thing we all know but is forgotten about when we negotiate is that everybody is different. There are more than seven billion people in the world and they are all different from each other. This makes it all the more surprising that when people negotiate, they tend to behave the same way every time, using their favourite behaviours to try to make the difference rather than responding differently to the person who is actually in front of them.

There are many different types and typologies and you don't need to be a psychologist to spot some of them. Some people love making decisions, others like to avoid them. Some people love the big picture, others are very focused on the detail. Some people are very "associated" and in-the-moment when they negotiate, and others are very disassociated or distant. Some people love having lots of options, while others prefer a very linear approach where there is a clear path. Who are you dealing with?

The knack is to work that out and then deploy behaviours which suit that person. If you do that they will feel you are speaking their sort of language or are 'their type of person' and you are more likely to persuade them of your point of view. For example, if someone likes the big picture then a behaviour like 'visualisation' - painting a positive picture to inspire them - will work well. If they prefer detail then visualisation will go over their heads. You will need a behaviour like 'proposing with reasons' for this person, so that there is lots of data for them to focus on. If someone is 'associated', then a sociable behaviour like sharing problems or sharing solutions will work well.

If they are very 'disassociated' then give them space - factor in lots of breaks and make use of silence so they have the opportunity to think. When negotiations go wrong it is often because people are using the wrong kind of behaviour for the type of person they are dealing with.

However, having the right attitude, managing the negotiation process and dealing with different behaviours are key pillars of successful negotiating.

GETTY

The recent economic downturn has had many consequences for the domestic economy. One of the few positive ones was the determination of many businesses to look beyond local markets and towards exploiting opportunities through export.

And with the eurozone still pre-occupied with its own problems, emerging markets beyond Europe have become increasingly popular. The biggest of the lot is China. Despite signs that the engine of China's growth has experienced a few flutters of late, increasing demand from the world's largest (and ever expanding) middle class has kept China at the top of the list for many potential exporters. Though there is a widespread perception of difficulty and risk of doing business in China, Foreign Direct Investment (FDI) hit more than US$100bn during 2012; when China surpassed the US as the most favoured destination for FDI.

"Remember that China was the largest economy in the world for 13 of the past 16 centuries until it was overtaken by Great Britain just over 300 years ago," say James Lee, Regional Director for the ICAEW in Greater China. "Since opening up in 1979, China is expected to regain its global economic dominance within this generation or so, barring another catastrophic world war. Indeed, as Napoleon Bonaparte famously said of China, 'Let the Giant sleep; for when it awakes, it will shake the world'".

Despite the major market liberalisation reforms, there are still limits. Following its accession to World Trade Organisation (WTO) membership in 2001, most industries have opened to foreign companies operating as WFOEs (wholly foreign-owned enterprises), except those deemed to affect national interests or deemed not ready for foreign competition, categorised as restricted or prohibited industries.

OPPORTUNITIES KNOCK

China's current economy stands at $8.28trn (2012), which is just over half that of the US. If China can maintain consistent year-on-year GDP growth of more than 7.2% per annum (2012 recorded 7.8%), its economy will more than double within a decade, notwithstanding currency movement effects.

In addition, the renminbi (RMB) is destined to become a global reserve currency (alongside the dollar), backed by its $3trn in foreign reserves and accumulating gold reserves (China is now the world's largest producer). Wherever there is major economic opportunity opening up in the world, you can be sure Chinese money will find it and exploit it. From the mineral mines of Africa to car factories in Mexico, Chinese investors are there, backed up by enormous reserves of hard currency.

Lee is optimistic that the improvement in institutions will make it easier for UK businesses to exploit Chinese growth. "With China's intention to create an international board for global companies to list on the Shanghai Stock Exchange, Shanghai is destined to become a major international financial centre, alongside Hong Kong, London and New York," he says.

During 2012, an important milestone was reached

CORBIS

Setting sail for China

A resurgence in the Chinese economy is giving a trade boost to British businesses. Christian Doherty explores the ins and outs of the export market when official statistics showed 50% of China's 1.3 billion people now live in cities. The new China leadership has made urbanisation the main driving force – meaning consumer spending will increase. This, coupled with the intention to double per capita income by 2020, the opportunities are without doubt. And they are not just attracting UK firms.

MARKET ENTRY STRATEGY

"With a huge, emerging market like China where business is in the blood of every Chinese, local competition is the main challenge for any foreign company dreaming of overnight success," Lee says. "With the fast pace of economic development, it is not surprising that not only the Chinese consumer is increasingly looking for global brands and high quality.

"Local businessmen are quick to learn and, backed by local knowledge and connections (or *guanxi*), it is a matter of time before they take the lion's share of the market. UK businesses have to focus on their core competencies (and protect their IP), and outsource the rest."

Stewart Ferguson of the China-Britain Business Council agrees that UK companies have to pay even more attention to due diligence than in a domestic deal. "The most common mistakes are the things that people omit to do which they normally do in other markets. That usually centres around due diligence on who they're aiming to do business with and understanding the framework of regulation around how they should be operating."

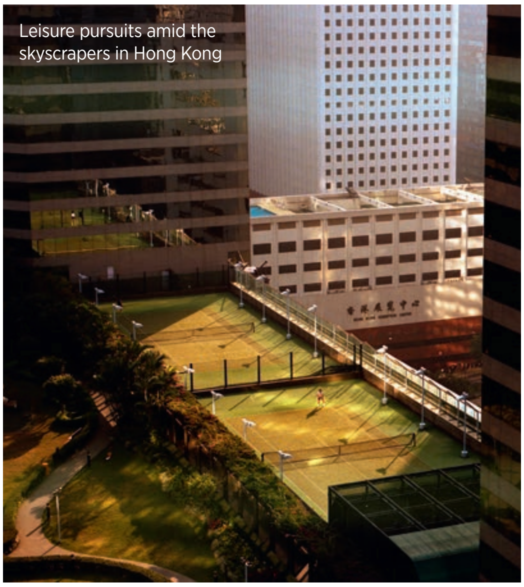
That extends way beyond simple licence to operate regulations. "UK firms really need to be on top of whether, for instance, their product has some sort of import or sales regulation that needs to be in place, from testing of the ingredients or raw materials through to labelling," he says.

When applying for a business licence, ensure your desired business scope is clearly stated, otherwise one day the business may be deemed to be operating illegally (*ultra vires*).

The second big shock for some businesses is, really surprisingly, the process of simply writing up an invoice," Ferguson says. "It's really quite shocking that companies just don't know how to write an invoice, because in the UK or in Europe you could, say, write an invoice on the back of a fag packet and people will pay you. But in China there is a specific way to draw up paperwork for shipping and invoicing and packing lists and so on."

Ensuring the business is properly protected, Ferguson says, has to be top priority. "I recently had a phone call from someone who is operating in China with their own factory, and they invoiced quite a large state corporation in China and found that it was difficult to get payment from them," he says.

"Putting pressure on people within China to actually pay up sometimes can be a little hard. But there are preparations that can be done in advance of that, and speaking to a bank again in terms of how that can be guaranteed or factored or something similar in advance is very sensible."


Leisure pursuits amid the skyscrapers in Hong Kong

"Businessmen are quick to learn and, backed by local knowledge and connections, it is only a matter of time before they take the lion's share of the market"

IN NUMBERS

\$8.28trn
The size of China's economy 2012 (just over half of that of the US)

7.8%
year-on-year GDP growth in 2012

50%
of China's 1.3bn inhabitants currently live in cities

\$100bn
Foreign direct investment to China in 2012

SOURCES: FORBES; CIA WORLD FACTBOOK; CHINA DAILY AND BUSINESS STANDARD

JAMES LEE'S TIPS ON CHINESE SUCCESS

TALENT MANAGEMENT:

- Send your best talent to China (globalisation).
- Use China as a necessary stint for grooming global management.
- Develop and empower local talent (localisation).
- Second local talent to your operations within the Asia-Pacific region initially and beyond (regionalisation).
- Enhance local talent with a stint at global HQ.

MERGERS & ACQUISITIONS (M&A)

The ideal marriage is when two companies that are market leaders in their home country come together to exchange vows – for better or for worse – to take on the world. However, there are pitfalls to be aware of, such as:

- if it sounds too good to be true, it usually is;
- using an internal team to carry out due diligence process;
- undue reliance on third-party confirmation of revenues, profits, assets and liabilities within due diligence process;
- concentration of customer and supplier base;
- related-party transactions;
- integration competence;
- cross-cultural conflict of interest;
- sustainability of business.

ABOVE: Nanjing Road, Shanghai. Approximately 50% of China's 1.3bn inhabitants now live in cities, a level unprecedented in the nation's history

LEFT: Hongla restaurant in Shanghai, the largest city in China. The city contributed to the country's 7.8% year-on-year growth in 2012

BELOW: Night time in Guangzhou. Chinese consumers are driving economic development, with demand for global brands and high-quality products

WHERE TO NEXT: Useful contacts in London & China

ICAEW Regional Office, Greater China, Beijing
icaew.com/en/about-icaew/where-we-are/greater-china

British Embassy, Beijing
gov.uk/government/world/organisations/british-embassy-beijing

British Consulate-General (Shanghai, Guangzhou, Chongqing),
gov.uk/government/world/china

UK Trade & Industry (UKTI), London & Beijing,
ukti.gov.uk/export/countries/asiapacific/fareast/china.html

British Chamber of Commerce, China
britishchamber.cn

China-Britain Business Council, London, China
cbbc.org

Chinese Embassy, London
chinese-embassy.org.uk/eng

Top global accountancy practice firms in China
The Big Four – Deloitte, Ernst & Young, KPMG and PwC – all have offices in China. See their websites for information.

There are other ways of mitigating counterparty risk. Despite being able to operate as a WFOE, some foreign companies still choose to have local partners, especially if they can use local knowledge and connections to add value to the business.

James Lee advises many UK businesses going down that route. "Choosing the 'right' partners is critical for early success, and having the 'wrong' partners can set back market entry by a few years," he says. "Remember, a good partner is one that shares profits and losses with you; a bad partner will try to make a profit from you from day one."

With the importance of relationships in mind, the UK government has recently reintroduced one of the oldest weapons in brokering trade into China. Set up in 1919, the Credit Guarantee Department, now known as UK Export Finance, recently returned to the fray at the government's request in order to work with UK companies seeking export opportunities.

UK Export Finance works through a variety of channels: some banks bring deals to the table; in other cases insurance brokers call on the department for insurance (and are paid a commission for doing so). The third route to market is through a network of advisers appointed around the regions, who work directly with exporters alongside the UK's principal export agency, UK Trade & Investment (UKTI).

For businesses sub-£50m, UK Export Finance

ABOVE: Nanpu Bridge, Shanghai. One area where UK Export Finance can help fund projects in China is in construction, offering more protection in potentially difficult markets

serves two principal functions: "In one area we provide credit insurance where the market can't provide that, and that is usually in order to support large single contracts, mainly in the non-OECD countries," explains Paul Croucher, head of short term products at UK Export Finance.

"A typical case would be like one we had recently. [An exporter] won a construction contract in Libya, and the private market won't touch him at all. He came to us and we provided him with £5m of credit cover, and the contract has gone ahead."

The second, bigger part of UK Export's mission is to provide guarantees to banks on a risk-sharing basis, where there is an export trade finance requirement. These are often situations where the bank doesn't feel it can support a company whose track record may be a little bit marginal, or where there's 'not enough security'.

"Typically there's a working capital requirement that the bank wants to support but just can't, because of its criteria," explains Croucher. "This is particularly the case for engineering and construction companies which are often asked to provide performance bonds. In most cases, performance bonds are provided by banks to companies overseas that are concerned that the contract will be fulfilled."

Croucher says that through working with UKTI and other agencies, UK Export Finance aims to offer businesses more protection in what can be a difficult market. To receive that help, however, exporters will need to demonstrate the strength of their contract. "With trade credit insurance the most important thing is that we get information on the buyer, so we want financial information," he says.

"That's often the prohibitor, where, in certain places, such as the Middle East, it's part of their culture where they don't provide financial information. That's an area of difficulty, but fundamentally, we don't do a deep analysis on the exporter's financials. We'll have a look of course, and we've got Company Watch. We can have a look and just make sure that they are stable and capable of completing the contract."

In Ferguson's view, while the need to understand the regulatory environment and trading risks cannot be overstated, getting to grips with the atmosphere in which business is done is also critical. Indeed, he believes that companies that make a success of their Chinese venture over the long term tend to share several similar attributes: "I think the major one is about access to accurate and relevant information and who is managing the process.

"That means the people who are building the business on the ground have to have slightly more flexibility from their home country's headquarters than they would do in other countries. By which I mean the way in which everything is done, at what stage A happens, when B happens, what you need to sign that off and go on to the next stage. That is usually straightforward in Europe, the UK and North America, but it needs to be a bit more flexible in how the process is adapted for China.

"The second point, of course, is having good people on the ground. And having good people on the ground who continuously take good advice from a wide selection of other business people and the advisors within service industries so that, apart from the main three of finance, legal and tax, businesses need to find good HR specialists, proxy consultants and the rest."

CELEBRATING CHINA-UK INNOVATION

Gareth Ackroyd FCA is the FD of **Fired Up Corporation**, a vertically-integrated manufacturer of electrical heaters, fire surrounds and hospitality products. Headquartered in Huddersfield, Fired Up combines running manufacturing plants in West Yorkshire and Zhongshan, and was recently given a special commendation for its work in China.

The BBA British Company of the Year awards – organised by the British Chambers of Commerce in China – celebrate British organisations that demonstrate strong commitment to developing sustainable business partnerships between the UK and China.

Last year GKN won the award for, employing 5,000 staff in 11 factories across China. But Fired Up, a relative minnow with group turnover of almost £15m, was recognised for its innovation, integrity and approach to equal opportunities.

Ackroyd was understandably delighted: "This commendation reflects the investment, not just in terms of capital, but in the time and energy staff in the UK and China put into developing the Chinese side of the business. Unusually for a company of our size we wholly own our manufacturing company in China and work hard to integrate the businesses. This enables us to combine the benefits of relatively low-cost manufacture with UK design and infrastructure to offer a distinctive service to our customers."

GALLERYSTOCK

Reducing the deficit – the FD way

The £118bn deficit accrued by defined benefit pension schemes has left many FDs looking for a way out. Anthony Harrington explains how companies can lighten the burden

The vast majority of defined benefit (DB) pension schemes in the UK are closed to new members, but this is a problem that still has decades to run before it is finally laid to rest. Increases in longevity, volatility in asset values and the potential for higher inflation can all act to increase many scheme deficits. According to the consultancy Jardine Lloyd Thompson (JLT), the asset values of UK DB schemes amounted to some £1,077bn at the end of 2012, while scheme liabilities stood at £1,195bn – a deficit of £118bn. This is some £8bn worse than the figure calculated by JLT for the end of November 2012, and within £2bn of the record £120bn deficit estimated for schemes at the end of 2011.

THE NEXT MOVE

So what is a finance director to do with a DB scheme in deficit? In an ideal world, where money was no object, the sponsoring company could simply fund the deficit out of its pocket or, alternatively, dig deep and pay an insurance company to take the problem off its hands by paying the full actuarial buyout value for each member's pension. In reality, both these options are massively expensive and highly unattractive, if not outright unaffordable. Charles Cowling, managing director of JLT Pension Capital Strategies, points out that the starting point for any finance director plagued by a DB scheme is to heed the maxim that when you are in a hole, the first thing to do is stop digging.

"If your scheme is still accruing benefits, the most obvious thing to do is to review your options for stopping all future benefit accruals," Cowling explains. "Virtually all private sector DB schemes are now in the process of switching members from DB to defined contribution (DC) schemes for future benefits for precisely this reason."

This still leaves you with the legacy liability and there is no silver bullet or single step that can solve the problem. However, Cowling points out that there are many practical steps available for finance directors to pursue. Not all of these will suit every scheme but the range of options is wide enough for most finance directors to find a few working options to trim back at least a portion of their deficit problem. He cites the obvious case of exploring early retirement as an option for some members. This crystallises the benefits due to the

particular member and takes some risk off the table. It also reduces the cost of hedging the longevity risk associated with that member. If the scheme is minded to go down the insurance or buyout route at some future date, Cowling argues that the cost of doing so reduces with every member who takes early retirement because the risk duration is shorter and the cash flows have been brought nearer. So early retirement exercises are useful.

OFFERING OPTIONS

Another good move is to look at pension increase exchanges. The industry code of practice means that you can no longer hand over a cash sum to an employee to forego their pension rights on all or part of their pension. But the scheme is still able to offer members options. For example, it is quite legitimate to offer a member who has an inflation-linked pension an exchange whereby they would get a pension with no inflation indexing but that was 30% higher in value. There is something here for both parties – the member gets more money and the scheme takes the inflation risk off the table. It won't suit all pensioners, but since more money is spent by pensioners in their fifties and sixties than in their eighties and nineties, reshaping the pension to give more money earlier can be seen as an advantage to the member.

The industry code of practice means you can no longer hand over a sum to an employee to forego their pension rights on all or part of their pension

"If you take a normal inflation-linked pension in the UK, it will have a floor of zero increase and a cap of 5% irrespective of how high inflation goes," Cowling notes. "That is very difficult for an insurance company to hedge since there is no equivalent in the bond market, and the hedging costs of this in a full annuity settlement are passed back to the purchaser. This makes it much more expensive for a company to dispose of its DB scheme via an insurance solution, so swapping out as many index-linked members as you can for straight 'no-linkage' pensions can bring an insurance solution within reach over time," he adds.

Then there is the obvious tidying exercise. Many schemes will have numbers of trivial pensions and these can be got rid of for cash quite legitimately. Historic guaranteed minimum pension tranches - the bit that is in lieu of the contracted out state second pension, which many schemes have numbers of - can be converted into scheme benefits. "Someone retiring might have four or five different tranches of pension, all with different increases applying. Making the benefits simpler makes it administratively simpler to operate and when the time comes to go for a buyout of the scheme, the simpler it is, the less expensive the buyout is going to be," Cowling says.

Arif Kamal, group finance director at the property company GH Hearn, is in the fortunate position of having been able to wind up the group DB scheme in 2002 and move all the members to a money purchase group pension plan scheme. The group now operates a flexi-benefits system with a money purchase underpinning that allows every employee to control how much they put into the pension plan.

"There is just no comparison between the two from a finance director's perspective. The DB scheme is the tail that wags the dog, while the defined contribution (DC) scheme puts you completely in control," Kamal says. "You can manage your working capital far more effectively and there is less compliance and administration to worry about, so it is very much a win-win." Having said that, however, Kamal adds that with auto-enrolment coming into force finance directors of small- to medium-sized firms need to act proactively to minimise their cost exposure and to ensure that whatever scheme they operate works in the interests of both the employer and employees. "Having got out of the frying pan on the DB front you do not want to fall into the fire on this new count," he adds.

For finance directors who are not so fortunate and who find themselves saddled with a legacy DB scheme they cannot get rid of in the foreseeable future, Kamal emphasises the importance of ensuring that there are excellent lines of communication with members, trustees and the company board. "Final salary schemes have been known to bring businesses down," he says. "They can pose a very serious risk. If things are serious, one option is to look around for a 'white knight'. There may well be a peer company that would find sufficient synergies in a merger that they would be willing to take on the target company's pension deficit and would be better able to manage it, perhaps because of their stronger balance sheet position or greater size," he adds.

Where the finance director is not looking at a really dire position, Kamal agrees completely with JLT's Cowley that the answer lies in managing down the risk profile of the scheme at every opportunity.

"As a finance director you want to stay alert to all the threats facing your company and to all the growth opportunities. From that standpoint, a legacy DB scheme is simply an annoying and potentially dangerous distraction," Kamal warns.

PRE-PACKED DANGER

Gary Cullen and David Knox, partners in the law firm Maclay Murray & Spens LLP, add that finance directors of companies with fairly weak covenants need to think again if they are considering letting their pension scheme fall into the lap of the Pension Protection Fund (PPF) and doing some kind of pre-pack administration deal to emerge from under a crushing DB scheme burden.

"The Pensions Regulator has made it very clear that this route is only available to companies that aregenuinely at the point of death and whose only hope of survival lies in a pre-pack. The regulator will only consider such a proposal if the company meets some very stringent milestones and can generate significant returns going forward," they warn. The regulator will also want the company to deposit a significant sum, ie. millions of pounds, not a token sum, with the PPF and will want at least a 33% share of the new business that emerges from administration, they add.

Cullen and Knox also point out that what is working rather well is the use of Scottish Limited Partnerships (SLPs) and and Limited Liability Partnerships (LLPs) to transfer an asset or the cash flows from an asset to the pension fund, in lieu of a direct cash injection to the fund. Maclay Murray and Spens were involved in both the groundbreaking Marks & Spencer deal and the John Lewis deal which saw both companies successfully transfer assets to their pension fund. Along with the benefit of freeing up cash to re-invest elsewhere in the business, asset-backed deals like these deliver tax advantages through the use of a special purpose vehicle. Handily, an asset-backed deal doesn't require any substantive changes to how the scheme is reported in the accounts.

> "As an FD you want to stay alert to all the threats facing your company. A legacy DB scheme is simply an annoying and potentially dangerous distraction"

Jack McVitie, CEO of the LEBC Group, says that in addition to the legal option (pre-pack administration) and issues like transfer, longevity swaps and the nature of the investments in the fund, finance directors should also consider lifestyle issues. A close investigation of fund membership details may well uncover the fact that instead of the assumed figure of 90% of scheme members being married, only, say, 65% are married. That can knock 10% off a scheme's liabilities for spousal benefits if the scheme has these built into benefits.

Similarly, questioning members about their state of health may uncover the fact that you have a higher percentage of impaired valuations on health grounds, which brings the scheme life expectancy down from an average of 89 years to an average of, say, 83 years. That in itself can knock a further 3% off the liability owing to the general nature of the assumptions actuaries make when calculating scheme liabilities.

MARKET TRIGGERS

Rod Goodyear, a partner in Barnett Waddingham Investment points out that finance directors should not get seduced by sudden peaks of profitability in equity markets. "Pension funds have a natural long-term horizon and are not best placed to try to take short-term advantage of market movements," he warns. The problem today for many finance directors who would like to de-risk their scheme by urging trustees to reduce their holding of equities in favour of bonds is, of course, that bonds are currently yielding almost nothing. "Even long-dated government bonds are yielding no more than 3% to 3.5% which barely covers inflation," Goodyear points out.

Trying to de-risk a scheme by moving to a liability-driven investment model, matching the liabilities against gilts, is now very expensive. He adds: "The key thing

"Pension funds have a natural long-term horizon and are not best placed to try to take short-term advantage of market movements"

for a finance director is to know what you can afford to do today, but also keep in mind your ultimate objective and what you would like to do, and try to plot a road from here to there."

One way of doing this, he says, is to set "hard triggers" in advance. These are key market points or value points that are agreed in advance with scheme trustees and where action is taken the moment the trigger value is hit. This avoids missing out on opportunities to de-risk the scheme simply because the decision-making time frame is too long to allow the scheme to take advantage of fairly brief windows of opportunity. Again, scheme advisers are well placed to help the finance director and the board of trustees define key trigger points.

Adrian Hartshorn, a senior partner in Mercer's Financial Strategy Group spends most of his time advising finance directors on precisely these issues. "We are having a lot of conversations with finance directors on reducing scheme deficits and there is a real divergence of views here among the companies we talk to," he says. Some companies are very keen to take action to reduce deficits and to bring down risk, while others – usually those with strong balance sheets – take the view that this is a long-term problem that will be solved gradually over time, and that the strength of their company is sufficient to support some short-term volatility in scheme asset values.

"Finance directors who take this view will tend to take a longer perspective and will urge trustees to invest more aggressively and trust to growing their way out of the problem," he adds.

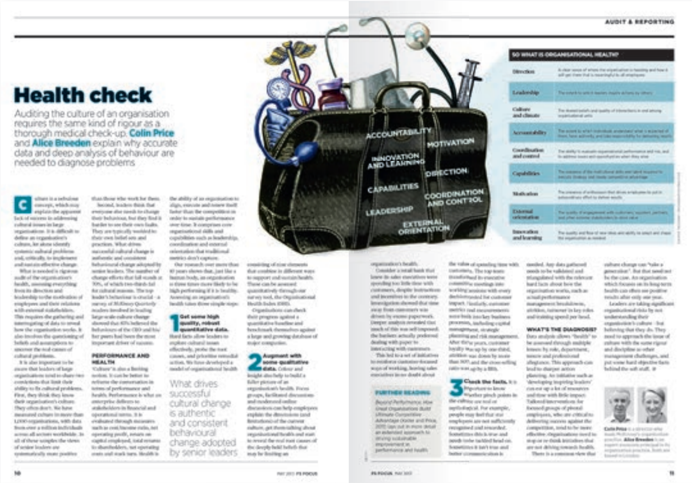
Finance directors in weaker organisations where the scheme deficit poses a real threat tend to want to take a more conservative stand to limit volatility, and will have robust conversations with trustees to demonstrate that this approach is in the best interests of all stakeholders. "Michael Higgens, the chairman of the Pensions Regulator, has said he does not want trustees to be recklessly prudent, and to tip their schemes 'willy nilly' into the PPF," Hartshorn explains.

Amid the caution, this approach is one that is currently helping weaker companies in their attempt to manage down their DB problems.

CORBIS

From the faculties

Keep in touch with our selection from ICAEW's other faculty magazines


Health check

Auditing the culture of an organisation requires the same kind of rigour as a thorough medical check-up. Colin Price and Alice Breeden explain why accurate data and deep analysis of behaviour are needed to diagnose problems

What drives successful cultural change is authentic and consistent behavioural change adopted by senior leaders

AUDIT & BEYOND

BRIDGING THE GAP

The role of audit committees and the public's perception of them were under the spotlight at the latest Audit Quality Forum, which was held in March.

The event, Spotlight on Audit Committees: a Step Change in Transparency, focused on the changes to the audit report proposed by the Financial Reporting Council (FRC).

High-profile speakers and panelists gathered at the Department for Business, Innovation and Skills to take part in a lively debate. Among them, consumer affairs minister Jo Swinson said audit committees should – and do – play a central role to how businesses operate efficiently, make products and attract investment. Swinson urged businesses to look beyond the Big Four as she encouraged diversity.

Melanie McLaren, FRC director of codes and standards, explained their response to the Competition Commission's interim report on the audit market. She called for time to see how changes would work out before rushing out new measures.

The question of for whom auditors work and how perceptions damage reputations came up. Steve Barber, audit committee chairman at Next, refuted the claim that auditors focus on satisfying management. "What they aim for is to get the right answer in the accounts, not the right answer for management," he said.

For more from the Audit & Assurance Faculty, visit icaew.com/aaf

FS FOCUS

HEALTH CHECK

While business leaders understand that audit is a necessary process to ensure the organisation is run smoothly, most are taking risks by not understanding their organisation's culture. Those that focus on their long-term health can see positive results after just one year.

Colin Price and Alice Breeden from McKinsey argue that auditing the culture of an organisation requires the same kind of rigour as a thorough medical check-up. Diagnosing problems - and addressing them - requires accurate data and deep analysis.

So how do you carry out a cultural audit? Price and Breeden suggest we consider performance and health rather than focus on culture, which they say is a limiting concept. Performance is what the company delivers to stakeholders in financial and operational terms while health is the ability of an organisation to align, execute and renew itself faster than the competition. This part covers organisational skills that just can't be captured by traditional metrics.

A health check can be carried out in three steps. The first step is to get some robust quantitative data, then add some colour and insight with qualitative data. Focus groups and online forums for employees can help to build a complete picture of an organisation's health. Finally ensure facts are a true reflection of reality. Data gathered should be validated against hard facts. Once diagnosed, you can address problems.

For more from the Financial Services Faculty, visit icaew.com/fsf

TAXLINE

THEY DO THINGS DIFFERENTLY HERE

Recent years have seen a marked shift in attitudes to tax planning - some things that most firms did some years ago are not considered today. This is partly because the rules have changed, but sometimes it is because there are too many risks for the business.

In this article Francesca Lagerberg, global leader for tax services at Grant Thornton, says tax planning has become a dirty word and points to recent controversial cases.

Three strands need to be considered. First, assess international tax planning and whether the current system is fit for purpose in today's digital age. The second issue is around transparency of the tax approach and the importance of businesses as well as individuals to be open in relation to their tax affairs.

Finally there is an issue of the wider reputation of the profession. At the World Economic Forum in Davos earlier this year, David Cameron criticised a world where some companies work around the tax rules helped by what he called "an army of clever accountants". Being lumped together like this reflects badly on accountancy as a whole.

The solution is explaining how the tax profession works and ensuring people understand accountants work under an ethical code. Lagerberg adds: "We need to share the knowledge with those who are not closely linked to our world."

For more from the Tax Faculty, visit icaew.com/taxfac

Technical updates

Our round-up of legal and regulatory changes

TAX

News and updates from the Tax Faculty weekly newswire. Subscribe free: visit ion.icaew.com/TaxFaculty and click the sign-up link on the right.

RTI: NEWS ABOUT THE RELAXATION FOR EMPLOYERS WITH FEWER THAN 50 EMPLOYEES

HMRC will continue to work with representatives on how RTI affects the smallest businesses.

In March the government announced a welcome relaxation to help smaller employers with their Real Time Information (RTI) filing. HMRC has now published a few more details about this relaxation – see bit.ly/13qAt7v

RTI, the new system for employers to send payroll information to HMRC, started in April 2013. The general rule is that information must be sent to HMRC "on or before" the employee is paid.

The relaxation is that employers with fewer than 50 employees who find it difficult to report every payment to employees at the time of payment can send information to HMRC on the date of their regular payroll run but no later than the end of the tax month (the 5th).

The relaxation applies for six months until 5 October 2013. The extra time is intended to allow these businesses to adapt their processes or change their arrangements with their payroll service supplier so that they can comply with the RTI rules.

HMRC states: "This is not a withdrawal of the requirement to report PAYE in real time. All employers are still required to operate PAYE in real time and we expect most employers to be reporting PAYE in real time from their first payday on or after 6 April. From 6 October all employers will be required to report PAYE in real time each time they pay their employees."

HMRC will continue to work with employer representatives during the summer to assess and understand the impact of RTI on the smallest businesses and consider whether it can make improvements to real time reporting, which will address their concerns without compromising the benefits of RTI or the operation of universal credit.

Note that this relaxation is in addition to those announced in November 2012, which apply to specific situations where employers will not have to report PAYE information on or before the time they pay their employees.

HMRC TO CLOSE ALL TAX ENQUIRY CENTRES

HMRC has announced plans to close all its tax enquiry centres. The closures are planned for 2014. Currently HMRC has 281 enquiry centres, employing 1,300 staff, which in 2011/12 helped 2.5 million people.

The reasons for closure are the cost of running enquiry centres coupled with a fall in the number of people using them. HMRC says the vast majority of its customers never use an enquiry centre and can resolve their queries online or over the telephone.

Recognising that some people need more help with their tax and tax credits, HMRC proposes a new service which is explained in a consultation document *Supporting customers who need extra help – a new approach* (**bit.ly/WJD2P2**). The proposed new service will provide mobile, one-to-one support in a range of locations, including a person's own home or business. It will also provide expert advisers on the phone, trained to deal with people who need extra support, to help until the issue is resolved.

HMRC has calculated that the new service will save customers almost £12m a year in lost time and travel costs, and will be more than £13m a year cheaper to run than the current service.

The deadline for responses to this consultation is 24 May 2013, and the results are expected to be published by the end of July.

HMRC will first test the new telephone-based service in north-east England. This will involve at the same time closing the enquiry centres in that area. The pilot will run from 3 June to 31 October 2013.

FINANCIAL REPORTING EXEMPTIONS FOR MICROS MAY AFFECT TAX

The European Council has formally adopted into EU law a set of limited exemptions for micro-entities from the accounting requirements of the 4th and 7th Directives.

Governments can choose which aspects of the exemptions to take advantage of and the UK government has been consulting on whether, when and how to bring the exemptions into UK company law.

Micro-entities are those not exceeding two out of three of:

- Turnover: €700,000 (around £580,000)
- Gross assets: €350,000 (around £290,000)
- Employees: 10

They would only need to prepare an abridged balance sheet and abridged profit or loss account with limited disclosure notes. The profit or loss account would not need to be filed with Companies House. Where a company has acquired its own shares, has outstanding commitments by way of guarantee of any kind or has advanced loans to directors, these would need to be disclosed.

Micros would also be allowed to not recognise accruals or prepayments as long as these relate to "charges other than the cost of raw materials and consumables, value adjustments, staff costs and tax". Apart from this limited exemption, normal accruals accounting would still apply.

In practice this may not have much effect on the taxable profits of most micro companies. However there may be some subtle differences, especially to goodwill.

As noted by the Financial Reporting Faculty in the summary *EU micro-entity accounting exemptions* (**bit.ly/11xQdjP**): "At present, qualifying small companies are permitted to file 'abbreviated accounts'. As micro-entities would still be required to file their balance sheets at Companies House, in substance the level of information on the public record will not alter radically. The abridged accounts will be much simpler than the 'full accounts' that companies have to prepare for their members at present.

"The proposed new accounting directive already contains simplifications for all small companies, and the micro exemptions do not go very much further. However, if the exemptions are adopted as expressed in EU law, those micro-entities with eligible accruals or prepayment balances could no longer account for these. For many micros this would not have a material effect on the financial statements, but in some cases it could make a significant difference, and the mix of accruals and cash accounting may cause confusion."

NEW EXPENSES AND BENEFITS ONLINE FORMS

From April 2013, HMRC has provided two new forms, which can be used by either employers or their agents to report end-of-year expenses and benefits. They are:

- No Return of Class 1A National Insurance contributions: used to report that no P11Ds or P11D(b) are due; and
- Notification of payrolled benefits: used to notify HMRC in advance that they will be sending P11Ds online that include all expenses and benefits provided to employees that have been fully payrolled.

The forms are web-based, so are not downloadable PDFs, which will make them of limited use to an agent who wants to part complete the form or who wants to email it to a client for checks before filing. Those filing will however, receive an email acknowledgement of receipt.

Third party software can of course still be used. The 'PAYE Online for employers' service can also be used to submit forms via the Government Gateway.

Employers who currently use HMRC's Basic PAYE Tools to run payroll will need to consider alternative methods for completing end of year forms - P11D, P9D and P11D(b) - as the tools will not provide this facility from 2012/13 onwards.

EMPLOYMENT LAW

This section is summarised from the bulletins of various law firms and associations. None of the information in this update should be treated as legal advice.

CLAIMS FOR UNFAIR DISMISSAL ROCKET

Statistics from the Tribunals Service show that claims for unfair dismissal rose by 44% as sacked employees rushed to bring their claims before new government measures come into force.

Statistics showed that 15,300 claims were made in the quarter to September 2012 compared with 10,600 in the three months to June.

The new measures from the government will mean that anyone wishing to bring a claim for unfair dismissal will have to pay £250 plus an additional £950 if the case goes to court. Another proposal is to cap successful claims at £74,200 or one year's salary - whichever is lower.

WORKING TIME AND TERRITORIAL JURISDICTION

Does an employment tribunal have territorial jurisdiction over an unfair dismissal claim of an employee who lives and works outside Great Britain?

Only where it establishes the employment relationship has much stronger connections with Great Britain and British employment law than with the country where the employee works, and those links are sufficiently strong to presume that Parliament would have intended the employee to be able to bring an unfair dismissal claim in the circumstances, according to the Employment Appeal Tribunal (EAT) in *Dhunna v Creditsights*.

The claimant, an institutional research salesman employed by the British subsidiary of a US firm in London, was dismissed by his employer after he had permanently moved from London to Dubai to open a new office focused on the Asian market.

Relying on accepted authority on exceptions to the general rule *(Lawson v Serco)*, the tribunal found it lacked jurisdiction.

EMPLOYEE 'SHARES FOR RIGHTS' DEBATE MARCHES ON

Although the House of Lords has rejected government plans to allow businesses to offer shares for reduced employment rights, MPs have backed the plans.

Business ministers said the shares-for-rights scheme represented a good deal, particularly for new businesses. Under the proposals, employers will be able to offer to swap some employments rights, including those relating to redundancy, for at least £2,000 of shares.

The government said the scheme would be "wholly voluntary" and unveiled a concession that would ensure that anyone on Jobseeker's Allowance would not be sanctioned for refusing to accept a job offer contingent on participation in the "shares for rights" scheme.

Shadow business secretary Chuka Umunna said Labour would continue to oppose the principle of the policy, arguing that it was "an ill-thought-out and bad idea".

MPs backed the coalition by 277 votes to 239, a reduced government majority of 38, meaning the policy will go back to the Lords for scrutiny.

EMPLOYERS' PERCEPTIONS OF EMPLOYMENT LAW

In their quest to reduce red tape for businesses and ensure employment law provides flexibility for employers to grow, the government has sought the views of employers on employment law.

The report, *Employer Perceptions and Impact of Employment Regulation*, carried out on behalf of The Department for Business, Innovation and Skills by researchers from TNS-BMRB and Kingston University took in the views of 40 businesses of different sizes. The study found employers do not dislike employment regulation in general, but view it as necessary and fair as it ensures employees' rights are protected and provides a legal framework for employers to refer to when managing their staff.

Only when asked directly did employers say that employment regulation was burdensome. The main problem identified by employers was a lack of understanding of employment laws and this caused the employers to view employment regulations as burdensome.

Key findings included:

- Employment regulation was rarely a key driver of how employers recruited and managed their employees.
- During recruitment, employers were primarily concerned with finding the best candidate with the required education, work experience and skill level.
- Most employers regularly using agency workers had avoided the effects of the Agency Workers Regulations 2010 SI 2010/93 by shortening assignment lengths to less than 12 weeks, bringing in different workers each week and using fixed-term contracts for longer-term cover.
- Employers with written employment policies were more confident that they were compliant with regulations than employers who operated more informally. Employers without formal policies felt they were at risk of litigation but believed that working informally maintained better working relationships with staff and ensured managerial autonomy.

To see the full study visit bit.ly/W7Jhtt

FINANCIAL REPORTING

You can find out more on the latest from the Financial Reporting Faculty, including UK GAAP and IFRS standards and consultations at icaew.com/frf

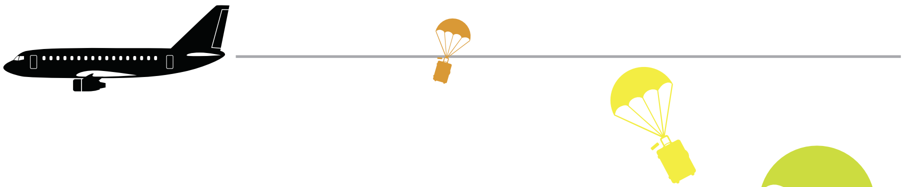
PENSION PROPOSALS

The International Accounting Standards Board (IASB) has published for public comment an exposure draft, ED/2013/4 *Defined Benefit Plans: Employee Contributions – Proposed amendments to IAS 19 Employee Benefits* (bit.ly/13qeU7g). Comments are due by 25 July 2013.

The proposed amendments are in response to concerns raised to the IASB about the complexity of applying certain requirements of IAS 19; specifically the concerns related to the accounting for contributions from employees and third parties to defined benefit plans.

The objective of the proposed amendments is to provide a more straightforward alternative for this accounting when the contributions payable in a particular period are linked solely to the employee's service rendered in that period. The proposed guidance would be applicable, for example, to accounting for employee contributions that are calculated according to a fixed percentage of salary.

Over to you...



EXCESS BAGGAGE

Samoa Air has extended its existing "pay as you weigh" pricing to its first international flights. Prices per passenger are driven by the combined weight of a passenger and their bags.

Flights between Samoa and American Samoa are charged at $0.93/kg. Those weighing less than 22 stone (including luggage) would pay less than on other airlines for the same flight.

Chief executive Chris Langton said: "The plane can only carry a certain amount of weight and that weight needs to be paid [for]. It's always been the fairest way, but the industry has been trying to pack square pegs into round holes for many years." Langton added that no one has refused to be weighed yet.

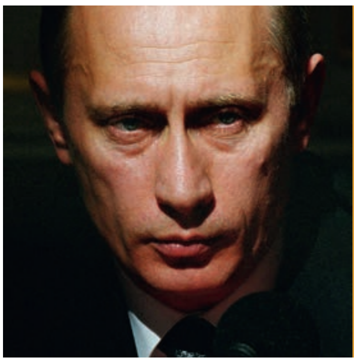
He said he's given away a few free flights to some regular customers who lost weight, and that health officials in American Samoa were among the first to contact the airline when the pricing structure was announced. "They want to ride on the awareness this is raising and use it as a medium to address obesity issues," he said.

BUFFET DOWNSIZE

Cornell University issued research in April of this year on containing the costs of operating "all you can eat" systems. Their conclusion? Turning the chairs away from the buffet and offering smaller plates. **bit.ly/xLrKTw**

DRIVING THEM NUTS

Columbia University expressed concerns in Spring 2013 about the cost of introducing Nutella into halls of residence dining options. Students at the university pay $2,400 (£1,500) a term for a 'dining plan' which now includes the hazelnut and chocolate spread. The costs have sored to $250,000 a year as students reacted by filling up takeaway containers with it. A CU student representative commented: "When you're paying that much for a dining plan, some people feel a bit more entitled to taking things from the dining hall."



FINLAND'S 'MOST WANTED'

Last month Finland immigration added Vladimir Putin's name to the official list of undesirables with connections to organised crime – albeit allegedly by accident. "I wish to extend to Russia's President Vladimir Putin sincere apologies for the incorrect registry entry," interior minister Paivi Rasanen said in a statement. Police said it was not immediately clear how Putin's name came to be included on the list, and it was being investigated.

A DAY IN THE LIFE

This month Len Jones, Group FD of Practical Car and Van Rental, shares his busy work day with us

First I check my iPhone and PC for emails and location of daily returns before ensuring the well-being of the CEO and listen to current priorities. Next, a quick view of KPIs, debt ledgers, bank balances and happiness of the bank manager before more detailed spreadsheet reworking for monthly claims statistics. Then I start my list of tasks:

- Attend executive and planning meetings to discuss operational visits
- Book breakfast seminar with local institute
- More spreadsheets
- Chase IT department for latest upgrade. Review disaster recovery plans.
- More emails
- Emote with fleet director over current forecasts and buying plans.
- Revise budgets and cash flow accordingly
- Plan forthcoming FSA inspection and make sure compliance manual up to date
- Plan internal audit of insurance department.

Send in a day in your life to robert.russell@icaew.com

GETTY

Microsoft

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Delivering world-class consulting and technology services takes a workforce that can be easily deployed to where it's most needed. That's why the Capgemini Group has started to move to Office 365. Its superior cloud-based environment gives Capgemini's more than 120,000 employees in 40 countries the tools to be more mobile and effective. With Office 365's unparalleled access, it's never been easier for Capgemini to tap its intelligence.

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